

Credit Opinion

8 July 2024

Ratings

Senior Unsecured Debt Rating	BBB _g +
Long-Term Credit Rating	BBB _g +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Jonathan Kwong +852-2860 7132
Credit Analyst
jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Fujian Jinshang Holding Group Co., Ltd.

Update of 2023FY operational and financial information

CCXAP affirms Fujian Jinshang Holding Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g long-term credit rating of Fujian Jinshang Holding Group Co., Ltd. ("FJHG" or the "Company") reflects Jinjiang City Government's (1) very strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Jinjiang City Government's capacity to provide support reflects the Jinjiang City's strong comprehensive strength, ranking 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, with ongoing growth in economic and fiscal strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important position in industrial development and public utilities services in Jinjiang City; (2) reasonable debt leverage; and (3) track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high reliance on non-standard financing; and (3) moderate asset liquidity.

The stable outlook on FJHG's rating reflects our expectation that Jinjiang City Government's capacity to provide support will remain stable, and the Company will maintain its important position in industrial development and public utilities services in Jinjiang City over the next 12 to 18 months.

Rating Drivers

- Important position in industrial development and public utilities services in Jinjiang City
- Medium exposure to commercial activities
- Track record of receiving government support
- High reliance on non-standard financing
- Moderate asset liquidity
- Reasonable debt leverage

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jinjiang City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increase in market position, or decrease in exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Jinjiang City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in market position, or material decrease in government payments.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	10.7	14.3	17.3
Total Equity (RMB billion)	6.0	9.4	11.1
Total Revenue (RMB billion)	6.2	6.1	5.8
Total Debt/Total Capital (%)	24.9	16.0	22.6

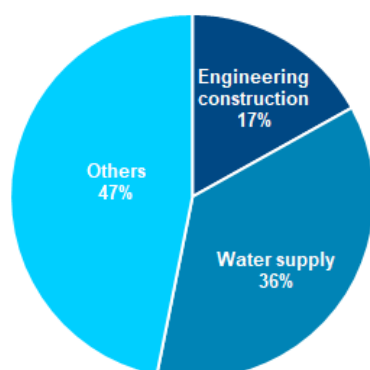
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

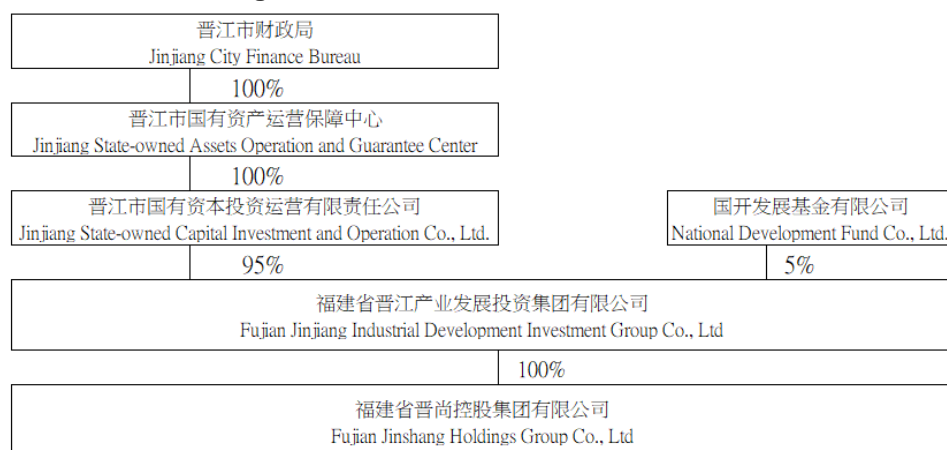
Founded in 2019, after the consolidation of other state-owned enterprises in Jinjiang City, FJHG has become one of the major local infrastructure investment and financing companies ("LIIFCs") in Jinjiang City. The Company primarily engages in engineering construction of industrial parks as well as utilities businesses including water supply and pipeline construction. The Company also engages in some commercial activities such as construction of self-operated industrial parks, leasing and sale of commercial stores, as well as wholesale and property management. As of 31 December 2023, the Company was wholly owned by Fujian Jinjiang Industrial Development Investment Group Co., Ltd. ("FJID") and ultimately controlled by Jinjiang City Finance Bureau.

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Jinjiang City Government has a strong capacity to provide support given its economic importance in Quanzhou City, with strong comprehensive strength, ranking 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, and ongoing growth in economic and fiscal strength.

Fujian Province is located in the southeastern coast of China and is recognized as one of the provinces with the fastest economic development in China. In 2023, Fujian recorded gross regional product ("GRP") of RMB5.4 trillion, with a GRP growth rate of 4.5% year-on-year ("YoY"), ranking 8th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB359.2 billion in 2023.

Located in the southeast of Fujian Province, Quanzhou City connects Putian and Fuzhou in the north and Xiamen in the south. It is one of the "reforms and opening-up" area in China. The pillar industries in Quanzhou City include textiles, petrochemicals, machinery and equipment, building materials and home furnishing. With the ongoing industrial development, the economic strength of Quanzhou City has continuously grown. The GRP of Quanzhou City increased from RMB1,130.4 billion in 2021 to RMB1,217.2 billion in 2023, ranking 2nd among

9 prefecture-level cities in Fujian Province. Quanzhou Municipal Government recorded a public budgetary revenue of RMB58.1 billion, of which tax revenue accounted for 67.1%. However, its fiscal balance is moderate with general budgetary revenue/general budgetary expenditure ratio of 68.2%. Its debt burden is also moderate. In 2023, the local government's outstanding debt grew to RMB234.3 billion, accounting for 19.2% of GRP.

Exhibit 3. Key economic and fiscal indicators of Quanzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,130.4	1,210.3	1,217.2
GRP Growth (%)	8.1	3.5	4.8
General Budgetary Revenue (RMB billion)	50.5	52.7	58.1
General Budgetary Expenditure (RMB billion)	67.2	80.6	85.1
Local Government Debt (RMB billion)	186.6	211.3	234.3

Source: Statistic Bureau of Quanzhou City, CCXAP research

Jinjiang City is a county-level under Quanzhou City, with a total area of 649 square kilometers. In 2023, Jinjiang City ranked 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, according to China Small and Medium Cities Development Index Research Group. Jinjiang City is an important manufacturing base in China, with developed shoe-making and textile and garment industries. With the ongoing industrial development, the economic strength of Jinjiang City has continuously grown. The GRP of Jinjiang City increased from RMB298.6 billion in 2021 to RMB336.4 billion in 2023, with a GRP growth rate of 6.2%, accounting of around 27.6% of the GRP of Quanzhou City. Jinjiang City Government's public budgetary revenue also increased from RMB14.6 billion in 2021 to RMB15.3 billion in 2023. Both its GRP and general budgetary revenue rank 1st among 11 districts/counties in Quanzhou City. It has a good fiscal self-sufficiency, with a fiscal balance ratio of 87.1% in 2023. In addition, the local government's outstanding debt grew to RMB42.7 billion, accounting for 12.7% of GRP in 2023.

Exhibit 4. Key economic and fiscal indicators of Jinjiang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	298.6	320.7	336.4
GRP Growth (%)	10.5	4.0	6.2
General Budgetary Revenue (RMB billion)	14.6	15.1	15.3
General Budgetary Expenditure (RMB billion)	12.5	17.6	17.5
Local Government Debt (RMB billion)	31.6	36.9	42.7

Source: Statistic Bureau of Jinjiang City, CCXAP research

Government's Willingness to Provide Support

Important position in industrial development and public utilities services in Jinjiang City

There are 3 main LIIFCs in Jinjiang City, including Fujian Jinjiang Construction Investment Holding Group Co., Ltd. ("FJCI"), Fujian Jinyuan Development Group Co., Ltd. ("FJDG"), and Jinjiang State-owned Capital Investment and Operation Co., Ltd. ("JSCI"). FJCI is mainly responsible for urban development and operation in Jinjiang City, FJDG is responsible for the infrastructure construction of Jinjiang Economic and Technological Development Zone, while JSCI undertakes the industrial development, public utilities services, and property development in Jinjiang City. FJID is a major subsidiary of JSCI, and it mainly responsible for the industrial development and investment, such as the construction of industrial parks.

As the core subsidiary of FJID, FJHG assumes the functions of state-owned assets operation and management, and industrial development of Jinjiang City. After the consolidation of other important subsidiaries of FJID in 2022, the Company is responsible for industrial park construction, water supply, and grain storage in Jinjiang City, with relatively strong regional position. Given its strategic role, we believe the Company will maintain its important position in industrial development and public utilities services in Jinjiang City.

Entrusted by the local government, the Company undertakes industrial park construction projects in Jinjiang City by self-raised funds and government special bond funds, involving land development and construction and operation of industrial park supporting facilities. The Company signs an agreement with the entrusting parties, who would pay project management fee (12% of the invested amount) for land development and management fee (8% of the invested amount) for construction of supporting facilities to the Company after project settlement. At present, as the Company mainly uses self-operated model to conduct industrial park construction, the number of entrusted model projects is small. As of 31 December 2023, the Company had only 1 industrial park project under entrusted model, with a total planned investment of RMB5.5 billion and an outstanding amount of RMB2.5 billion.

FJHG's public utility services mainly include water supply and pipeline construction in Jinjiang City. As of 31 December 2023, the Company had 2 water plants with a daily water capacity of 450 thousand tons, serving about one-third of the total population of Jinjiang City. Benefited by the development of Jinjiang City, the number of water users and the length of pipeline network has continuously increased over the past few years, which ensures the substantiality of the business. The Company also provides pipeline construction service to the local institutions and residents in Jinjiang City. As of 31 December 2023, the Company held 9 pipeline construction contracts, with a total contract amount of RMB44.6 million. However, the pipeline construction business is susceptible to local property market.

In addition, the Company is the sole grain rotation entity in Jinjiang City, mainly including trading of wheat and grains in Fujian Province. Given the public nature of the business, the Company recorded a net loss in grain rotation business over the past three years. Moreover, the business may subject to certain payment collection risk as some of the customers are paid by credit.

Medium exposure to commercial activities

In addition to public activities, FJHG is also involved in various commercial activities such as the construction of self-operated industrial parks, leasing and sale of commercial stores, wholesale and property management. We consider FJHG's commercial business exposure to be medium, as its market-driven businesses accounted for around 30% of its total assets as of 31 December 2023.

As a major industrial development entity in Jinjiang City, FJHG also undertakes industrial parks construction and operation projects under self-operated model, such as Integrated Circuit Industrial Park, and Jinjiang Jindong Shoes and Clothing Industrial Park. The Company constructs the industrial park projects with self-raised funds and government funds, and achieves breakeven through receiving operating income, such as rental and sales income. As of 31 December 2023, the Company had 6 major industrial park projects under construction or planning, with a total planned investment amount of RMB17.8 billion and an outstanding amount of RMB16.4 billion, exerting large capital expenditure pressure. The construction progress of industrial park projects is subject to the progress of approval and demolition. In addition, as most of the industrial parks are under construction, we will pay attention to the business operation and capital balance of the projects.

After the consolidation of Jinjiang Shoes and Textile City Co., Ltd., the Company also engages in leasing and

sale of commercial stores in Jinjiang International Shoe and Textile City. Jinjiang International Shoe and Textile City is located in the core area of Quanzhou Bay, with a total area of 420 thousand square meters (“sqm”). As of 31 December 2023, it had leased area of 166.6 thousand sqm and sold area of 79.9 thousand sqm, with unleased area of 84 thousand sqm. The revenue from property leasing decreased from RMB42.6 million in 2021 to RMB25.1 million in 2023, due to the implementation of rent-free policy during the period.

In addition, the Company also participates in diversified businesses such as wholesale and property management, pharmaceutical sales, and charging pile services. Although their business scale is relatively small, they provide supplemental income to the Company.

Track record of receiving government support

FJHG has a track record of receiving payments from the Jinjiang City Government. These payments take various forms, such as government subsidies, government special funds, and equity transfers. In 2022, FJID injected capital of 290 million into the Company. From 2021 to 2023, the local government has provided total subsidies of RMB271 million to the Company. In addition, the Company received government funds of around RMB2.7 billion for the industrial park construction and infrastructure construction projects. From 2022-2023, the local government and FJID injected various LIIFCs into the Company, significantly enhancing its capital strength and broadening its business scope. Overall, given its important position and contribution to regional economic development, we believe that FJHG will receive ongoing government support to support its business operations.

Reasonable debt leverage

Due to the injection of several subsidiaries, FJHG demonstrated a fast debt growth over the past three years, but maintained a reasonable debt leverage. The Company’s total debt increased from RMB2.0 billion at end-2021 to RMB3.2 billion as of 31 December 2023, with reasonable total capitalization ratio of 22.6%. Although the Company had a relatively large short-term debt maturities, the Company has a manageable repayment pressure in the near term. As of 31 December 2023, its short-term debt accounted for 39.7% of total debt; its cash to short term debt ratio was around 1.0x. However, given its large future capital expenditure needs, the Company’s debt burden will continue to grow in the next 12 to 18 months.

Moderate asset liquidity

Furthermore, FJHG has moderate asset liquidity, which may undermine its financial flexibility. The Company’s total asset mainly consists of inventories, receivables, and investment properties, which accounted for 59.4% of its total asset as of 31 December 2023. The inventories are mainly investment costs for its major construction projects and land reserve, receivables are mainly unreceived payments from the agencies of government or other state-owned companies, while investment properties are leasable properties, all of which are considered low liquidity. Nonetheless, the Company has certain amount of cash reserve to support daily operations and debt repayment. As of 31 December 2023, it owned cash reserve of RMB1.3 billion, accounting for 7.5% of total asset and fully covering its short-term debt. Besides, the investment properties can provide stable income to the Company.

High reliance on non-standard financing

FJHG’s access to funding is moderate. The Company maintains a good relationship with large domestic banks. Around 64.0% of the Company’s debt was provided by bank loans. As of 31 December 2023, the Company obtained total credit facilities of RMB5.3 billion from domestic banks, with available credit facilities of RMB918.6 million. However, the Company has a relatively high exposure to non-standard financing, such as financial

leasing. As of 31 December 2023, non-standard financing accounted for 36.0% of its total debt. Besides, the Company also plans to issue offshore bonds to expand its funding channels and reduce its reliance on non-standard financing.

ESG Considerations

FJHG bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Jinjiang City. Demographic changes, public awareness and social priorities shape government's target for FJHG, or affect the government's propensity to support the Company.

FJHG's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

FJHG's senior unsecured debt rating is in equivalent to its long-term credit rating. We believe that government support will flow through the Company given its role as most important entity for industrial development and public utilities services in Jinjiang City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison

	Fujian Jinshang Holding Group Co., Ltd.	Fujian Jinjiang Construction Investment Holding Group Co., Ltd.
Long-Term Credit Rating	BBB _g +	A _g -
Shareholder	FJID	Jinjiang State-owned Assets Operation and Guarantee Center
Positioning	Responsible for industrial park construction, water supply, and grain storage in Jinjiang City	Responsible for urban development and operation in Jinjiang City
Total Asset (RMB billion)	17.3	138.4
Total Equity (RMB billion)	11.1	47.8
Total Revenue (RMB billion)	5.8	6.9
Total Debt/Total Capital (%)	22.6	60.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 2023FY.

Source: Company information, CCXAP research

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656