

Credit Opinion

15 November 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A _g -
Outlook	Stable

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Jiangsu Xinkai Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Jiangsu Xinkai Investment Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Jiangsu Xinkai Investment Group Co., Ltd. (“Xinkai Group” or the “Company”) reflects (1) Taizhou Municipal Government’s very strong capacity to provide support; and (2) the local government’s high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Taizhou Municipal Government’s capacity to provide support reflects its good industrial base and ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction in the Dongjin area of Taizhou City New City District and Jiangyan District; (2) sufficient project reserves with good business sustainability; and (3) track record of receiving government support.

However, the rating is constrained by the Company’s (1) moderate risk exposure to commercial activities; (2) fast debt growth with short-term debt repayment pressure; and (3) large exposure to external guarantees mainly provided for local state-owned enterprises.

The stable outlook on Xinkai Group’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important position in the development of Taizhou City over the next 12-18 months.

Rating Drivers

- Important role in infrastructure construction in the Dongjin area of Taizhou City New City District and Jiangyan District with sufficient project reserves
- Moderate risk exposure to commercial activities
- Track record of receiving government support
- Fast debt growth with short-term debt repayment pressure
- Access to diversified financing channels
- Large exposure to external guarantees mainly provided to local state-owned enterprises

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as a significant reduction in external guarantee exposure, reduced risk exposure to commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in the importance of its policy role, or a significant reduction in government support.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	55.8	65.1	74.7	77.4
Total Equity (RMB billion)	28.2	29.2	31.9	32.0
Total Revenue (RMB billion)	3.3	2.7	3.4	1.1
Total Debt/Total Capital (%)	44.1	49.8	53.8	55.4

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2021, Xinkai Group, formerly known as Taizhou Xinkai Investment Development Co., Ltd. In June 2022, the government transferred all holding shares of Jiangsu Jiangyan Economic Development Group Co., Ltd. ("JYED"), Taizhou Longma Construction Development Co., Ltd. ("TZLM"), and Taizhou Gaoxinyuan Construction and Development Co., Ltd. ("TGCD") to the Company. After the reorganization, the Company is positioned as a municipal-level state-owned urban investment and operation entity in Taizhou City, mainly responsible for the development, construction, and operation of urban and industrial infrastructure in Taizhou City New City District and Jiangyan District. The Company's business scope includes land consolidation, urban infrastructure construction, resettlement housing construction, commodity sales, property sales and lease, and self-constructed projects operation.

On 12 September 2024, the Taizhou State-owned Assets Supervision and Administration Commission ("Taizhou SASAC"), the Company's shareholder and ultimate controller, agreed to transfer 100% of the

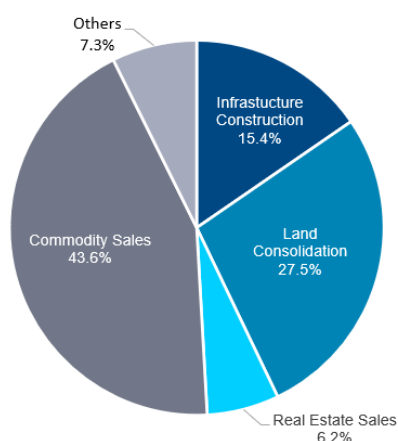
Company's shares to Jiangsu Xinkai Holding Group Co., Ltd. ("Xinkai Holding") and all shares of Xinhai Holding transferred to Taizhou SASAC. As of 30 September 2024, Taizhou SASAC was the Company's ultimate controller, holding 100% stakes through Xinkai Holding.

Exhibit 1. Shareholding chart as of 30 September 2024



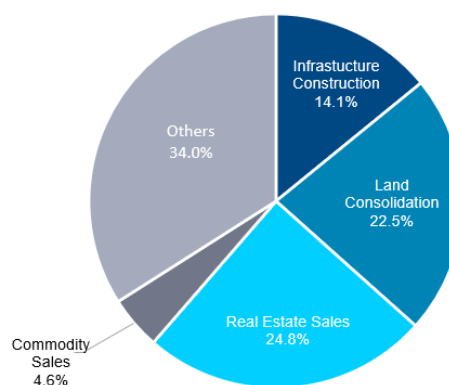
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023



Rating Considerations

Government's Capacity to Provide Support

We believe the Taizhou Municipal Government has a very strong capacity to provide support given its good industrial base and ongoing economic growth.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, Jiangsu Province's total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP of the same period was RMB150,487, ranking first among all provinces in the country. In the first half of 2024, Jiangsu Province achieved a GRP of RMB6.3 trillion with an YoY increase of 5.8%.

Taizhou City is a prefecture-level city located in the central region of Jiangsu Province, with pharmaceutical, electric, chemical, and shipbuilding as its pillar industries. In 2023, Taizhou City's fixed asset investment achieved nearly double-digit growth owing to the contribution of industrial investment and large-scale projects investment. With the vigorous development of the industrial sector, Taizhou City has achieved sustained

economic growth. In 2023, the GRP of Taizhou City was RMB673.2 billion, representing a YoY increase of 6.8%. Taizhou Municipal Government's general budgetary revenue increased from RMB42.0 billion in 2021 to RMB44.0 billion in 2023. Taizhou City also has a good fiscal balance, with a fiscal balance ratio averaging 70% for the past three years. As of the end of 2023, the outstanding debt of Taizhou Municipal Government increased to RMB107.1 billion, accounting for 15.9% of the GRP. In the first half of 2024, Taizhou City's GRP reached RMB335.5 billion with a YoY increase of 5.8%.

Exhibit 4. Key economic and fiscal indicators of Taizhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	602.5	640.2	673.2
GRP Growth (%)	10.1	4.4	6.8
General Budgetary Revenue (RMB billion)	42.0	41.7	44.0
General Budgetary Expenditure (RMB billion)	66.8	70.4	69.7
Local Government Debt (RMB billion)	96.6	100.1	107.1

Source: Taizhou Municipal Government, CCXAP research

One of the main urban districts of Taizhou City, Jiangyan District is located in the central and eastern part of Taizhou City, between the Yangtze River and the Huai River. Jiangyan District's traditional pillar industry is construction. After years of development, Jiangyan District has formed four pillar emerging industries: new energy and materials, intelligent machinery manufacturing, health, and electronic information. Jiangyan Economic Development Zone ("Jiangyan EDZ"), a provincial development zone in Taizhou City, achieved a GRP of RMB21.5 billion in 2023 with a YoY growth of 5.0%. Jiangyan EDZ has focused on forming a "2+1" industrial structure of new energy, new equipment and new infrastructure. At end-2023, there are more than 2,500 enterprises in Jiangyan EDZ with more than ten industries such as photovoltaic, auto parts, textile and semiconductor. The Dongjin area of Taizhou City New City District is located in the central part of Jiangyan District, which is committed to forming an industrial-city integration to promote urbanization and economic development by fostering the development of the four pillar emerging industries.

Government's Willingness to Provide Support

Important role in infrastructure construction in the Dongjin area of Taizhou City New City District and Jiangyan District with sufficient project reserves

Xinkai Group is mandated for the investment and infrastructure construction of the Dongjin area of Taizhou City New City District and Jiangyan District, including the Jiangyan EDZ, the Jiangyan District Modern Science and Technology Industrial Park (Luotang Street), and the Jiangyan District High-tech Equipment Industrial Park, which would promote the industrial and urban upgrade and development. The large project reserves in infrastructure construction and resettlement housing businesses support good sustainability of the Company's public policy businesses. Considering the Company's strategic significance to the development of Taizhou City and Jiangyan District, with sufficient project reserves, we believe the Company will not be easily replaced by other local state-owned enterprises in the next 12-18 months.

Entrusted by the local government or related government units, Xinkai Group undertakes infrastructure construction mainly under the agency construction model. The Company would receive payments based on the total cost plus a certain markup in return during the construction progress or after the project is completed. As of 31 March 2024, the Company had completed several infrastructure construction projects, mainly including the construction of roads and public facilities such as fire stations and schools, with a total investment of RMB682.8 million. The Company also had 12 infrastructure construction projects under construction as of the

same date, with a total investment amount of RMB3.2 billion and an uninvested amount of RMB1.3 billion. Meanwhile, the Company had 5 infrastructure construction projects under planning, requiring a total estimated investment of RMB4.7 billion. For instance, the S232 Provincial Highway Taizhou Urban Section Project, a municipal project, of which the Company signed an entrusted construction agreement with Taizhou Transportation Bureau, being responsible for the investment and construction of the project.

The Company also undertakes resettlement housing projects in the Jiangyan District Modern Science and Technology Industrial Park (Luotang Street). The Company is responsible for fundraising and management of the construction of resettlement housing projects. Jiangyan District Government would buy the housing based on actual costs with a mark-up of 15% upon project completion. As of 31 March 2024, the Company had completed 9 main resettlement housing projects, with a total investment of RMB4.0 billion. However, the settlement and payment collection progress of completed projects was relatively slow. As of the same date, the Company had 5 resettlement housing projects under construction, with a total investment amount of RMB2.3 billion and an outstanding amount of RMB1.5 billion. It also had 3 resettlement housing projects under planning, with an estimated total investment of RMB1.4 billion.

In addition, entrusted by the Jiangyan District Government and the Management Committee of Jiangyan EDZ, the Company is responsible for the land development in Jiangyan District Modern Science and Technology Industrial Park and Jiangyan EDZ, including demolition and land levelling. The land project-related expenses are advanced by the Company, and the settlement amount between the relevant units and the Company is composed of the total land levelling expenditure plus interest and management fees (according to a certain proportion of the project expenditure). As of 31 March 2024, the Company had consolidated 5,036.1 mu of land. Revenue from land consolidation has shown a growth trend over the past few years, yet the payback collection of these projects is relatively prolonged. Meanwhile, the Company had 985.0 mu of land under consolidation, with a total investment amount of RMB2.0 billion and an outstanding amount of RMB1.4 billion. There was no land consolidation project under planning.

Moderate risk exposure to commercial activities

Xinkai Group is also engaged in various commercial activities, such as commodity sales, property sales, and property leasing. Based on our assessment, the Company's exposure to commercial activities risk is considered medium, which accounted for around 15% of its total assets. These activities are associated with the Company's aim to promote industrial and urban development, however, they expose the Company to higher business risks and impose a capital expenditure burden.

Xinkai Group is engaged in commodity sales business through its subsidiaries, which is the most significant contributor to its total revenue. In 2023, the trading business recorded a revenue of RMB1.5 billion, contributing 43.6% to the total revenue. The Company's commodity sales business is mainly carried out with enterprises in the industrial parks, and trading products mainly include steel and new energy materials. However, the commodity sale business fluctuates and concentration risk is relatively high. As of the end of 2023, the top 5 customers and suppliers accounted for approximately 67.8% and 64.7% of the total sales and the total procurement, respectively. Moreover, the gross profit margin is relatively low, averaging 0.7% over the past three years.

Xinkai Group's self-operated projects are mainly the carriers in industrial parks such as factories and office buildings as well as supporting facilities such as sewage treatment factories, which will be realized returns through operation and rental. The Company's main leasable assets include the Harbin Institute of Technology Robot Taizhou Intelligent Manufacturing Research Institute, Qihang Science and Technology Park Phase I,

Zhigu Software Park Business Center, and Modern Science and Technology Industrial Park Standardized Factories. Along with the completion of the Company's self-built property assets and the increase in asset occupancy rate, leasing income has shown a fluctuating growth trend over the past three years. In 2023, the company's leasing business generated revenue of RMB99.0 million. In the future, with the completion of self-operated projects under construction and the increasing occupancy rate of self-owned properties, the leasing business income is expected to grow, bringing supplementary revenue to the Company. As of 31 March 2024, the Company had 12 key self-operated projects under construction with a total investment of around RMB4.3 billion and an outstanding amount of RMB2.9 billion, including standardized factories, industrial parks, and talent apartments, exerting certain capital expenditure pressure on the Company.

In addition to resettlement housing, Xinkai Group has engaged in the development and sales of commercial housing in the Jiangyan District since 2023. This segment brings supplementary revenue of RMB212 million to the Company in 2023, with a gross profit margin of 40.5%. The revenue mainly comes from the Jingyuan Community Phase I Project, with a total investment of around RMB1.0 billion. As of the end of March 2024, the project has a saleable area of 99,200 square meters and a sold area of 44,700 square meters. However, the sales of commercial housing are susceptible to the fluctuation of the local property market, which brings a degree of uncertainty to the Company.

Track record of receiving government support

Xinkai Group has received ongoing support from the local government including capital injection, equity and asset transfers and financial subsidies. During 2021 and 2023, the Taizhou SASAC provided a total cash injection of RMB5.0 billion to the Company, increasing its paid-in capital significantly. Xinkai Group also received equity and asset transfers from the local government, enhancing its capital strength. For instance, the local government transferred all holding shares of JYED, TZLM, and TGCD to the Company in 2022. In addition, the Company received operating subsidies from the local government totaling RMB869.2 million from 2021 to 2023, supporting its operations. Given the Company's strategic position in the regional development of the Dongjin Area of New City District and the Jiangyan District, we expect the Company will continue to receive support from the local government in the future.

Fast debt growth with short-term debt repayment pressure

Xinkai Group's debt has grown rapidly over the past three years due to investments in construction projects. As of 31 March 2024, the Company's total debt increased to RMB39.8 billion from RMB22.2 billion at end-2021. At the same time, its total capitalization ratio (total debt/total capital) grew to 55.4% from 44.1% at end-2021. In addition, the Company faced certain short-term debt pressure. As of 31 March 2024, the short-term debt accounted for around 43.6% of the total debt, and the cash to short-term debt ratio was 0.6x. Considering that the Company may continue to rely on external financing for its financing needs of infrastructure construction and self-operated projects, we expect the Company's debt level will continue to increase for the next 12-18 months.

The Company's total assets mainly consist of inventories, other receivables, and investment properties, which accounted for 78.0% of its total assets as of 31 March 2024. Inventories were mainly development costs for infrastructure construction and land consolidation projects. Other receivables were mainly unreceived payments from the local government or other local state-owned companies. Investment properties were mainly transferrable land and leasable assets. At the same time, the Company's restricted assets accounted for 19.8% of total assets, which could undermine its financial flexibility.

Access to diversified financing channels

Xinkai Group has access to funding channels such as bank borrowing, debt capital market, and non-standard financing, which can partially relieve the pressure on debt repayment and capital expenditure. Bank loans are the Company's primary source of financing, accounting for more than half of the total debt. The Company maintains good relationships with policy banks, joint-stock commercial banks and large state-owned commercial banks, such as China Development Bank, China Construction Bank and Bank of China. As of 31 March 2024, the Company had a total credit facility of RMB36.9 billion from banks, with an unused amount of RMB14.4 billion.

The Company and its subsidiary, JYED, have an active track record of fund-raising activities in the debt capital markets by issuing various types of debt instruments, including corporate bonds, commercial paper and medium-term notes. For example, in August 2024, the Company issued a tranche of 3-year MTN with a relatively low coupon rate of 2.54%, raising a total of RMB250.0 million. Moreover, JYED also has a presence in the offshore debt capital market. In addition, as of 31 March 2024, the Company had moderate exposure to non-standard financing, which accounted for around 25%-30% of total debt.

Large exposure to external guarantees

Xinkai Group's credit profile is constrained by its large external guarantees, which could potentially increase its repayment obligations. As of 31 March 2024, the total amount of external guarantees was approximately RMB26.3 billion, representing 82.2% of net assets. Nevertheless, the vast majority of them (99.6%) are provided to state-owned enterprises in Taizhou City, which have relatively low credit risks. The Company's external guarantees to private-owned enterprise are provided with counter-guarantee measures. As a result, we consider that the Company's contingent liability risk is relatively controllable.

ESG Considerations

Xinkai Group faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

Xinkai Group is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Taizhou City. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

Xinkai Group's governance considerations are also material as the Company is subject to oversight by the Taizhou Municipal Government and must meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

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

	Jiangsu Xinkai Investment Group Co., Ltd.	Taizhou Huaxin Pharmaceutical Investment Co., Ltd.
Long-Term Credit Rating	A _g -	BBB _g +
Shareholder	Jiangsu Xinkai Holding Group Co., Ltd. (100.0%)	Taizhou Guotou Investment Group Co., Ltd. (99.55%) and CDB Development Fund Co., Ltd. (0.45%)
Positioning	Municipal-level state-owned urban investment and operation entity in Taizhou City, focusing on the development of Taizhou City New City District and Jiangyan District	Important entity in infrastructure construction, resettlement housing construction, and land development in the core area of Taizhou Pharmaceutical High- tech Zone
Total Assets (RMB billion)	74.7	94.7
Total Equity (RMB billion)	31.9	31.1
Total Revenue (RMB billion)	3.4	3.7
Total Debt/Total Capital (%)	53.8	64.5

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

Source: Company information, CCXAP research

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