

Jiangsu Huajing Assets Management Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Government
	Financing Vehicle
Date	30 November 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Huajing Asset Management Co., Ltd. (“JHAM” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jingjiang (“Jingjiang government”) would provide strong support to JHAM if needed, in light of its full ownership of JHAM, JHAM’s strategic importance as a major state-owned entity that is responsible for primary land development and city operation in Jingjiang City (“Jingjiang”), and the strong linkage between the Jingjiang government and JHAM, including control of the board of directors, management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Jingjiang government may face significant negative impact on its reputation and financing activities should JHAM encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JHAM’s strategic importance would remain intact while the Jingjiang government will continue to ensure JHAM’s stable operation.

Rating Rationale

Government’s Ownership and Supervision: The Jingjiang government, through the Jingjiang State-owned Assets Supervision and Administration Office (“Jingjiang SASAO”), holds 100% equity of JHAM, and it is the ultimate controller of the company. The Jingjiang government supervises the company via Jingjiang SASAO, including control of the board of directors, senior management appointment and decision-making on major investment and financing plans. In addition, the local government has set up an annual mechanism assessment for JHAM and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: The Jingjiang government has authorized JHAM to undertake most primary land development in Jingjiang since 2019. In addition, JHAM is responsible for the grain collection and storage in the region to stabilize grain prices. The company is also engaged in the city operation, including water supply and sewage treatment for most residential and business users, local and intercity bus lines, as well as ferries across the Yangtze River in Jingjiang. JHAM’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: JHAM has received strong support from the local government, including equity injections, asset injections, operation subsidies and policy support from the Jingjiang government. JHAM received capital injection of RMB2.4 billion in 2021. In addition, the Jingjiang SASAO continued injecting various assets and equities into the company, such as lands, properties and equities of other state-owned entities. JHAM also enjoys a variety of financial subsidies, amounting to RMB1.9 billion from 2019 to the first nine months of 2022, mainly including sewage treatment plant construction subsidies, special funds for project construction and operational subsidies. We believe JHAM is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operations.

Key Figures of Jingjiang and JHAM

(RMB billion)	2020	2021
Jingjiang		
GDP	100.5	114.2
GDP growth rate (%)	3.0	10.6
Budgetary revenue	6.9	7.0
Government fund	12.4	10.5
Transfer payment	2.4	1.9
Budgetary expenditure	10.6	11.4
JHAM		
Assets	33.7	40.4
Equity	13.5	16.2
Revenue	6.6	7.7

Source: Public information, JHAM and Lianhe Global’s calculations

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Applicable Criteria

China Local Government Financing
 Vehicle Criteria (31 December 2021)

JHAM's Financial Matrix and Liquidity Position: JHAM's total assets grew significantly by 46.6% to RMB40.7 billion at end-September 2022 from RMB27.8 billion at end-2019. In 2021, the company mainly relied on debt borrowings, which increased by RMB4.8 billion, to fund its asset expansion, lifting the financial leverage, as measured by total liabilities/total assets, to 60.0% at end-2020 from 56.8% at end-2019. Yet it has been maintained at c.60% since then, owing to an asset injection of RMB2.4 billion from the government in 2021.

The liquidity of JHAM was tight. At end-September 2022, JHAM had a cash balance and unused credit facilities of c. RMB2.2 billion (including restricted cash of RMB438 million) and RMB5.9 billion, respectively, compared with its debt due within one year of c. RMB9.4 billion. Therefore, the company must successfully roll over its short-term bank borrowings and collect its receivables in time, or receive additional government support to relieve the liquidity pressure.

Economy and Fiscal Conditions of Jingjiang: As a new industrial port city on the north bank of the Yangtze River, Jingjiang has good regional advantages and a relatively high level of economic development. Jingjiang's economy maintained stable growth, with its GDP reaching RMB114.2 billion in 2021, representing a year-over-year growth rate of 10.6%.

However, the Jingjiang government's fiscal self-sufficiency rate was insufficient. Thus, it continues to receive subsidies from higher governments. Its government debt was increasing but still manageable. At end-2021, the total outstanding amount of government debt increased to c. RMB10.0 billion from c. RMB8.5 billion at end-2019, mainly due to the increase in special debt. Yet the government debt ratio (i.e., total government debt ratio/aggregate revenue) was 46.6% at end-2021, down from 58.3% at end-2019, mainly owing to the strong growth of government fund income.

Rating Sensitivities

We would consider downgrading JHAM's rating if (1) there is perceived weakening in support from the Jingjiang government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Jingjiang government's ownership of JHAM, or (3) there is a downgrade in our internal credit assessment on the Jingjiang government.

We would consider upgrading JHAM's rating if (1) there is strengthened support from the Jingjiang government, or (2) there is an upgrade in our internal credit assessment on the Jingjiang government.

Operating Environment

Economic Condition of Jingjiang

Jingjiang is a county-level city in Jiangsu Province, administered by Taizhou City, located on the north bank of the lower reaches of the Yangtze River. As a new industrial port city on the north bank of the Yangtze River, Jingjiang has good regional advantages and a relatively high level of economic development. By the end of 2021, Jingjiang had a total land area of approximately 665 square kilometers and a residential population of about 0.66 million, with an urbanization rate of 69%. Jingjiang's economy maintained stable growth, with its GDP reaching RMB114.2 billion in 2021, representing a year-over-year growth rate of 10.6%. Its GDP scale ranked 2nd among Taizhou. During the same period, its GDP per capita was relatively high at about RMB172,000 level.

Jingjiang's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	98.0	100.5	114.2
-Primary industry (%)	2.6	2.7	2.3
-Secondary industry (%)	55.2	53.5	54.4
-Tertiary industry (%)	42.2	43.8	43.3
GDP growth rate (%)	7.2	3.0	10.6
Fixed asset investment	37.5	34.3	36.9
Fixed asset investment growth rate (%)	11.5	-8.6	7.6
Population (million)	0.7	0.7	0.7

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jingjiang

The aggregate fiscal revenue of the Jingjiang government was mainly derived from the budgetary revenue and government fund. The Jingjiang government's budgetary revenue grew steadily from 2019 to 2021, and its tax revenue accounted for c. 80% of its budgetary revenue. However, the government fund income fluctuated greatly, mainly affected by the land transfer income.

The fiscal self-sufficiency rate of the Jingjiang government was insufficient. Thus it continues to receive subsidies from higher governments. Its government debt was increasing but still manageable. At end-2021, the total outstanding amount of government debt increased to c. RMB10.0 billion from c. RMB8.5 billion at end-2019, mainly due to the increase in special debt. Yet the government debt ratio (i.e., total government debt ratio/aggregate revenue) was 46.6% at end-2021, down from 58.3% at end-2019, mainly owing to the strong growth of government fund income.

Jingjiang's Fiscal Condition

(RMB billion)	2019	2020	2021
Budgetary revenue	6.7	6.9	7.0
Budgetary revenue growth rate (%)	1.4	3.1	10.7
Tax revenue	5.4	5.5	6.1
Tax revenue (% of budgetary revenue)	81.5	80.5	80.5
Government fund income	5.2	12.4	10.5
Transfer payment	2.4	2.4	1.9
Aggregate revenue	14.5	21.9	21.4
Budgetary expenditure	8.6	10.6	11.4
Budget deficit ¹ (%)	-29.6	-54.9	-49.7

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Full Ownership

The Jingjiang government holds 100% equity in JHAM, formerly known as 靖江市华晶工业控股资产经营有限公司, through the Jingjiang SASAO. It was established in 2001 by the Jingjiang government with initial registered capital of RMB83 million. The company's name was changed to JHAM in 2004, and the registered capital was enlarged to RMB360 million in the same year as the Jingjiang government injected cash of RMB67 million and assets of RMB210 million into JHAM. In 2008, by converting the capital reserve of RMB2,260 million to paid-in capital, the company's registered capital was further enlarged to RMB2,620 million.

Strategic Importance and Government Linkage

Strategic Importance of JHAM to Jingjiang

The Jingjiang government has authorized JHAM to undertake most primary land development in Jingjiang since 2019. In addition, JHAM is responsible for the grain collection and storage in the region to stabilize grain prices. The company is also engaged in the city operation, including water supply and sewage treatment for most residential and business users, local and intercity bus lines, as well as ferries across the Yangtze River in Jingjiang. JHAM's business operations and strategic planning have been aligned with the local government's economic and social development policies.

Linkage with the Local Government

The Jingjiang government holds 100% equity in JHAM through the Jingjiang SASAO, and it's the ultimate controller of the company. The Jingjiang government supervises the company, including control of the board of directors, senior management appointment and decision-making on major investment and financing plans through the Jingjiang SASAO. In addition, the local government has set up an annual mechanism assessment for JHAM and regularly appoints auditors to review its operating performance and financial position.

Government Support

JHAM has received strong support from the local government, including equity injections, asset injections, operation subsidies and policy support from the Jingjiang government.

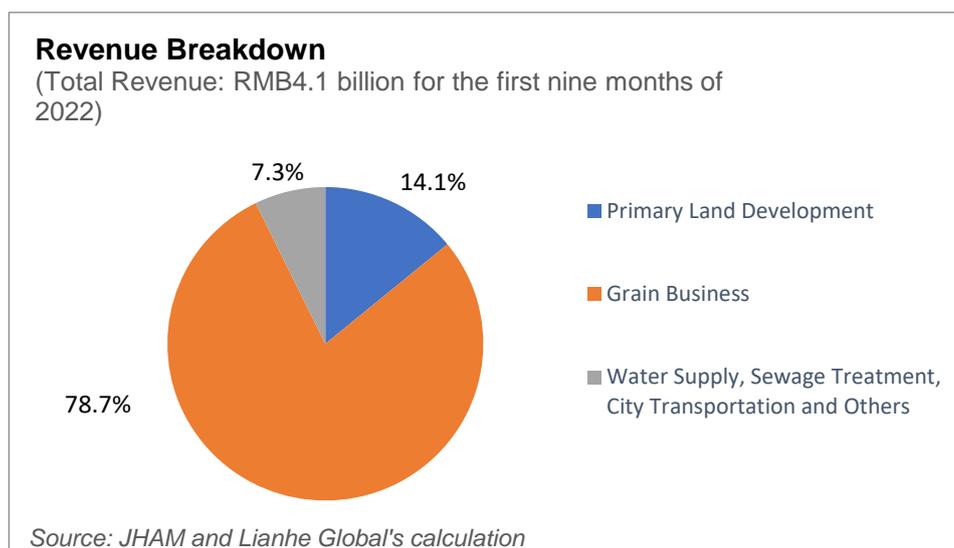
By the end of September 2022, the company's registered capital increased to RMB2.6 billion from RMB83 million at initial. Apart from the capital injection, Jingjiang SASAO continued injecting various assets and equities into the company, such as lands, properties and equities of other state-owned entities. In 2018, the company obtained a total land allocation of 370,300 square meters from Jingjiang SASAO, with an estimated value of RMB794 million, of which RMB480 million was used to offset the receivables from Jingjiang SASAO, and the rest of RMB314 million was recorded as a capital injection. In 2019, Jingjiang SASAO allocated 靖江市靖安机动车驾驶员培训有限公司 to the company and injected RMB101 million to reduce the company's intrinsic debt at the same time. In 2021, the company also received asset allocation of RMB 2.4 billion.

In addition, JHAM also enjoys a variety of financial subsidies. JHAM had received a total subsidy amount of c. RMB1.9 billion from 2019 to the first nine months of 2022, mainly including sewage treatment plant construction subsidies, special funds for project construction and operational subsidies. We believe JHAM is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operations.

Business Profile

The Major Infrastructure Development and Most Important City Operation Entity in Jingjiang

JHAM is a major infrastructure development and the most important city operation entity in Jingjiang. The company is responsible for most primary land development in Jingjiang. The company also participates in grain collection and storage, water supply and sewage treatment, as well as city transportation operations. JHAM's operating revenue maintained steady growth in the past three years, reaching about RMB5.7 billion, RMB6.6 billion and RMB7.7 billion in 2019, 2020 and 2021, respectively. JHAM recorded revenue of RMB4.1 billion in the first nine months of 2022.



Primary Land Development

The Jingjiang government has authorized JHAM to undertake most primary land development in Jingjiang since 2019. JHAM develops primary lands designated by the Jingjiang government, which usually pay construction costs and a margin of no less than 20% as management fees to JHAM in two years (60% in the first year and 40% in the second year) upon the completion. However, the actual margin and payment schedule are subject to the price and progress of related land-use right transfers. That makes it vulnerable to the recent property market downturn.

JHAM recognized revenue of RMB1,289 million, 1,387 million and 1,579 million from primary land development business in 2019, 2020 and 2021, respectively. The increasing trend was mainly due to the expanding size of delivered lands. However, the segment's gross margin was volatile, which was 30.2%, 27.5% and 37.0% in 2019, 2020 and 2021, respectively, owing to the different portfolios delivered in the year. In the first nine months of 2022, the segment recorded revenue of RMB581 million.

At end-September 2022, JHAM had seven primary land development projects under construction with a total investment of c. RMB2.1 billion, and c. RMB860 million to be invested. The company also had two primary land development projects scheduled to be invested with a total investment of c. RMB1.5 billion. We believe JHAM's project pipeline can support the segment's development in the next two to three years.

Grain Business

JHAM operates 13 grain depots in Jingjiang and maintains a well-developed procurement and sales network of grain. On the one hand, the company trades wheat, rice and corn for profit. The suppliers are producers and brokers, while buyers are food and feed processing companies in the southeastern coastal region of China. On the other hand, JHAM carries out the grain collection and storage functions on behalf of the Sinograin Group in Jingjiang

to stabilize grain prices. The company collects grain from producers at government-guiding prices when the market prices are too low, and sells stored grain to market when the prices are too high. JHAM does not take market risk for its grain collection and storage functions, as the Sinograin Group reimburses purchase costs quarterly. It also pays storage fees to JHAM annually.

The grain business was the most important source of revenue for JHAM, contributing 64%-71% to the company's total revenue in the past three years. The segment recorded revenue of c. RMB3.9 billion, 4.7 billion, 4.9 billion and RMB3.3 billion in 2019, 2020, 2021 and the first nine months of 2022, respectively. Over the same period, the segment's gross margin was stable at 4%-5%.

Water Supply, Sewage Treatment, City Transportation and Others

JHAM is also responsible for the water supply and sewage treatment, serving most residential and business users in the Jingjiang city area. The company also operates the local and intercity bus lines in Jingjiang, as well as the ferries across the Yangtze River. JHAM's other businesses include leasing, financial guarantees and distressed asset management. Although these activities contributed a small fraction of the company's total revenue, they enhanced its strategic importance to some extent by providing public goods, serving social functions and supporting local economic development.

Financial Profile

Balance Sheet Structure and Quality

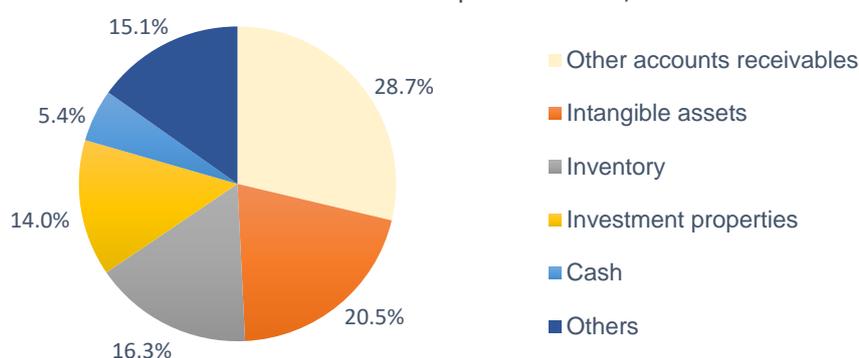
Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sep 2022
Total Asset	27,763	33,696	40,358	40,712
Equity	11,983	13,481	16,177	16,426
Debt	13,584	18,433	22,768	22,595
Debt / (Debt + Equity) (%)	53.1	57.8	58.5	57.9
LT Debt	9,008	11,014	14,027	12,918
LT Debt / (LT Debt + Equity) (%)	42.9	45.0	46.4	44.0

Source: Company Information and Lianhe Global's calculations

JHAM's total assets grew significantly by 46.6% to RMB40.7 billion at end-September 2022 from RMB27.8 billion at end-2019. In 2020, the company mainly relied on debt borrowings, which increased by RMB4.8 billion, to fund its asset expansion, lifting the financial leverage, as measured by total liabilities/total assets, to 60.0% at end-2020 from 56.9% at end-2019. Yet it has been maintained at c.60% since then, owing to an asset injection of RMB2.4 billion from the government in 2021.

Asset Breakdown

(Total assets: RMB40.7 billion at end-September 2022)



Source: JHAM and Lianhe Global's calculation

The asset structure of JHAM was largely unchanged in the past few years, mainly consisting of the other accounts receivables, intangible assets, inventory, investment properties and cash.

Although the current assets accounted for c. 52% of its total assets, JHAM's asset liquidity was moderately weak, given the fact that other accounts receivables and inventory contributed to c. 86.4% of the current assets at end-September 2022. Both of them were mainly generated from the company's primary land development activities, including prepayments to construction entities (mainly other state-owned enterprises in Jingjiang), compensation to affected residents and construction costs. In terms of other accounts receivables, the collection period could be extended, as it is highly subject to the progress of related land-use right transfers. In addition, a substantial part of other receivables was due from government agencies in Jingjiang without a specified repayment schedule. The cash only accounted for 5.4% of JHAM's total assets, of which 20% was restricted.

JHAM's intangible assets mainly consisted of the land-use rights injected by the Jingjiang government to enlarge JHAM's equity base. However, these land-use rights' usage and transfer are subject to certain regulations, and thus could lack liquidity. The investment properties mainly comprised houses and lands held for earning rent or capital appreciation, and were measured in fair value.

Overall, the asset liquidity of JHAM was moderately weak because there were few realizable assets.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	6,905	8,370	8,675	4,835
Cash Outflows from Operation	6,405	7,926	8,088	3,802
Net CF from Operation	501	444	587	1,033
Cash Inflows from Investment	169	1,193	166	157
Cash Outflows from Investment	550	3,355	4,265	2,272
Net CF from Investment	-381	-2,162	-4,099	-2,115
Cash Inflows from Financing	8,905	10,794	18,776	11,405
Cash Outflows from Financing	8,525	8,320	14,276	12,243

Net CF from Financing	380	2,474	4,500	-838
Net Increase in Cash and cash equivalent	500	756	988	-1,920

Source: The Company

Debt Servicing Capability

The liquidity of JHAM was tight. At end-September 2022, JHAM had a cash balance and unused credit facilities of c. RMB2.2 billion (including restricted cash of RMB438 million) and RMB5.9 billion, respectively, compared with its debt due within one year of c. RMB9.4 billion. Therefore, the company must successfully roll over its short-term bank borrowings and collect its receivables in time, or receive additional government support to relieve the liquidity pressure.

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