

Jingjiang Port Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government
Financing Vehicle	
Date	9 November 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jingjiang Port Group Co., Ltd. (“JPG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jingjiang City (“Jingjiang government”) would provide strong support to JPG if needed, in light of its indirect 100% ownership of JPG, JPG’s strategic importance as the important state-owned entity for port construction and operation in the region, and the linkage between the Jingjiang government and JPG, including supervision over the company through its shareholders, strategic alignment and ongoing operational and financial support. In addition, the Jingjiang government may face significant negative impact on its reputation, business and financing activities if JPG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JPG’s strategic importance would remain intact while the Jingjiang government will continue to ensure JPG’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”) and the Administrative Committee of Jingjiang Economic Development Zone (“Jingjiang EDZAC”), holds 35% and 65% equity of JPG, respectively, and it is the ultimate controller of the company. The Jingjiang government supervises the company via the Jingjiang SASAO and Jingjiang EDZAC, including senior management appointment and decision-making on investment and financing plans. In addition, the local government has set up an annual mechanism assessment for JPG and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance to Jingjiang and Strategic Alignment: JPG is the only state-owned entity for wharf construction and operation in Jingjiang Port Area of Taizhou Port, and the largest operator for public wharf. The company is mainly engaged in port development, operation and port area supporting facilities construction business. As an important part of Jingjiang Port, Heshang Port, Luojiqiao Port and other projects built by the company play an important role in promoting the economic development of Jingjiang and its surrounding areas. JPG’s business operation and development are in line with the development plan of the local government, aiming to develop the port construction and operation and promote the economic development of the region and surrounding cities.

Ongoing Government Support: JPG has received support from the local government, including equity injection, asset injection, operation subsidy and policy support from the Jingjiang EDZAC. Meanwhile, as the most important state-owned entity for port operation in Jingjiang Port Area, JPG has certain advantages in project, land and resource acquisition. In addition, JPG also enjoys a variety of policy support, such as tax incentives and financial subsidies. JPG had received a total subsidy amount of c. RMB2.9 billion from 2019 to the first nine months of 2022. We believe JPG is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and port construction.

Key Figures of Jingjiang and JPG (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
JPG		
Assets	30.7	44.9
Equity	14.0	20.3
Revenue	3.9	4.2

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

Analysts

Ben Yau
 +852 3462 9586
ben.yau@lhratingsglobal.com

Toni Ho
 (852) 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

JPG's Financial Matrix and Liquidity Position: JPG's total assets showed a significant growth trend in the past three years to RMB45.8 billion at end-September 2022. JPG's financial leverage (total liabilities to assets) was 55.9% and its adjusted debt increased to c. RMB24.9 billion at end-September 2022. Meanwhile, JPG had a cash balance and unused credit facilities of c. RMB4.93 billion (restricted cash accounted for c. 88%) and RMB4.1 billion, respectively, as well as available issuance quota of RMB1.5 billion in the onshore market, compared with its debt due within one year of c. RMB8.05 billion. However, JPG has access to various financing channels, including bank loans, onshore and offshore bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Strength of Jingjiang: As a new industrial port city on the north bank of the Yangtze River, Jingjiang has a relatively high level of economic development. Jingjiang's economy has maintained stable growth, with its GDP reached RMB114.2 billion in 2021, representing a year-over-year growth rate of 10.6%, and its GDP scale ranked the 2nd among Taizhou. Jingjiang Economic Development Zone ("Jingjiang EDZ") is a state-level economic and technological development zone and its construction and development play an important role in the development of Jingjiang, Jingjiang Port Area and the surrounding cities. In 2021, the GDP of Jingjiang EDZ reached c. RMB66.9 billion, accounting for c. 59% of Jingjiang's GDP in the same period.

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. On the other hand, the government fund income fluctuated greatly, which was 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. 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. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Jingjiang government was c. 46.6% at end-2021, down from 58.3% at end-2019.

Rating Sensitivities

We would consider downgrading JPG'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 JPG, or (3) there is a downgrade in our internal credit assessment on the Jingjiang government.

We would consider upgrading JPG'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 and Jingjiang EDZ

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 has maintained stable growth, with its GDP reached RMB114.2 billion in 2021, representing a year-over-year growth rate of 10.6%, and its GDP scale ranked the 2nd among Taizhou. During the same period, its GDP per capita was relatively high at about RMB172,000.

As a state-level economic and technological development zone, Jingjiang EDZ is also one of the provincial development zones with an industrial output value of over RMB100 billion in Jiangsu Province. Its construction and development play an important role in the development of Jingjiang, Jingjiang Port Area and the surrounding cities. In 2021, the GDP of Jingjiang EDZ reached c. RMB66.9 billion, accounting for c. 59% of Jingjiang's GDP in the same period.

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 and Jingjiang EDZ

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. On the other hand, the government fund income fluctuated greatly, which was 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. 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. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Jingjiang government was c. 46.6% at end-2021, down from 58.3% at end-2019.

The fiscal revenue of Jingjiang EDZ was c. RMB2.3 billion, representing a year-over-year growth rate of 10.1% in 2021.

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

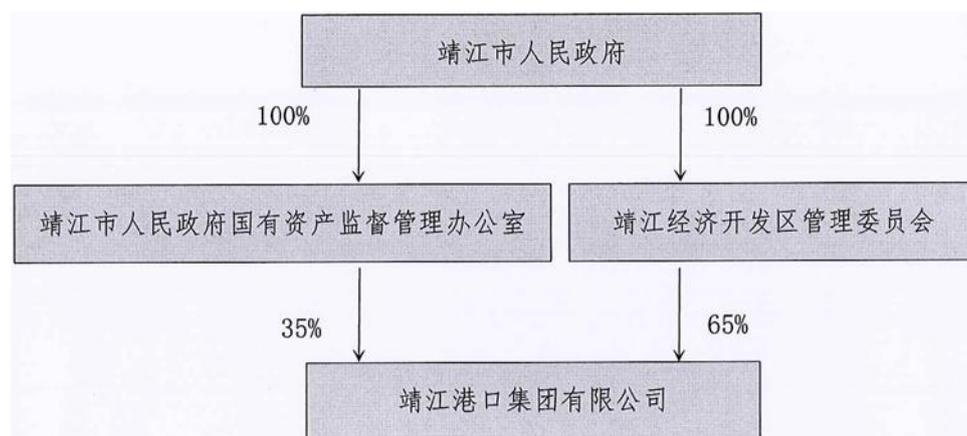
¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JPG was established with an initial registered capital of RMB100 million by Jiangsu Huajing Asset Management Co., Ltd., Jingjiang Grain (Group) Corporation and Jingjiang Huayu Investment Construction Co., Ltd. in 2007. In 2010, the above shareholders transferred all the equity interest to the Jingjiang SASAO. Jingjiang Xinshiji Investment Co., Ltd. injected RMB180 million in cash to JPG in 2012 and then it transferred all its equity interest to the Jingjiang EDZAC in 2014. The Jingjiang SASAO and Jingjiang EDZAC had increased JPG's registered capital several times to RMB1.2 billion (mainly cash and asset injection) at end-September 2022. The shareholding structure of JPG at end-September 2022:



Source: The Company

Strategic Importance and Government Linkage

Strategic Importance of JPG to Jingjiang and Jingjiang Port Area

JPG is the only state-owned entity for wharf construction and operation in Jingjiang Port Area of Taizhou Port, and the largest operator for public wharf. The company is mainly engaged in port development, operation and port area supporting facilities construction business. As an important part of Jingjiang Port, Heshang Port, Luoqiaqiao Port and other projects built by the company play an important role in promoting the economic development of Jingjiang and its surrounding areas. Jingjiang Port, as a national first-class open port approved by the State Council, is a key port project of the local government for development and construction. The company's business operations and development are in line with the development plans of the local government, aiming to develop the port construction and operation and promote the economic development of the region and surrounding cities.

Linkage with the Local Government

The Jingjiang government, through the Jingjiang SASAO and the Jingjiang EDZAC, holds 35% and 65% equity of JPG, respectively, and the ultimate controller of the company is the Jingjiang government. The Jingjiang government, through the Jingjiang SASAO and the Jingjiang EDZAC, supervises the company, including senior management appointment and decision-making on investment and financing plans. In addition, the local government has set up an annual mechanism assessment for JPG and regularly appoints auditors to review its operating performance and financial position.

Government Support

JPG has received support from the local government, including equity injection, asset injection, operation subsidy and policy support from the Jingjiang EDZAC. Meanwhile, as the most important state-owned entity for port operation in Jingjiang Port Area, JPG has certain advantages in project, land and resource acquisition. By the end of September 2022, the company's paid-in capital increased from the initial of RMB100 million to RMB1.2 billion. Apart from the capital injection, Jingjiang EDZAC also continued to inject various assets and equity to the company. In addition, JPG also enjoys a variety of policy support, such as tax incentives and financial subsidies. JPG had received a total subsidy amount of c. RMB2.9 billion from 2019 to the first nine months of 2022. We believe JPG is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and port construction.

Business Profile

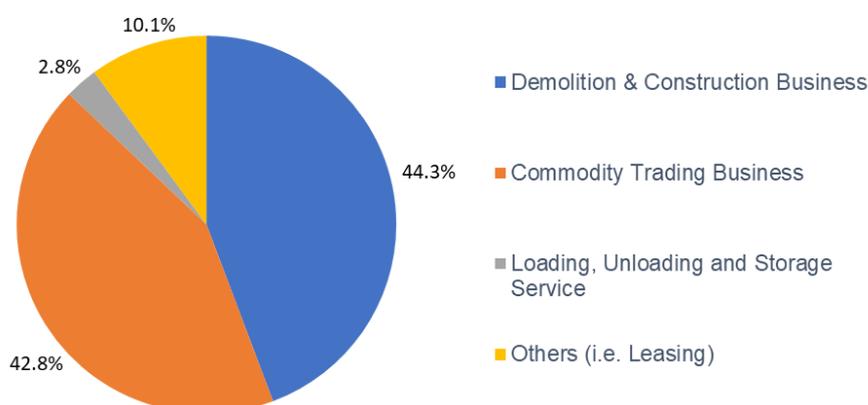
The Only State-owned Entities Responsible for Construction and Operation in Jingjiang Port Area

JPG is mainly responsible for the construction, operation and infrastructure construction of Jingjiang Port Area. As an important part of Jingjiang Port, Heshang Port, Luojiqiao Port and other projects built by the company play an important role in promoting the economic development of Jingjiang and its surrounding areas. As the only state-owned holdings construction and operation entity in Jingjiang Port Area, JPG has a certain regional monopoly advantage, and its business includes commodity trade, port construction, demolition and relocation, loading, unloading and storage, and property leasing, etc.

In the past three years, JPG's operating revenue maintained steady growth, reached about RMB3.46 billion, RMB3.86 billion and RMB4.17 billion, respectively. The main sources of the company's income are demolition and relocation, agent construction income and commodity trading income, accounting for more than 90% of its total revenue. During the same period, the company's gross margin remained stable at the level of about 15%-16%. JPG's profitability was weak, mainly due to the impact of low gross margins in the commodity trading business segment.

Revenue Breakdown

(Total revenue: c. RMB3.0 billion for the first nine months of 2022)



Source: The company and Lianhe Global's calculations

Demolition and Agent Construction Business

Entrusted by the Jingjiang EDZAC, JPG carries out demolition and relocation of the surrounding areas of Jingjiang Port Area. The company raises funds by itself to pay for the preliminary payment of the demolition project, and the Jingjiang EDZAC will calculate the total investment amount based on the relocation amount plus 5%-10% of the demolition cost. The land related to the demolition project is owned by the Jingjiang EDZAC, and the company is only responsible for the demolition part of the project, not for the subsequent finishing business. At present, demolition refunds for projects undertaken by the company have been all settled, and there is no relocation project in the pipeline. In terms of the agent construction business, the company has signed an agent construction contract with the Jingjiang EDZAC or other state-owned companies in the region, which stipulates that the company shall be responsible for the investment and construction of the project and the entrusting party shall settle the project payment with JPG at a certain percentage (e.g., 25%) on the basis of the project cost after completion and handover.

Commodity Trading Business

The company's commodity trading business scale is large with main products including steel, logs and coal. The company mainly adopts the business mode of sell to order. According to the provisions of the contract, no more than 20% of the purchase price can be paid in advance, and the rest of the payment will be settled after the products are inspected and delivered. The settlement method with downstream customers is 10%-30% of the deposit after the contract is signed, and 95% of the payment (including the deposits) is paid after the inspection. The balance is settled within one month, and the sales payment period is generally not more than three months. The top five suppliers and customers accounted for more than 50% of its purchase and sales. The concentration of up and downstream customers was high and overlaps to some extent, mainly from other local state-owned enterprises. In addition, in recent years, the foreign trade business has been affected by the external economic environment, such as the COVID-19 pandemic, and the rising transportation costs, so that the gross margin of this business has been at a low level.

The trading business is closely related to the development of the port. With the improvement of its capacity and convenient transportation and logistics conditions of the port, the company vigorously develops its trading business. The trading business also brings the company a series of port terminal services, driving the development of its loading, unloading and storage business.

Loading, Unloading and Storage Service

This business segment mainly includes loading and unloading of goods, storage and handling of goods in port areas, and the business income includes port miscellaneous fees and storage fees. The company has a storage yard area of about 130,000 square meters, storage capacity of more than 200,000 tons and 8 warehouses with a warehouse area of 20,000 square meters and storage capacity of 100,000 tons. With the completion of the project under construction, this business segment revenue is expected to grow in the future. However, the scale of subsequent investment is large, and the project recovery cycle is long.

Other Businesses

Other businesses include property leasing and wharf leasing. Key tenants are Jingjiang Economic and Technological Development Zone Corporation and People's Government of Xieqiao Town of Jingjiang. Wharf leasing income mainly comes from leasing standardized plant and site in the port. The leasing business has a high gross margin, but a smaller contribution to the company's operating income. In the future, with the completion of projects, the company's leasing assets will increase, which is expected to drive the growth of its leasing income.

Financial Profile

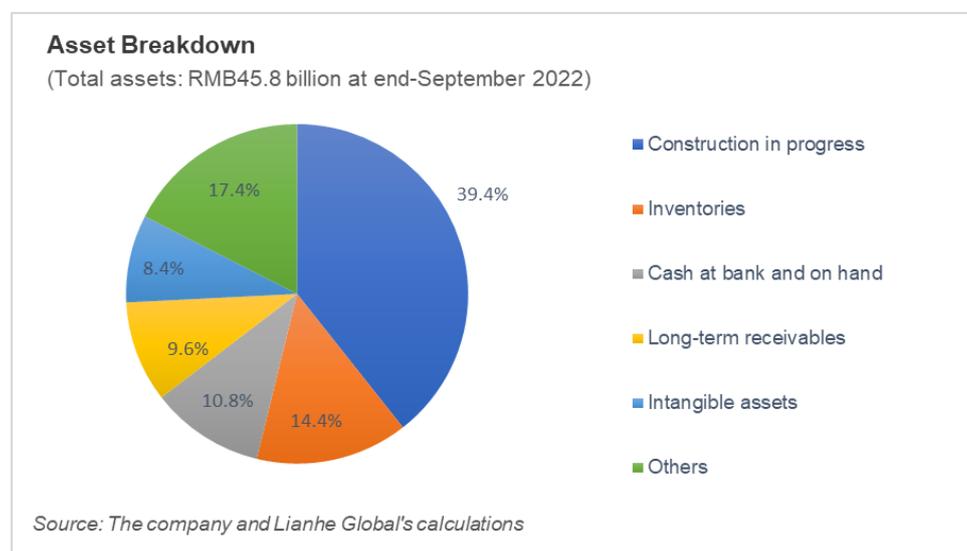
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sep 2022
Total Asset	25,728	30,659	44,946	45,840
Equity	12,111	14,003	20,303	20,216
Debt	13,192	16,257	24,115	24,940
Debt / (Debt + Equity) (%)	52.1	53.7	54.3	55.2
LT Debt	8,208	8,617	13,256	12,893
LT Debt / (LT Debt + Equity) (%)	40.4	38.1	39.5	38.9

Source: Company Information and Lianhe Global's calculations

JPG's total assets showed a significant growth trend in the past three years, with a growth rate of 19.2%, 46.6% and 2.0% at end-2020, end-2021 and end-September 2022, respectively. In 2021, the total assets of the company increased greatly, mainly due to the Jingjiang EDZAC transferring rights of sand resource and other assets to the company. The asset structure of JPG was largely unchanged in the past few years, which mainly consisted of construction in progress, inventory, cash and long-term receivables. At end-September 2022, JPG's asset structure was dominated by non-current assets, accounting for about 69.7% of its total assets and the asset liquidity was moderately weak. Most of the projects under construction were related to port development (such as Luoiaqiao Port) and industrial park construction in the region; inventory was mainly composed of development costs and expenditure; long-term receivables were mainly related to the repayment of the public wharf project and the relocation project. Although its cash accounted for 10.8% of the total assets,

the restricted funds accounted for a relatively high proportion. Overall, the asset liquidity of JPG was moderately weak because there were few realizable assets and the construction in process and recovery funds accounted for a relatively large proportion.



JPG's financial leverage (total liabilities to assets) remained stable at approximately 53%-56% from end-2019 to end-September 2022 (55.9% at end-September 2022). At end-September 2022, the total adjusted debt of JPG increased significantly to RMB24.9 billion from about RMB16.3 billion at end-2020, mainly due to the increase in bonds payable and long-term borrowings. Of these, the long-term debt accounted for c. 52% of the total adjusted debt. The company's equity increased rapidly in 2021, mainly due to assets injection by the local government. At end-September 2022, there was no significant change in the company's equity structure from the end of the previous year. JPG primarily relies on external financing to fund its capital expenditure. We expect that the capital expenditure will increase in the future given its large number of port-related projects under construction and in the pipeline.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	3,808	3,476	3,007	3,463
Cash Outflows from Operation	2,404	4,301	3,086	1,809
Net CF from Operation	1,404	-826	-79	1,654
Cash Inflows from Investment	1,486	850	183	-
Cash Outflows from Investment	6,162	1,487	1,321	2,720
Net CF from Investment	-4,676	-637	-1,138	-2,720
Cash Inflows from Financing	9,131	6,908	9,009	6,953
Cash Outflows from Financing	5,478	5,556	7,075	6,535
Net CF from Financing	3,652	1,352	1,935	417
Net Increase in Cash and cash equivalent	380	-111	717	-649

Source: The Company

Debt Servicing Capability

The liquidity of JPG was moderate. At end-September 2022, JPG had a cash balance and unused credit facilities of c. RMB4.93 billion (restricted cash accounted for c. 88%) and RMB4.1 billion, respectively, as well as available issuance quota of RMB1.5 billion in the



onshore market, compared with its debt due within one year of c. RMB8.05 billion. However, JPG has access to various financing channels, including bank loans, onshore and offshore bond issuance and non-traditional financing (such as financial leasing and wealth management financing), to support its debt repayment and business operations. In addition, JPG issued four offshore bonds with a total amount of USD202 million in the first half of 2022.

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