

# Jinhua State-owned Capital Operation Co., Ltd.

## Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jinhua State-owned Capital Operation Co., Ltd. (“JSCO” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that Jinhua Municipal People’s Government (“the Jinhua government”) would provide strong support to JSCO if needed, in light of its full ownership of JSCO, JSCO’s strategic importance as the flagship local investment and development company (“LIDC”) responsible for urban development and city operation in Jinhua City (“Jinhua”), and the linkage between the Jinhua government and JSCO, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Jinhua government may face significant negative impact on its reputation and financing activities if JSCO encounters any operational and financial difficulties.

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Jinhua government holds 100% shares of JSCO through State-owned Assets Supervision Administration Commission of Jinhua (“Jinhua SASAC”). The Jinhua government also has strong control over the company, including appointment of the senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the Jinhua government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** In 2022, Jinhua initiated state-owned assets consolidation. Jinhua SASAC transferred an array of shares of major LIDCs in Jinhua to JSCO, making the company the Jinhua’s flagship LIDC. The company’s development plan has been aligned with the local government’s economic and social policies. It is responsible for infrastructure construction (including Jinhua-Yiwu-Dongyang Rail Transit, a key transportation project connecting Jinhua urban area, Jinyi New District, Yiwu and Donyang), primary land development, resettlement housing development, transportation and water supply in Jinhua.

**Ongoing Government Support:** JSCO has received ongoing operational subsidies from the Jinhua government since its establishment. The company received subsidies of RMB1,792 million between 2019 and September 2022 from local governments. These subsidies were mainly to support JSCO’s activities in relation to providing public goods and services. In 2022, JSCO’s registered capital and paid-in capital were enlarged to RMB5 billion from RMB300 million due to the injection of LIDCs’ equity.

**Economy and Fiscal Condition of Jinhua:** Jinhua is a prefecture-level city located in the middle of Zhejiang Province, and the south wing of the Yangtze River Delta economic circle, bordering Shaoxing and Hangzhou in the north. It has a well-developed economy with

### Summary

|               |  |
|---------------|--|
| Issuer Rating | A  |
| Outlook       | Stable                                     |
| Location      | China                                      |
| Industry      | Local Investment and Development Companies |
| Date          | 8 May 2023                                 |

### Key Figures of Jinhua and JSCO (RMB billion)

|                       | 2021        | 2022          |
|-----------------------|-------------|---------------|
| <b>Jinhua</b>         |             |               |
| GDP                   | 535.5       | 556.2         |
| GDP growth rate (%)   | 9.8         | 2.5           |
| Budgetary revenue     | 49.2        | 48.9          |
| Government fund       | 157.7       | 84.5          |
| Transfer payment      | 23.2        | 25.4          |
| Budgetary expenditure | 79.1        | 83.0          |
| <b>JSCO</b>           | <b>2021</b> | <b>2022.9</b> |
| Assets                | 100.1       | 148.3         |
| Equity                | 52.4        | 69.7          |
| Revenue               | 9.5         | 9.1           |

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

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

counties specializing in different sectors. For example, Yiwu is known as an international small commodities center. Jinhua realized a GDP of RMB556.2 billion in 2022, representing a year-over-year growth of 2.5%, down from 9.8% in 2021. This was mainly caused by Covid's disruption during the year. Yet the city maintained a strong fixed asset investment growth of 13.5% in 2022, as the government promoted investments in transportation infrastructure, urban renewal and ecological protection projects to boost economic growth.

The Jinhua government's budgetary revenue decreased to RMB48.9 billion in 2022 from RMB49.2 billion in 2021, mainly due to the large-scale value-added tax credit refunds, a policy to support the economy. In contrast, its budgetary expenditure increased to RMB83.0 billion from RMB79.1 billion. Therefore, the Jinhua government's budget deficit was enlarged. In addition, Jinhua's government fund income, mainly generated by land sales, dropped while its government debt grew in 2022.

**JSCO's Financial and Liquidity Position:** JSCO's asset size grew significantly by 143.4% to RMB148.3 billion at end-September 2022 from RMB60.9 billion at end-2019. This was mainly attributed to the company's active involvement in infrastructure construction, including the development of the rail transit project, and primary land development projects in Jinhua, especially in Duohu, a planned CBD. These projects usually take a protracted time to monetize owing to long construction time and potential delay payments. The weak property market had slowed land sales in Jinhua since 2022. JSCO largely relied on debts to finance its asset expansion. The company's total debts have increased sharply since 2020, from RMB27.6 billion at end-2020 to RMB63.1 billion at end-September 2022, pushing up its financial leverage, as measured by debts/capitalization, to 47.5% at end-September 2022 from 40.3% at end-2020.

The liquidity of JSCO was adequate, as the company had sizable cash on hand, and most of its debts were due more than one year. At end-September 2022, JSCO had a cash balance of c. RMB16.6 billion (including restricted cash of RMB223 million) compared with its debt due within one year of c. RMB11.0 billion. Besides, JSCO has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused bank credit line of RMB50.5 billion at end-September 2022.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Jinhua

Jinhua is a prefecture-level city located in the middle of Zhejiang Province, and the south wing of the Yangtze River Delta economic circle, bordering Shaoxing and Hangzhou in the north. Jinhua administers over two districts (Wucheng and Jindong), four county-level cities (Lanxi, Yiwu, Dongyang and Yongkang), three counties (Wuyi, Pujiang and Pan' an) and

two state-level economic and technological development zones (Jinhua Economic and Technological Development Zone and Yiwu Economic and Technological Development Zone), with a total land area of 109.4 thousand square kilometers and a residential population of 7.1 million and an urbanization rate of 69.4 % at end-2022.

Jinhua has a well-developed economy with counties specializing in different sectors. For example, Yiwu is known as an international small commodities center, while Yongkang focuses on manufacturing hardware products and the largest film and television base is in Dongyang. In addition, its digital economy (e.g., e-commerce) and strategic emerging industries have developed rapidly in recent years. Jinhua is also an important transportation hub connecting the Yangtze River Delta urban agglomeration, which has formed a comprehensive transportation network of highways, railways, waterways and aviation. Jinhua's economic structure mainly consisted of secondary and tertiary industries, accounting for 41.9 % and 55.2 % of Jinhua's aggregate GDP, respectively, in 2022.

Jinhua realized a GDP of RMB556.2 billion in 2022, representing a year-over-year growth of 2.5%, down from 9.8% in 2021. This was mainly caused by the covid's disruption during the year. Yet the city maintained a strong fixed asset investment growth of 13.5% in 2022, as the government promoted investments in transportation infrastructure, urban renewal and ecological protection projects to boost economic growth.

| <b>Jinhua's GDP and Fixed Asset Investment</b> |             |             |             |
|--|-------------|-------------|-------------|
| <b>(RMB billion)</b>                           | <b>2020</b> | <b>2021</b> | <b>2022</b> |
| GDP  | 470.4       | 535.5       | 556.2       |
| -Primary industry (%)                          | 3.3         | 2.8         | 2.9         |
| -Secondary industry (%)                        | 38.6        | 41.2        | 41.9        |
| -Tertiary industry (%)                         | 58.1        | 56.0        | 55.2        |
| GDP growth rate (%)                            | 2.8         | 9.8         | 2.5         |
| Fixed asset investment                         | 264.3       | 306.6       | 348.0       |
| Fixed asset investment growth rate (%)         | 4.2         | 16.0        | 13.5        |
| Population (million)                           | 7.1         | 7.1         | 7.1         |

*Source: Public information and Lianhe Global's calculations*

## Fiscal Condition of Jinhua

The Jinhua government's budgetary revenue decreased to RMB48.9 billion in 2022 from RMB49.2 billion in 2021 due to the large-scale value-added tax credit refunds to support the economy. In contrast, its budgetary expenditure increased to RMB83.0 billion from RMB79.1 billion. Therefore, the Jinhua government's budget deficit was enlarged to -69.8% from -60.8% over the same period.

In addition, Jinhua's government fund income, mainly generated by land sales, dropped sharply to RMB84.5 billion in 2022 from RMB157.7 billion in 2021 owing to the weak property market. As a result, the Jinhua government recorded aggregate revenue of RMB159.4 billion in 2022, down from RMB230.6 billion in 2021. However, its government debt grew significantly in 2022, lifting the government debt ratio, as measured by total government debt/aggregate revenue, to 86.5% from 50.6% over the same period.

| <b>Jinhua's Fiscal Condition</b>     |              |              |              |
|--------------------------------------|--------------|--------------|--------------|
| <b>(RMB billion)</b>                 | <b>2020</b>  | <b>2021</b>  | <b>2022</b>  |
| Budgetary revenue                    | 42.3         | 49.2         | 48.9         |
| Budgetary revenue growth rate (%)    | 2.9          | 16.3         | 6.9*         |
| Tax revenue                          | 38.0         | 44.7         | 41.0         |
| Tax revenue (% of budgetary revenue) | 89.9         | 90.7         | 83.8         |
| Government fund income               | 84.4         | 157.7        | 84.5         |
| Transfer payment                     | 25.5         | 23.2         | 25.4         |
| <b>Aggregate revenue</b>             | <b>152.4</b> | <b>230.6</b> | <b>159.4</b> |
| Budgetary expenditure                | 70.3         | 79.1         | 83.0         |
| Budget deficit <sup>1</sup> (%)      | -66.2        | -60.8        | -69.8        |

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

Note\*: Excluding the influence of value-added tax credit refund

## Ownership Structure

### Government's Ownership

JSCO was established in 1996 with initial registered capital of RMB200 million, which was enlarged to RMB5 billion at end-June 2022 after several capital injections. Currently, State-owned Assets Supervision Administration Commission of Jinhua Municipal Government ("Jinhua SASAC") owns 100% shares of JSCO.

In 2022, Jinhua initiated state-owned assets consolidation. Jinhua SASAC transferred an array of shares of major LIDCs in Jinhua, including Jinhua City Construction Investment Group Co., Ltd., Jinhua Communications Investment Group Co., Ltd. and Jinhua Rail Transit Group Co., Ltd., etc. to JSCO, making the company the Jinhua's flagship LIDC.

## Strategic Importance and Government Linkage

### Strategic Importance of JSCO to Jinhua

In 2022, Jinhua initiated state-owned assets consolidation. Jinhua SASAC transferred an array of shares of major LIDCs in Jinhua JSCO, making the company Jinhua's flagship LIDC. The company's development plan has been aligned with the local government's economic and social policies. It is responsible for infrastructure construction, primary land development, resettlement housing development, transportation and water supply in Jinhua. The company also holds 40% shares of JJRT, the developing and operating entity of Jinhua-Yiwu-Dongyang Rail Transit, which is Jinhua's key project connecting Jinhua urban area, Jinyi new district, Yiwu and Dongyang.

### Strong Linkage with the Local Government

JSCO has a strong linkage with the local government, as the Jinhua government holds 100% ownership of the company through the Jinhua SASAC. The Jinhua government has strong control over the company, including appointment and supervision of the senior management, development strategy, major investment and financing plan decisions and other government support, etc. In addition, the Jinhua government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

### Ongoing Government Support

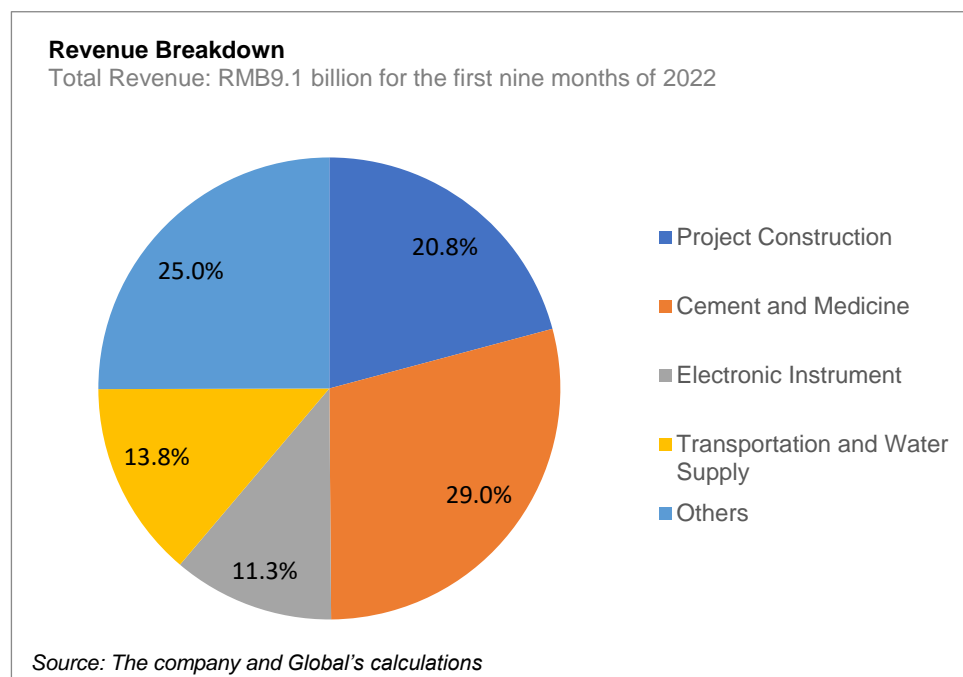
JSCO has also received ongoing operational subsidies from the Jinhua government since its establishment. The company received subsidies of RMB469 million, 480 million, 524 million and 313 million in 2019, 2020, 2021 and the first nine months of 2022, respectively, from local governments. These subsidies mainly support JSCO's activities in relation to providing public goods and services.

In 2022, JSCO's registered capital and paid-in capital were enlarged to RMB5 billion from RMB300 million due to the injection of LIDCs' equity. Besides, the government injected an array of leasable state-owned properties into JSCO.

## Business Profile

### An Important LIDC Responsible for Urban Development and Operation in Jinhua

JSCO is the flagship development and operating entity consolidating major LIDCs in Jinhua. The company is responsible for infrastructure construction, primary land development, resettlement housing development, transportation and water supply in Jinhua. It also diversified into the cement, medicine and electronic instrument manufacturing industries. In addition, JSCO sells building materials, cereal and grain, as well as provides education and tourism services. The company realized revenue of RMB7.0 billion, 6.6 billion, 9.5 billion and 9.1 billion in 2019, 2020, 2021 and the first nine months of 2022, respectively.



### Project Construction

JSCO is entrusted by government agencies to conduct an array of infrastructure and public facility projects, including most roads and bridges in the Jinhua urban area, transportation station, exhibition center, school and hospital. The company is also designated to develop primary lands in Jinhua urban area, mainly covering Duohu, Jinhua's planned central business district. JSCO usually needs to raise funds to construct entrusted projects, then settles with entrusting parties based on construction costs plus management fees upon completion. Yet the company may be subject to project and payment delays. Considering

JSCO's strong project pipeline, we expect the project construction segment to remain as JSCO's major revenue driver in the next two to three years.

### **Transportation and Water Supply**

JSCO is Jinhua's important city operation entity. The company runs the city's passenger transport, including Bus Rapid Transit System, normal bus and inter-city coach. It also indirectly holds 40% shares of Jinhua Jinyidong Rail Transit Co., Ltd., the developing and operating entity of Jinhua-Yiwu-Dongyang Rail Transit, and is JJRT's controlling shareholder. Jinhua-Yiwu-Dongyang Rail Transit is Jinhua's key project connecting Jinhua urban area, Jinyi new district, Yiwu and Donyang. The Yiwu-Dongyang line has opened to traffic since 2022, and the whole project is expected to be completed in 2024. The planned investment of the project amounts to RMB34.7 billion, putting high capital expenditure pressure on JSCO in the next one to two years. Yet local governments will provide some project funds to alleviate the company's burden. In addition to passenger transport, JSCO is responsible for water supply and sewage treatment in Jinhua. These activities enhance the company's strategic importance as they serve important public functions.

JSCO also participates in the logistics business. The company operates international freight trains connecting Jinhua and Central Asian countries, such as Kazakhstan, Uzbekistan, Turkmenistan and Afghanistan, etc. This improves Jinhua's international connectivity and promotes the city and neighboring areas' international trade.

### **Cement, Medicine and Electronic Instrument**

At end-September 2022, JSCO indirectly held 16.15% shares of Zhejiang Jianfeng Group., Ltd. ("Jianfeng Group") (600668.SH), a cement and medicine producer listed on Shanghai Stock Exchange. Jianfeng Group mainly produces cement products covering Zhejiang, Hubei and Yunan markets. Its medicine product lines include antibiotics, anti-depressive and cardiovascular drugs, as well as eye drops, etc., and primarily supply Zhejiang market. Jianfeng Group issued a profit warning in January 2023, expecting a c. 60%-70% drop in net profit in 2022, owing to weak demand for cement products and rising production costs.

JSCO also indirectly held 40% shares of Zhejiang Bada Electronic Instrument Co., Ltd. ("Bada Electronic"), a state-owned electronic instrument manufacturer. Bada Electronic mainly produces smart electric meters and other electrical equipment, selling to State Grid Corporation of China, China South Power Grid and other end users.

### **Others**

JSCO's other businesses mainly include property development (including resettlement housing development), sales of building materials, grain collection and storage, guard services, education and tourism.

## Financial Profile

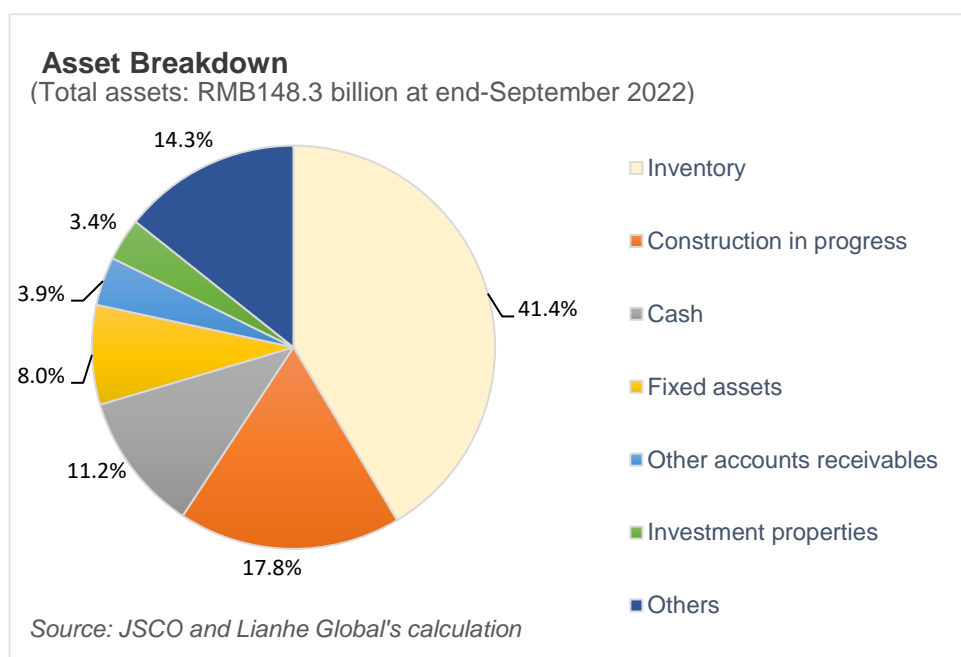
### Balance Sheet Structure and Quality

| Balance Sheet Structure and Quality |        |        |         |          |
|-------------------------------------|--------|--------|---------|----------|
| (RMB million)                       | 2019   | 2020   | 2021    | Sep 2022 |
| Total Asset                         | 60,947 | 76,715 | 100,092 | 148,322  |
| Equity                              | 27,943 | 40,908 | 52,411  | 69,654   |
| Debts                               | 29,508 | 27,602 | 37,788  | 63,114   |
| Debt / (Debt + Equity) (%)          | 51.4   | 40.3   | 41.9    | 47.5     |
| LT Debts                            | 24,037 | 21,542 | 29,636  | 52,091   |
| LT Debt / (LT Debt + Equity) (%)    | 46.2   | 34.5   | 36.1    | 42.8     |

*Source: The company's financial reports and Lianhe Global's calculations*

JSCO's asset size grew significantly by 143.4% to RMB148.3 billion at end-September 2022 from RMB60.9 billion at end-2019. This was mainly attributed to the company's active involvement in infrastructure construction, including the development of the rail transit project, and primary land development projects in Jinhua, especially in Duohu.

JSCO largely relied on debts to finance its asset expansion. The company's total debts have increased sharply since 2020, from RMB27.6 billion at end-2020 to RMB63.1 billion at end-September 2022, pushing up its financial leverage, as measured by debts/capitalization, to 47.5% at end-September 2022 from 40.3% at end-2020. Its total liabilities/total assets ratio was also lifted to 53.0% from 46.7% over the same period. According to the management, the company aims to control its financial leverage below 60%.



JSCO's asset liquidity was moderately weak, with inventory and construction in progress accounting for around 60% of total assets. JSCO's inventory increased significantly in 2022, from RMB37.6 billion at end-2021 to RMB61.4 billion at end-September 2022, accounting for 41.4% of its total assets at end-September 2022. Most of the inventories were construction costs generated by its project construction business. The construction in progress accounted for 17.8% of JSCO's total assets at end-September 2022, which was mainly related to the company's rail transit project. Above project-related assets usually take

a protracted time to monetize owing to long construction time and potential delay payments. The weak property market had slowed land sales in Duohu since 2022.

In addition, JSCO had other accounts receivables of RMB5.8 billion at end-September 2022, mainly due from government agencies, other LIDCs and state-owned enterprises (“SOE”) in Jinhua, and a significant part of other accounts receivables were technically loans. At the same time, JSCO had accounts receivables of RMB2.1 billion, accounting for a very small fraction (1.4%) of its total assets. The receivables were mainly due from government agencies, hospitals, other LIDCs and SOEs.

## Cash Flow

| <b>Cash Flow<br/>(RMB million)</b>       | <b>2019</b>   | <b>2020</b>   | <b>2021</b>   | <b>9M2022</b> |
|--|---------------|---------------|---------------|---------------|
| Cash Inflows from Operation              | 8,127         | 9,091         | 14,371        | 13,482        |
| Cash Outflows from Operation             | 9,668         | 11,250        | 15,162        | 14,397        |
| <b>Net CF from Operation</b>             | <b>-1,541</b> | <b>-2,159</b> | <b>-791</b>   | <b>-914</b>   |
| Cash Inflows from Investment             | 4,873         | 2,985         | 1,591         | 5,598         |
| Cash Outflows from Investment            | 8,743         | 10,711        | 8,784         | 10,716        |
| <b>Net CF from Investment</b>            | <b>-3,870</b> | <b>-7,726</b> | <b>-7,192</b> | <b>-5,119</b> |
| Cash Inflows from Financing              | 12,370        | 21,091        | 23,848        | 26,634        |
| Cash Outflows from Financing             | 7,360         | 10,910        | 13,057        | 14,896        |
| <b>Net CF from Financing</b>             | <b>5,010</b>  | <b>10,180</b> | <b>10,791</b> | <b>11,738</b> |
| Net Increase in Cash and cash equivalent | -401          | 292           | 2,807         | 5,708         |

Source: The company's financial reports

## Debt Servicing Capability

The liquidity of JSCO was adequate, as the company had sizable cash on hand, and most of its debts were due more than one year. At end-September 2022, JSCO had a cash balance of c. RMB16.6 billion (including restricted cash of RMB222.7 million) compared with its debt due within one year of c. RMB11.0 billion. Besides, JSCO has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused bank credit lines of RMB50.5 billion at end-September 2022.



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