

Lianhe Global publishes ‘BBB-’ global scale Long-term Issuer Credit Rating of Jiangsu Jurong Investment Group Co., Ltd.; Outlook is Stable

HONG KONG, 30 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, publishes ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangsu Jurong Investment Group Co., Ltd. (“JJIG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the people’s government of Jurong (“the Jurong government”) would provide strong support to JJIG if needed. This mainly considers the Jurong government’s full ownership of JJIG, JJIG’s strategic position as a major local investment and development company (“LIDC”) in Jurong, as well as the strong linkage between the Jurong government and JJIG, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Jurong government may face significant negative impact on its reputation and financing activities should JJIG encounter any operational or financial difficulties.

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

Key Rating Rationales

Strong Linkage with the Jurong government: The Jurong government holds 100% ownership of JJIG. It also has strong control and supervision over JJIG, including control of the board of directors, senior management appointments, as well as major investment and financing planning. In addition, the Jurong government has comprehensive performance assessment policies for JJIG.

High Strategic Importance: As a major LIDC in Jurong, JJIG is responsible for Jurong’s urban construction, including shantytown redevelopment, water conservancy, water supply and related installation and maintenance projects. JJIG’s strategic planning and development have been aligned with the local government’s economic and social policies. The company also participates in the development of Nanjing-Jurong Railway, a key transportation project connecting Nanjing and Jurong, by investing in 41.3% shares of Jiangsu Ningju Rail Transit Co., Ltd. (“JNRT”). It is the development and operation entity of the Nanjing-Jurong Railway.

In addition, the Jurong government also authorizes JJIG to administer other two major LIDCs, namely Jiangsu Jurong Fudi Ecological Technology Co., Ltd. (“JJFET”) and Jurong Urban Construction Investment Co., Ltd. (“JUCI”) in Jurong, which further enhances JJIG’s strategic importance and its linkage with the Jurong government.

Ongoing Government Support: JJIG has received strong government support, including capital injections and financial subsidies. The Jurong government injected cash capital of RMB1.81 billion and RMB691 million in 2020 and 2021, respectively. In addition, the Jurong government provided financial subsidies totaling RMB683 million between 2020 and 2022 to support JJIG's activities in relation to providing public goods. We expect JJIG to receive ongoing support from the local government in the coming years considering its strategic importance in Jurong.

Economic and Fiscal Conditions of Jurong: Jurong is a county-level city administered by Zhenjiang. Located between Nanjing, the provincial capital of Jiangsu, and Zhenjiang, Jurong is developing itself as the transportation hub of the Nanjing-Zhenjiang-Yangzhou Integrated Development by building key railway projects across the city, including Nanjing-Jurong Railway, South Railway along the Yangtse River, Jurong-Maoshan Railway and Nanjing-Zhenjiang-Yangzhou-Maanshan Railway. However, Jurong's economic growth rate slowed down to 1.0% in 2022 from 9.3% in 2021 due the impact of Covid, realizing a GDP of RMB75.46 billion. In addition, its fixed asset investment dropped by 16.6% in 2022 compared to previous year.

The Jurong government's budgetary revenue decreased to RMB4.92 billion in 2022 from RMB5.76 billion in 2021. Its fiscal self-sufficiency rate was moderately low, and its budget deficit widened to 62.6% in 2022 from 48.9% in 2021. The Jurong government's aggregate revenue highly relied on the income from the government-managed fund, contributing 61.3% to its aggregate revenue in 2022. In addition, its government debt ratio was moderately high. The Jurong government issued a lot of special debts to support the development of railway projects, lifting the Jurong government's total debt outstanding to RMB21.62 billion at end-2022 from RMB19.37 billion at end-2021.

JJIG's Financial and Liquidity Position: JJIG experienced a rapid debt-funded expansion in the past three years to support Jurong's project development. The company's financial leverage, as measured by total debt/capitalization, increased to 70.5% at end-March 2023 from 39.2% at end-2019.

JJIG's liquidity was moderately tight. At end-March 2023, the company had cash of RMB5.69 billion (including restricted cash of RMB5.40 billion), compared with its debt due within one year of RMB10.03 billion. Nevertheless, JJIG has access to multiple financing channels, including bank borrowing, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-March 2023, the company had unused bank facilities amounting to RMB4.41 billion. Still, the company need to successfully roll over its short-term bank borrowings (end-March 2023: RMB4.07billion), obtain additional financing sources or government support to maintain its liquidity.

Contingent Liability Risk: JJIG's contingent liability risk was high, as it had provided financing guarantees of RMB10.99 billion to non-consolidated parties at end-June 2023, representing 109.8% of the company's equity at end-March 2023. Majority of guaranteed (c. RMB7.58 billion) were provided to JNRT. At the same time, the company also provided

financial guarantees of RMB781 million and RMB912 million to JJFET and JUCI, respectively. We believe that the credit status of major LIDCs in Jurong is highly correlated considering their close relationship.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this JJIG's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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