

Jiande State-owned Assets Investment Holding Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	1 August 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiande State-owned Assets Investment Holding Group Co., Ltd. (“JSAI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jiande (“the Jiande government”) would provide very strong support to JSAI if needed, in light of its full ownership of JSAI, JSAI’s strategic importance as the largest local investment and development company (“LIDC”) in terms of asset size and the most important development and operation entity in Jiande, and the linkage between the Jiande government and JSAI, 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 Jiande government may face significant negative impact on its reputation and financing activities if JSAI encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Jiande government holds 100% shares of JSAI through Jiande State-owned Assets Management Service Center (“Jiande SAMSC”). The Jiande government also has strong control over the company, including appointing senior management and supervising development strategy, major financing plan and investment decisions. In addition, the Jiande 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: After receiving 90% equity of Jiande State-owned Assets Management Company (“JSAM”) and 100% equity interest in Jiande Economic Development Group Holding Company (“JEDG”), JSAI become the largest LIDC in terms of asset size and the most important development and operation entity in Jiande. The company undertakes key projects designated by the local government and operates the city’s utilities. JSAI’s business operation has been aligned with the Jiande government’s development plans, and the company plays an important role in promoting economic and social development in Jiande.

Ongoing Government Support: JSAI has received ongoing support from the local government, including capital and asset injections and operational subsidies. The local government provided cash of RMB560 million, 1,521 million and 486 million to JSAI in 2020, 2021 and 2022, respectively. The company also received assets such as mining rights, economic forest, lands, properties, projects and equity of state-owned enterprises (“SOEs”) amounting to RMB6.3 billion over the same period. In 2023, the Jiande government injected cash capital of c. RMB1.5 billion into the company, enlarging its paid-in capital from RMB0.5 million to RMB1.5 billion at end-March 2023. The company also received operational subsidies of RMB1,868 million between 2020 and 2022. These subsidies mainly support

Key Figures of Jiande and JSAI (RMB billion)

	2021	2022
Jiande		
GDP	42.5	43.4
GDP growth rate (%)	7.1	1.3
Budgetary revenue	3.9	5.2
Government fund	5.8	6.6
Transfer payment	3.1	2.9
Budgetary expenditure	6.4	7.9
JSAI		
Asset	70.7	75.9
Equity	25.9	26.9
Revenue	5.5	5.4

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

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Applicable Criteria

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

JSAI's activities in relation to providing public goods and services. We expect JSAI to receive strong support from the local government in light of its strategic importance.

Economy and Fiscal Condition of Jiande: Jiande is a county-level city located in Zhejiang Province and managed by Hangzhou City. Its GDP reached RMB43.4 billion in 2022. However, the GDP growth rate slowed to 1.3% in 2022 from 7.1% in 2021, mainly due to Covid's impact. However, its fixed asset investment dropped in the past three years in a row, mainly due to the decrease in transportation, ecological, environmental protection, urban renewal and water conservancy facilities' investment.

The Jiande government's aggregate fiscal revenues are mainly derived from government fund income and budgetary revenue. The Jiande government's budgetary revenue increased to RMB5.2 billion (including one time gain from mining right income of RMB1.1 billion) in 2022 from RMB3.4 billion in 2020. The fiscal self-sufficiency capacity of the Jiande government was moderately weak but improving, with a budget deficit of 51.0% in 2022, narrowing from 73.3% in 2020. In addition, Jiande's government fund income, mainly generated by land sales, remained the largest contributor to aggregate fiscal revenues in the past three years, recording at RMB6.7 billion in 2022.

The outstanding debt of the Jiande government continued to grow. At end-2022, the Jiande government's outstanding debt was RMB11.0 billion, including RMB6.7 billion of general obligations and RMB4.5 billion of special debt. Although the Jiande government borrowed heavily in special debts to support its public projects, aggregate revenue grew faster; thus, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 73.8% at end-2022 from 97.4% at end-2020.

JSAI's Financial and Liquidity Position: JSAI's asset size grew by 42.9% to RMB81.4 billion at end-March 2023 from RMB57.0 billion at end-2020. The expansion in assets was mainly financed by the corresponding growth of debts and equity. The company's total debt has increased significantly since 2020, from RMB31.9 billion at end-2020 to RMB46.8 billion at end-March 2023. Over the same period, the company also received multiple rounds of capital and asset injections from the local government, enlarging its equity to RMB28.3 billion from RMB20.5 billion. As a result, JSAI's financial leverage, as measured by debts/capitalization, stayed at c.60% level between end-2020 and end-March 2023. Its total liability/total asset ratio was slightly lifted to 65.2% from 63.9% over the same period.

The liquidity of JSAI was moderately tight. At end-March 2023, JSAI had a cash balance of RMB6.8 billion (including restricted cash of RMB191 million) compared with its debt due within one year of RMB17.4 billion. Nevertheless, JSAI 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 RMB28.6 billion at end-March 2023.

Rating Sensitivities

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

We would consider upgrading JSAI's rating if there is an upgrade in our internal credit assessment on the Jiande government.

Operating Environment

Economic Condition of Jiande

Jiande is a county-level city located in Zhejiang Province and managed by Hangzhou City. Jiande has jurisdiction over 16 towns and streets, with a total area of 2,321 square kilometers. At end-2022, Jiande had a resident population of c. 0.45 million, with an urbanization rate of 53.5%.

Jiande's economic growth rate slowed to 1.3% in 2022 from 7.1% in 2021, mainly due to Covid's impact. Its GDP reached c. RMB43.4 billion in 2022 and was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 50.7% and 39.9% of total GDP, respectively. However, its fixed asset investment dropped in the past three years in a row, mainly due to the decrease in transportation, ecological, environmental protection, urban renewal and water conservancy facilities' investment.

Jiande's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	38.9	42.5	43.4
-Primary industry (%)	9.5	9.1	9.4
-Secondary industry (%)	48.1	51.5	50.7
-Tertiary industry (%)	42.4	39.4	39.9
GDP growth rate (%)	5.3	7.1	1.3
Fixed asset investment growth rate (%)	-9.9	-12.3	-17.7
Population (million)	0.4	0.4	0.4

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jiande

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Jiande's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	3.4	3.8	5.2
Budgetary revenue growth rate (%)	10.1	12.5	35.1
Tax revenue	30.3	34.4	33.4
Tax revenue (% of budgetary revenue)	88.4	89.4	64.3
Government fund income	3.2	5.8	6.7
Transfer payment	3.5	3.1	2.9
Aggregate revenue	10.2	13.2	15.0
Budgetary expenditure	5.9	6.4	7.9
Budget deficit ¹ (%)	-73.3	-65.4	-51.0

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JSAI was established in April 2013, with an initial registered capital of RMB0.5 million, funded by Jiande SAMSC. In November 2022, the Jiande Government gratuitously transferred 90% equity interest in JSAM and 100% in JEDG to the company. JASM is an important LIDC responsible for land development and consolidation, infrastructure and public facility constructions, affordable housing development and city utility operation in Jiande, while JEDG is the core development and construction entity of Jiande Economic Development Zone. Since the equity transfers, JSAI has become the most important and largest (in terms of asset size) LIDC in Jiande.

At end-March 2023, Jiande SAMSC, as the sole controlling shareholder, held 100% of the company's equity, with the registered and paid-in capital being RMB2.0 billion and RMB1.5 billion, respectively.

Strategic Importance and Government Linkage

Strategic Importance of JSAI to Jiande

JSAI is the largest LIDC in terms of asset size and the most important development and operation entity in Jiande. The company undertakes key projects designated by the local government and operates the city's utilities. Its business operation has been aligned with the Jiande government's development plans. The company plays an important role in promoting economic and social development in Jiande.

Strong Linkage with the Local Government

JSAI has a strong linkage with the local government, as the Jiande government holds 100% ownership of the company through the Jiande SAMSC. The Jiande 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 Jiande government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

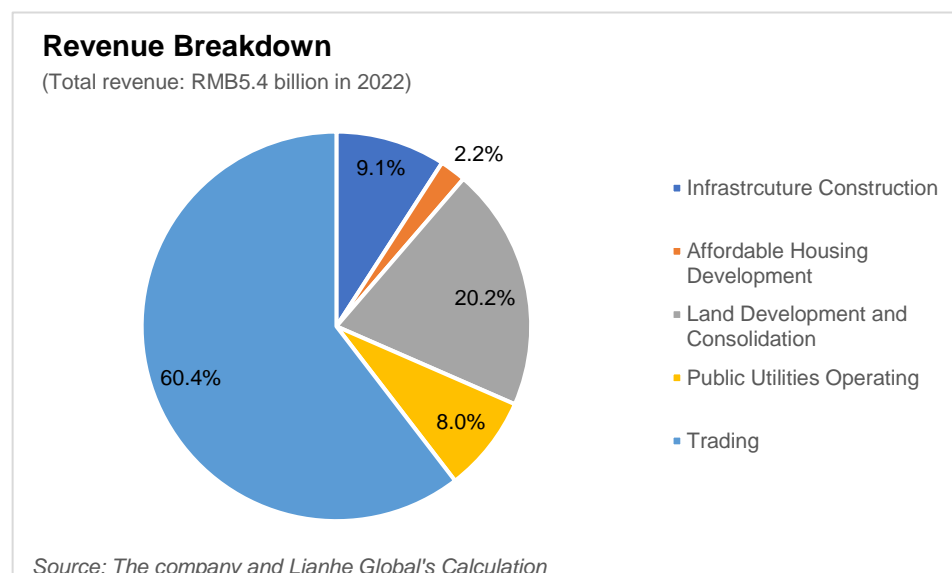
Ongoing Government Support

JSAI has received ongoing support from the local government, including capital and asset injections and operational subsidies. The local government provided cash of RMB560 million, 1,521 million and 486 million to JSAI in 2020, 2021 and 2022, respectively. The company also received assets such as mining rights, economic forest, lands, properties, projects and equity of SOEs amounting to RMB6.3 billion over the same period. In addition, the Jiande government injected cash capital of c. RMB1.5 billion in 2023 into the company, enlarging its paid-in capital from RMB0.5 million to RMB1.5 billion at end-March 2023. The company also received operational subsidies of RMB1,868 million between 2020 and 2022. These subsidies mainly support JSAI's activities in relation to providing public goods and services. We expect JSAI to receive strong support from the local government in light of its strategic importance.

Business Profile

The Most Important LIDC Responsible for Urban Development and Operation in Jiande

JSAI, as the most important LIDC in Jiande, is mainly responsible for land development and consolidation, infrastructure construction, affordable housing development and public utilities operating within the region. JSAI's strong franchise advantage enables it to undertake key projects under the instruction of the Jiande government. The company also has diversified into trading, mining and other businesses. JSAI recorded total revenue of RMB3.9 billion, 5.5 billion and RMB5.4 billion in 2020, 2021 and 2022, respectively.



Land Development and Consolidation and Infrastructure Construction

As the most important land development and consolidation entity in Jiande, JSAI undertakes land development and consolidation projects under the local government's annual planning. JSAI signs the land development agreement with the government agencies, such as Finance Bureau of Jiande and Management Committee of Jiande Economic Development Zone. They will repurchase the land parcel with investment cost plus a certain percentage

of profit (15%-20%) upon the concession of entrusted land parcels. Therefore, the segment's revenue and cash collection could be subject to the land market conditions.

The Jiande government also designates JSAI to conduct infrastructure projects, including constructing roads, bridges, industrial parks and public utilities within the region. The company has a strong franchise advantage in Jiande. It adopts both agent construction and self-operated models in this segment. Under the agent construction model, the company signs the agent construction agreements with the entrusting party and is responsible for fundraising and the construction of entrusted projects. The company settles construction costs plus a percentage (usually under 15%) of management fees with the entrusting party after completing the projects, and it typically takes five years in cash collection. Under the self-operated model, the company constructs the projects with internal funds and external financings, expecting sales and rental incomes upon completion.

At end-September 2022, the company had numerous infrastructure projects under construction with a total planned investment amounting to RMB19.9 billion, of which RMB13.6 billion were scheduled to be invested. At the same time, the company had seven land parcels under development, with a total planned investment and awaiting investment of RMB3.4 billion and RMB1.1 billion, respectively. The strong project pipeline supports JSAI's business development, yet it could incur high capital expenditure pressure on the company in the coming years.

Affordable Housing Development and Public Utilities Operating

JSAI is an important affordable housing development entity in Jiande. The company is responsible for developing affordable houses in Jiande urban areas and Jiande Economic Development Zone. The local government provides lands on which the company to develop affordable houses free of charge. In Jiande urban areas, the company sold most completed houses to qualified residents at a government guide price and the rest at market prices to the public. In Jiande Economic Development Zone, the management committee usually repurchases completed projects at a fixed price (RMB3,000/sq.m.) and then allocates them to qualified buyers. At end-September 2022, JSAI company was developing six affordable housing projects with a planned investment of RMB3.2 billion. It would invest RMB1.8 billion in the next one to two years.

As a major public utility operator, JSAI provides water pipe network installation, sewage treatment and waste garbage disposal services in Jiande. The company also engages in urban greening and landscaping business. We believe these activities enhance JSAI's public functions and importance in the region.

Trading, Mining and Others

Trading was the largest revenue source of JSAI, contributing 60.4% of the total revenue to the company. JSAI adopts a fast-churn business model, boosting its turnover and keeping inventory low but resulting in a low gross margin. JSAI is mainly engaged in the sales of commodities, such as oil, coal and non-ferrous metals. The revenue generated from this segment reached c. RMB1.6 billion, RMB2.3 billion and RMB2.8 billion in 2020, 2021 and 2022, respectively, representing an upward trend. The segment's gross profit margin was relatively low, which was less than 2.0% for the past years.

JSAI operates its mining business through a joint venture, Zhejiang Anlian Mining Co., Ltd. ("Anlian Mining"). JSAI holds 30% shares of Anlian Mining, and the other 70% is owned by

Guangzhou Longpiao Machinery Trade Co., Ltd. (“Longpiao Machinery”), a private enterprise that authorizes JSAI to exercise shareholder rights in Anlian Mining and remains the right to share profit. Anlian Mining mainly engages in mineral resources mining, smelting and deep processing, and selling mineral products. Its revenue fluctuated in the past three years, recording RMB260 million, 391 million and 271 billion in 2020, 2021 and 2022, respectively. The gross margin of this segment was relatively high, which was 60%-80% over the same period.

Other businesses, with each segment accounting for a relatively small proportion of the company’s total revenue, mainly supplement JSAI’s main business and diversify the company’s revenue structure.

Financial Profile

Balance Sheet Structure and Quality

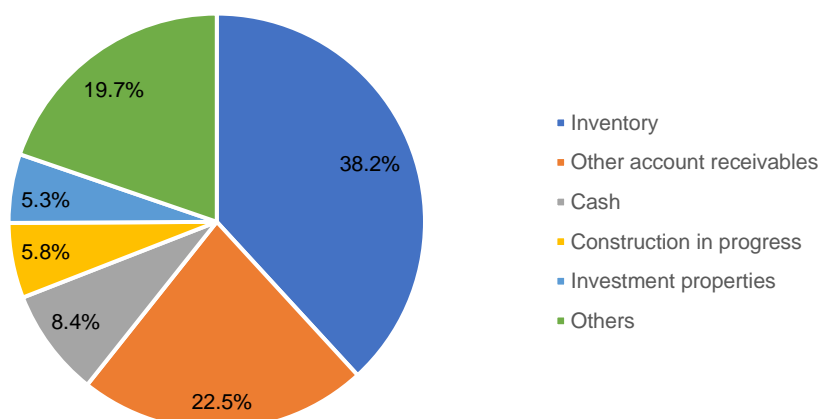
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	March 2023
Total Asset	56,953	70,739	75,947	81,388
Equity	20,538	25,884	26,936	28,341
Debt	31,873	37,455	43,569	46,832
Debt / (Debt + Equity) (%)	60.8	59.1	61.8	62.3
LT Debts	25,264	27,669	26,900	29,448
LT Debt / (LT Debt + Equity) (%)	55.2	51.7	50.0	51.0

Source: The company’s financial reports and Lianhe Global’s calculations

JSAI’s asset size grew by 42.9% to RMB81.4 billion at end-March 2023 from RMB57.0 billion at end-2020. The expansion in assets was mainly financed by the corresponding growth of debts and equity. The company’s total debt has increased significantly since 2020, from RMB31.9 billion at end-2020 to RMB46.8 billion at end-March 2023. Over the same period, the company also received multiple rounds of capital and asset injections from the local government, enlarging its equity to RMB28.3 billion from RMB20.5 billion. As a result, JSAI’s financial leverage stayed at c.60% level between end-2020 and end-March 2023. Its total liability/total asset ratio was slightly lifted to 65.2% from 63.9% over the same period.

Asset Breakdown

(Total assets: RMB81.4 billion at end-March 2023)



Source: The company and Lianhe Global’s calculation

JSAI's asset liquidity was moderately weak, with inventory and construction in progress accounting for around 44.0% of total assets. JSAI's inventories increased from RMB22.6 billion at end-2021 to RMB31.1 billion at end-March 2023, accounting for 38.2% of its total assets at end-March 2023. Most of the inventories were construction costs generated by its agent construction activities. The construction in progress accounted for 5.8% of JSAI's total assets at end-March 2023, most of which were also related to self-operated projects. These project-related assets usually take a long time to monetize due to prolonged construction, recognition and cash collection period.

In addition, JSAI had other accounts receivables amounting to RMB18.3 billion and accounting for 22.5% of the company's total asset at end-March 2023, mainly due from government agencies, other LIDCs and state-owned enterprises in Jiande. A significant part of other account receivables' aging exceeded four years, and the company had provisioned a bad debt allowance of RMB133 million.

JSAI's other assets mainly comprised investment properties injected by the local government and developed for leasing or commercial operations, as well as land use rights and mining rights, etc.

Debt Servicing Capability

The liquidity of JSAI was moderately tight. At end-March 2023, JSAI had a cash balance of RMB6.8 billion (including restricted cash of RMB191 million) compared with its debt due within one year of RMB17.4 billion. Nevertheless, JSAI 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 RMB28.6 billion at end-March 2023.



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