

Jiangsu Jurong Investment Group Co., Ltd.

Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangsu Jurong Investment Group Co., Ltd. (“JJIG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the Jurong government would provide strong support to JJIG if needed. This mainly considers the people’s government of Jurong government’s (“the Jurong government”) 100% 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.

Rating Rationale

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 participate 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.

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	4 September 2023

Key Figures of Jurong and JJIG (RMB billion)

	2021	2022
Jurong		
GDP	73.7	75.5
GDP growth rate (%)	9.3	1.0
Budgetary revenue	5.8	4.9
Government fund	10.8	11.6
Transfer payment	1.8	2.4
Budgetary expenditure	8.6	8.0
JJIG		
Asset	31.4	37.1
Equity	10.1	21.3
Revenue	1.2	1.3

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

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Applicable Criteria

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

Economy and Fiscal Condition 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.

Operating Environment

Economic Condition of Jurong

Jurong is a county-level city administered by Zhenjiang. Jurong had a land area of 1,385 square kilometers, a residential population of 0.64 million, and an urbanization rate of 65.8% at end-2022. 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 due the impact of Covid, realizing a GDP of RMB75.5 billion. In addition, as the investment in manufacturing and high-tech industries decreased substantially, the city recorded a fixed asset investment growth rate of -16.6% in 2022.

Jurong's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	67.5	73.7	75.5
-Primary industry (%)	7.8	7.5	7.6
-Secondary industry (%)	42.0	42.5	45.2
-Tertiary industry (%)	50.2	50.0	47.2
GDP growth rate (%)	3.6	9.3	1.0
Fixed asset investment growth rate (%)	2.4	10.3	-16.6
Population (million)	0.64	0.64	0.64

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jurong

The Jurong government's budgetary revenue decreased to RMB4.9 billion in 2022 from RMB5.8 billion in 2021, mainly due to the large-scale value-added tax credit refund policy to support the economy. 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.

The Jurong government's fiscal self-sufficiency rate was moderately low, and its budget deficit widened to 62.6% in 2022 from 48.9% in 2021. In addition, its government debt ratio, as measured by total debt outstanding/aggregate revenue, was moderately high. This was mainly due to the increase in government special debt to support the development of railway projects, lifting the total debt outstanding to RMB21.6 billion at end-2022 from RMB19.4 billion at end-2021.

Jurong's Fiscal Conditions

(RMB billion)	2020	2021	2022
Budgetary revenue	5.5	5.8	4.9
Budgetary revenue growth rate (%)	2.5	5.1	-17.7
Tax revenue	4.8	4.8	3.6
Tax revenue (% of budgetary revenue)	88.1	83.9	72.7
Government fund income	10.4	10.8	11.6
Transfer payment	2.2	1.8	2.4
Aggregate revenue	19.7	19.0	18.9
Budgetary expenditure	7.9	8.6	8.0
Budget deficit ¹ (%)	-44.0	-48.9	-62.6

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Full Government Ownership

JJIG was established in 2017 by the Jurong government with an initial registered capital of RMB2 billion. The Jurong government transferred 100% ownership of JJIG to the Jurong Finance Bureau (the State-owned Assets Supervision and Administration Office of Jurong) ("Jurong SASAO") in 2019. After the equity transfer, Jurong SASAO became the company's sole shareholder.

Strategic Importance and Government Linkage

Strategic Importance of JJIG to Jurong

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 participate in the development of Nanjing-Jurong Railway, a key transportation project connecting Nanjing and Jurong, by investing in 41.3% shares of JNRT. It is the development and operation entity of the Nanjing-Jurong Railway.

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Strong Linkage with the Local Government

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Ongoing Government Support

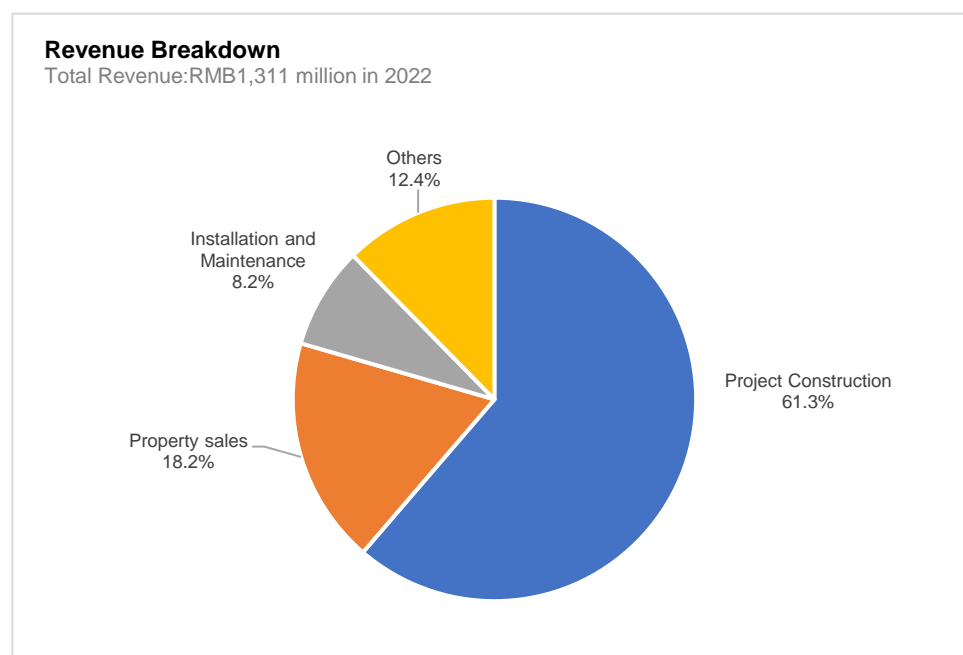
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relation to providing public goods. We expect JJIG to receive ongoing support from the local government in the coming years considering its strategic importance in Jurong.

Business Profile

A Major State-owned Entity Responsible for Urban Development in Jurong

JIG undertakes urban development projects designated by the Jurong government. The project scope mainly includes shantytown redevelopments and water conservancy. JJIG is also engaged in water supply and related installation and maintenance projects.



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

Project Construction

Project construction was JJIG's most important source of revenue. The company enters into project construction agreements with Housing and Urban-rural construction Bureau of Juring, Jurong Qiantai Shantytown Redevelopment Co., Ltd. and Jurong Beautiful New Rural Construction and Development Co., Ltd. The project scope mainly includes shantytown redevelopments and ecological rehabilitations. According to these agreements, JJIG is responsible for fundraising and constructing entrusted projects, and entrusting parties usually pay construction costs (including financing costs) plus a 12% margin to JJIG upon the completion of projects.

At end-March 2023, JJIG had three projects under construction with a total investment of RMB2.78 billion, and there were RMB427 million to be invested. In addition, JJIG is developing self-operation Yangtze River Water Diversion Project and the Jurong Waterworks Projects, with total planned investment of RMB2.2 billion, of which RMB502 million had been invested by end-2022.

Installation and Maintenance, Property Sales, and Others

JJIG began its water supply-related installation and maintenance business after acquiring Jurong Water Group Co., Ltd. in 2020. Its major customers are property developers and government agencies in Jurong. JJIG's property development business fluctuated due to the weak property market. The company will deliver a major residential property project by end-2023. The project has started to presell in 2021 yet the sell-through rate was 17.6% by end-March 2023.

In addition, JJIG participated in other businesses such as market management, roadside assistance and tourism, etc. Although the operating scale was relatively small, we believe these businesses enhance the company's strategic importance in Jurong to some extent by providing public services.

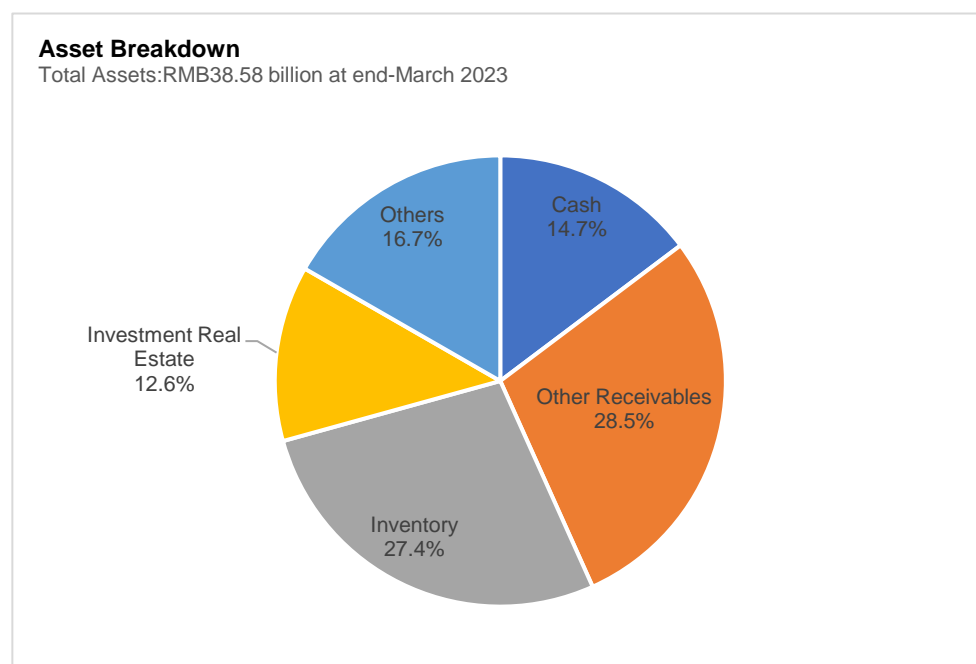
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	2020	2021	2022	March 2023
Total Asset	19,447	31,402	37,112	38,582
Equity	6,987	10,108	10,004	10,013
Debt	10,372	14,983	21,267	23,970
Debt / (Debt + Equity) (%)	59.8	59.7	68.0	70.5
LT Debts	5,171	8,369	12,792	13,942
LT Debt / (LT Debt + Equity) (%)	42.5	45.3	56.1	58.2

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

JJIG experienced a rapid debt-funded expansion in the past three years to support Jurong's project development. Its total assets tripled to RMB38.58 billion at end-March 2023 from RMB12.82 billion at end-2019, while its total debt surged by 540% to RMB23.97 billion from RMB3.75 billion. As a result, JJIG's financial leverage increased significantly. Its total debt/capitalization ratio increased to 70.5% from 39.2% over the same period.



Source: JJIG and Lianhe Global's calculations

Although current assets contributed 74.3% of JJIG's total assets, the company's asset liquidity was weak because other receivables and inventory, which could take a long to monetize in practice, represented majority of the company's assets at end-March 2023. JJIG's other receivables increased dramatically to RMB11.01 billion at end-March 2023 from RMB834 million at end-2019, of which 60.6% were due from JUCI, a State-owned entity wholly owned by Jurong SASAO and administered by JJIG. Over the same period, JJIG's inventory, mainly consisting of construction costs and lands, increased to RMB10.58 billion from RMB5.90 billion, as the company actively participated in Jurong's project development, and it obtained a significant amount of land through open bid in 2021. JJIG usually takes three to five years to collect its other receivables and construction costs. For a significant proportion of lands, the company had no specific development plan yet.

Debt Servicing Capability

JJIG's liquidity was tight. At end-March 2023, the company had cash of RMB5.69 billion (including restricted cash of RMB5.4 0billion), 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 (RMB4.07billion), obtain additional financing sources or government support to maintain its liquidity.

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