

Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	28 September 2023

Correction: Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB’ global scale Long-term Issuer Credit Rating of Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd. (“JZURID” or “the company”); Outlook is Stable

Summary

This replaces the rating report published on 24 May 2023 to correct the name of the company to Jiangsu Zhongwu Urban Rural Investment Development Group Co., Ltd.

The Issuer Credit Rating reflects a high possibility that the Xinyi People’s Government (“the Xinyi government”) (authorized by Jiangsu Xuzhou government) would provide very strong support to JZURID if needed, in light of its full ownership of JZURID, JZURID’s strategic importance as an important local investment and development company (“LIDC”) responsible for land consolidation, infrastructure construction and affordable housing construction as well as state-owned asset operating in Xinyi City (“Xinyi”), and the linkage between the Xinyi government and JZURID, 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 Xinyi government may face significant negative impact on its reputation and financing activities if JZURID encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Xinyi government (with delegation from Jiangsu Xuzhou government) holds 100% shares of JZURID directly. The local government also has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local 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: JZURID, as the most important LIDC in Xinyi, is primarily responsible for land consolidation, infrastructure construction and affordable housing construction, as well as investment and construction of infrastructure and industrial facilities within the Xinyi economic development zone, with regional advantages. The company undertakes investment, financing, construction and management of major projects entrusted by local governments. As the core platform designated by the Xinyi government and Xinyi economic development zone to implement its infrastructure

Key Figures of Xinyi and JZURID (RMB billion)

	2021	2022
Xinyi		
GDP	78.1	82.6
GDP growth rate (%)	10.1	4.7
Budgetary revenue	4.4	4.6
Government fund	5.1	6.3
Transfer payment	4.7	5.1
Budgetary expenditure	10.3	10.4
JZURID		
Asset	102.8	112.5
Equity	36.5	39.5
Revenue	5.5	5.6

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

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Applicable Criteria

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



construction plans, the company plays an important role in the rapid urbanization process and promoted the local economic development. Its business operation and development are in line with the development plans of the local government.

Ongoing Government Support: As the most important state-owned entity for infrastructure construction, land consolidation and state-owned asset operating in Xinyi, JZURID continuously received government support, including equity transfer, capital injection and government subsidies, etc. JZURID received a total of RMB9.24 billion in assets and capital injection. During the same period, the company received a total of RMB1.69 billion in government subsidies from the local government between 2020 and 2022. Considering the company's function and strategic importance in Xinyi, we expect the company to continue receiving government support in the future.

Economy and Fiscal Condition of Xinyi: Xinyi's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 10.1% and 4.7% in 2020, 2021 and 2022, respectively. It realized a GDP of RMB82.6 billion in 2022 and was ranked 4th among ten districts and counties under the administration of Xuzhou. In recent years, Xinyi's economic development focused on manufacturing, biological, pharmaceutical and chemical industries. Its economic growth was mainly fueled by the secondary and tertiary sectors, which accounted for 39.0% and 49.3% of GDP in 2022, respectively.

The Xinyi government's budgetary revenue increased to RMB4.6 billion in 2022 from RMB3.8 billion in 2020. However, the tax revenue's contribution decreased to 70.7% from 85.9% over the same period. Xinyi's budgetary deficit was improving but remained high, with deficit rates of -157.3%, -135.8% and -126.0% in 2020, 2021 and 2022, respectively. Xinyi's government fund income, mainly generated by land sales, increased to c. RMB6.3 billion in 2022 from RMB5.1 billion in 2021. Plus, the transfer payment from higher governments was largely stable. Therefore, the Xinyi government's aggregate revenue reached RMB16 billion in 2022, up from RMB14.1 billion in 2021.

Nevertheless, the outstanding debt of the Xinyi government continued to grow in 2022. At end-2022, the Xinyi government's outstanding debt was RMB17.0 billion (end-2021: RMB13.5 billion). Given that the Xinyi government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 106.5% at end-2022 from 95.7% at end-2021.

JZURID's Financial and Liquidity Position: JZURID's total assets increased to c. RMB112.5 billion at end-2022 from c. RMB90.8 billion at end-2020. The increase of JZURID's total assets was largely due to its the increase in inventories, which increased in tandem with the company's construction projects. At end-2022, JZURID's assets were mainly composed of inventories, receivables and investment properties. Although the company's asset structure was dominated by current assets, the company has relatively high contract performance costs and land development costs, thus, the company's overall asset liquidity was weak. The financial leverage ratio (total liabilities/total assets) of JZURID remained stable at c. 64%-65% in the past three years. The total adjusted debt of JZURID increased to c. RMB63.9 billion at end-2022.



JZURID's liquidity was tight. At end-2022, JZURID had unrestricted cash balance and unused credit facilities of c. RMB2.7 billion and RMB9.7 billion, respectively, and available issuance quotas in onshore market of approximately RMB4.7 billion, compared with its debt due within one year of c. RMB25.0 billion at the same time. Consequently, JZURID must successfully roll over its short-term bank borrowings, which can generally be rolled over in view of the company's track record.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Xinyi

Xinyi is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Xuzhou. Xinyi has jurisdiction over 13 towns, 5 streets, and 2 provincial-level development zone (High-tech Zone and Xinyi economic development zone). At end-2022, Xinyi had a total area of 1,616 square kilometers and a resident population of 0.96 million, with an urbanization rate of 58.0%.

Xinyi's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 10.1% and 4.7% in 2020, 2021 and 2022, respectively. It realized a GDP of RMB82.6 billion in 2022, and was ranked 4th among ten districts and counties under the administration of Xuzhou. In recent years, Xinyi's economic development focused on manufacturing, biological, pharmaceutical and chemical industries. Its economic growth was mainly fueled by the secondary and tertiary sectors, which accounted for 39.0% and 49.3% of GDP in 2022, respectively.

Xinyi's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	69.2	78.1	82.6
-Primary industry (%)	13.0	11.9	11.7
-Secondary industry (%)	38.3	38.1	39.0
-Tertiary industry (%)	48.7	50.0	49.3
GDP growth rate (%)	3.1	10.1	4.7
Fixed asset investment growth rate (%)	5.3	8.7	3.1
Population (million)	0.92	0.96	0.96

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Xinyi

The Xinyi government's budgetary revenue increased to RMB4.6 billion in 2022 from RMB3.8 billion in 2020. However, the tax revenue's contribution decreased

to 70.7% from 85.9% over the same period. Xinyi's budgetary deficit was improving but remained high, with deficit rates of -157.3%, -135.8% and -126.0% in 2020, 2021 and 2022, respectively. Xinyi's government fund income, mainly generated by land sales, increased to c. RMB6.3 billion in 2022, with a year-on-year growth rate of 24.4%, owing to the strong development of the industrial real estate market. Plus, the transfer payment from higher governments was largely stable. Therefore, the Xinyi government's aggregate revenue reached RMB16 billion in 2022, up from RMB14.1 billion in 2021.

Nevertheless, the outstanding debt of the Xinyi government continued to grow in 2022. At end-2022, the Xinyi government's outstanding debt was RMB17.0 billion (end-2021: RMB13.5 billion), including general obligations of RMB2.9 billion and special debt of RMB14.1 billion. Given that the Xinyi government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 106.5% at end-2022 from 95.7% at end-2021.

Xinyi's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	3.8	4.4	4.6
Budgetary revenue growth rate (%)	5.5	16.6	10.6*
Tax revenue	3.2	3.7	3.3
Tax revenue (% of budgetary revenue)	85.9	84.4	70.7
Government fund income	4.9	5.1	6.3
Transfer payment	5.0	4.7	5.1
Aggregate revenue	13.7	14.1	16.0
Budgetary expenditure	9.6	10.3	10.4
Budget deficit ¹ (%)	-157.3	-135.8	-126.0

¹ 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

Full Government Ownership

JZURID was established in July 2010 with an initial registered capital of RMB209 million, funded by the Xinyi government with the delegation from the Jiangsu Xuzhou government. In July 2022, the Xinyi government injected RMB800 million into the company in the form of cash, and the paid-in capital of the company increased to RMB1.01 billion. At end-2022, the registered capital and paid-in capital of JZURID was RMB2.00 billion and RMB1.01 billion, respectively, and Jiangsu Xuzhou government (authorizing the Xinyi government) is the sole shareholder and actual controller of the company.

Strategic Importance and Government Linkage

Strategic Importance of JZURID to Xinyi

JZURID, as the most important LIDC in Xinyi, is primarily responsible for land consolidation, municipal infrastructure construction, affordable housing construction within the region. In addition, the company also responsible for investment and construction of infrastructure and industrial supporting facilities within the Xinyi Economic Development Zone, with regional advantages. The



company undertakes investment, financing, construction and management of major projects entrusted by local governments. As the core platform designated by the Xinyi government and Xinyi Economic Development Zone to implement its infrastructure construction plan, the company has played a huge role in the rapid urbanization process and promoted the local economic development. Its business operation and development are in line with the development plans of the local government.

Linkage with the Local Government

JZURID has a strong linkage with the local government. Xinyi government (with delegation from Jiangsu Xuzhou government) holds 100% shares of JZURID directly. The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local 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

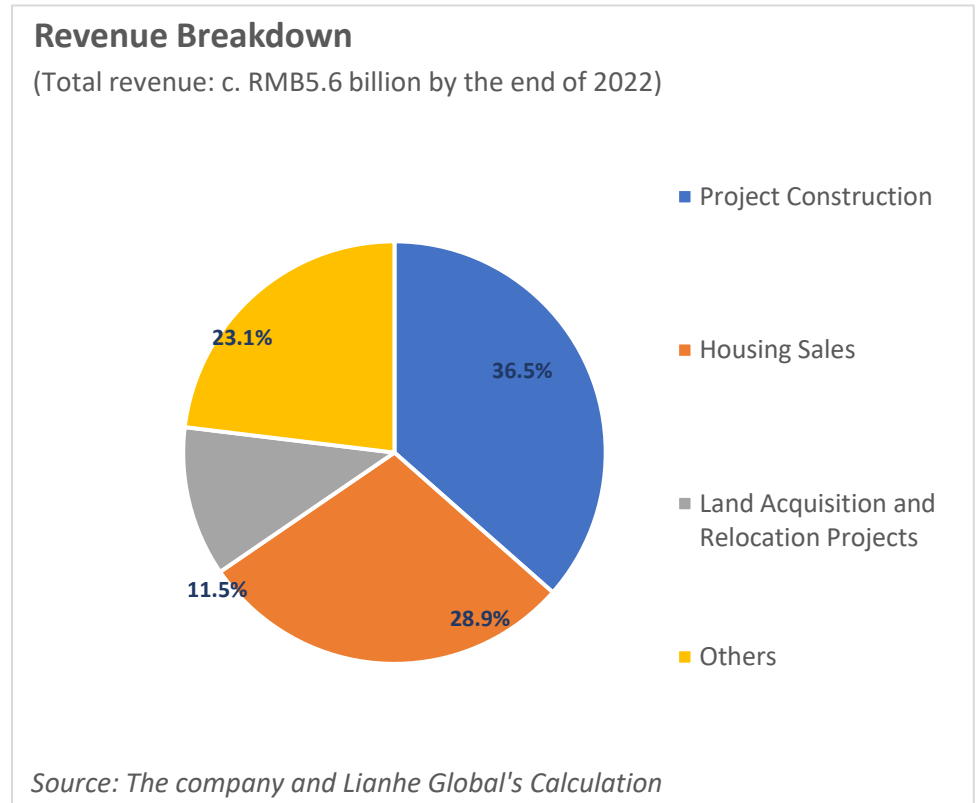
As the most important state-owned entity for infrastructure construction, land consolidation and state-owned asset operating in Xinyi, JZURID continuously received government support, including equity transfer, capital injection and government subsidies, etc. From 2020 to the end of 2022, JZURID received assets and capital injection valued at RMB4.26 billion, 2.80 billion and 2.18 billion, respectively, of which the company received injection of RMB800 million in the form of cash from the local government, and the paid-in capital of the company increased to RMB1.01 billion in July 2022. In addition, the company received government subsidies of RMB406 million, 644 million and 636 million respectively from the local government from 2020 to the end of 2022. Considering the company's function and strategic importance in Xinyi, we expect the company to continue receiving government support in the future.

The Most Important Entity Responsible for Infrastructure Construction, Land Consolidation and State-owned Asset Operating in Xinyi

JZURID, as the most important LIDC in Xinyi, is mainly responsible for land consolidation, infrastructure construction and affordable housing construction, as well as investment and construction of infrastructure and industrial facilities within the Xinyi economic development zone. As the core platform designated by the Xinyi government and Xinyi economic development zone to implement its infrastructure construction plans, JZURID plays an important role in promoting economic and social development within the region.

The primary sources of operating revenue for the company is project construction, housing sales and land acquisition and relocation projects, while it also engaged in merchandise sales, leasing, security business, etc. The company's total revenue reached c. RMB5.2 billion, RMB5.5 billion and RMB5.6 billion in 2020, 2021 and the end of 2022, respectively, representing a steady growth trend. The overall gross profit margin of JZURID remained stable at c. 16% from 2020 to the

end of 2022. In general, JZURID's business was well diversified, and it has regional advantages in its major businesses.



Project Construction

The local government and related government agencies entrusts JZURID to undertake project construction in Xinyi, including urban roads, bridges, utilities construction as well as land consolidation. The company's importance on infrastructure construction in Xinyi gives it a strong franchise advantage in the region. The projects in this segment are generally conducted under the agent construction model, where the revenue recognition includes construction costs incurred plus a certain percentage of profit. Currently, the company is working on several large-scale projects, thus it incurs high pressure on capital expenditure.

Housing Sales

JZURID is mainly engaged in the resettlement housing sales and realizes revenue through market-oriented sales and appropriate government subsidies. The revenue generated from this segment reached c. RMB771 million, RMB1.7 billion and RMB1.6 billion in 2020, 2021 and the end of 2022, respectively, representing an upward trend. The gross profit margin of the segment was relatively volatile, which turned to positive from negative since 2021.

Land Acquisition and Relocation Projects

The local government entrusts JZURID to undertake land acquisition and relocation projects, including housing demolition, land acquisition and compensation, etc. JZURID signs the land development agreement with the Xinyi government and other government agencies. The entrusted party will repurchase

the land parcel with investment cost plus a certain percentage of profit when the entrusted land parcels are sold.

Other Businesses

The company is also involved in the sale of building materials such as steel. Other businesses of JZURID include water sales, security business and leasing, etc., with each segment accounted for a relatively small proportion of the company's total revenue. These businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

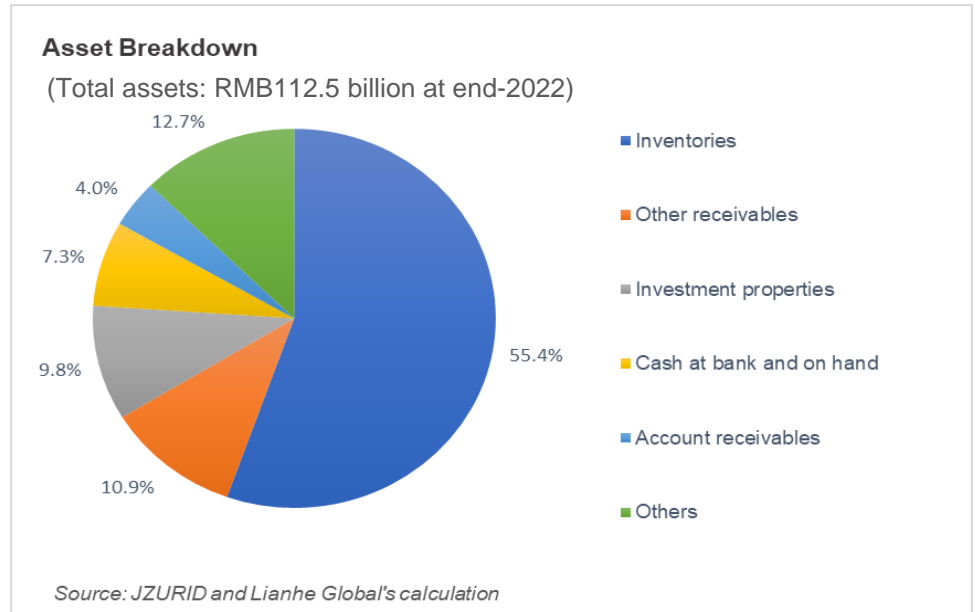
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality			
(RMB million)	2020	2021	2022
Total Asset	90,822	102,773	112,474
Equity	31,831	36,530	39,495
Debt	52,130	60,903	63,896
Debt / (Debt + Equity) (%)	62.1	62.5	61.8
LT Debt	39,596	40,073	38,872
LT Debt / (LT Debt + Equity) (%)	55.4	52.3	49.6

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

The financial leverage ratio (total liabilities/total assets) of JZURID remained stable and was at a moderately high level of c. 64%-65% from end-2020 to end-2022, which was 64.9% at end-2022. Per the company's management, the financial leverage ratio is expected to remain at c. 65% in the future. The company's liabilities were mainly consisted of non-current liabilities due within one year, long-term borrowing and bonds payable, among which non-current liabilities due within one year mainly are mainly long-term borrowing and bonds payable. The total adjusted debt of JZURID increased by 22.6% to c. RMB63.9 billion at end-2022 from c. RMB52.1 billion at end-2020, mainly due to the increase in long-term borrowing and bonds, of which short-term debt and long-term debt accounted for 39.2% and 60.8% of its total debt, respectively, at end-2022. There was no significant change in the ownership equity structure of JZURID at end-2022, compared with that at end-2021. The capital surplus increased to RMB28.3 billion at end-2022 from RMB24.1 billion at end-2020. As JZURID adopts agent construction mode for project construction, it mainly relies on external financing to support its capital expenditure, which we expect to increase in the future given its infrastructure construction projects under construction and housing related projects under construction and to be constructed in the future.



JZURID's total assets showed a continuous growth in the past three years, with a growth rate of 21.5%, 13.2% and 9.4% at end-2020, end-2021 and end-2022, respectively, and reached RMB112.5 billion at end-2022. The increase of JZURID's total assets was largely due to its the increase in inventories, which increased in tandem with the company's construction projects. At end-2022, JZURID's assets were mainly composed of inventories, receivables and investment properties. The scale of inventories was large that mainly included contract performance costs and land development costs, which increased in parallel with the growth of the relevant projects. The receivables of the company were mainly from the Xinyi government related entities and state-owned enterprise, with a relatively low collection risk. The investment properties of the company were houses, buildings and land use rights, and its overall size is showing an upward trend. At end-2022, the investment properties increased by 193.9% compared to the end of 2020, mainly due to construction in progress, the transfer of other non-current assets and the increase in fair value changes. Although the company's asset structure was dominated by current assets, the company has relatively high contract performance costs and land development costs, thus, the company's overall asset liquidity was weak.

Debt Servicing Capability

JZURID's liquidity was tight. At end-2022, JZURID had unrestricted cash balance and unused credit facilities of c. RMB2.7 billion and RMB9.7 billion, respectively, and available issuance quotas in onshore market of approximately RMB4.7 billion, compared with its debt due within one year of c. RMB25.0 billion at the same time. Consequently, JZURID must successfully roll over its short-term bank borrowings, which can generally be rolled over in view of the company's track record.

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