

Jiangsu Zhongxing Holding Group Co., Ltd.

Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Zhongxing Holding Group Co., Ltd. (“JZHG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s government of Liyang (“the Liyang government”) would provide strong support to JZHG if needed. This mainly considers the Liyang government’s full ownership of JZHG, JZHG’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure development, resettlement housing construction and land consolidation in Liyang Economic Development Zone (“Liyang EDZ”), and the linkage between the Liyang government and JZHG, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Liyang government may face significant negative impact on its reputation and financing activities if JZHG encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Liyang government owns 100% shares of JZHG through Liyang State-owned Assets Management Center (“Liyang SAMC”). 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.

Strategic Importance and Strategic Alignment: JZHG is the most important LIDC undertaking infrastructure development, resettlement housing construction and land consolidation in Liyang EDZ. The company is responsible for promoting the local government’s initiative of integrating into Nanjing Metropolitan Area. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provides ongoing support to JZHG. The local government injected cash capital, debts resolving funds, project assets and equity of local SOEs totaling RMB9.9 billion between 2020 and the first eight months of 2023. In addition, JZHG received operational subsidies of RMB371 million in relation to its activities of providing public goods. We expect JZHG to receive ongoing support from the local government in the coming years considering its strategic importance in Liyang.

Economy and Fiscal Condition of Liyang: Liyang was listed in China’s top 100 counties and managed to maintain its economic growth in the past three years, with growth rates of 4.6%, 10.1% and 6.2% in 2020, 2021 and 2022. Liyang realized a GDP of RMB141.6 billion

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	6 November 2023

Key Figures of Liyang and JZHG (RMB billion)

	2021	2022
Liyang		
GDP	126.1	141.6
GDP growth rate (%)	4.5	4.1
Budgetary revenue	8.7	8.1
Government fund	27.9	28.3
Transfer payment	1.9	3.8
Budgetary expenditure	10.3	12.8
JZHG		
Asset	11.0	13.5
Equity	4.3	5.1
Revenue	1.3	1.3

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

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Applicable Criteria

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

in 2022. Liyang EDZ was established in 1992 and approved as a provincial economic development zone by Jiangsu Province Government in 1993. It adopts the strategy of connecting with Nanjing and integrating into Nanjing, and focus on the development of high-end equipment manufacturing, health, and conference and exhibition industries.

The aggregate fiscal revenue of the Liyang government was primarily derived from budgetary revenue and government fund income. The Liyang government's budgetary revenue decreased to RMB8.1 billion in 2022 from RMB8.7 billion in 2021, mainly due to the large-scale value-added tax refund policy to support the economy. Meanwhile, the Liyang government's budgetary expenditure increased to RMB12.8 billion in 2022 from RMB11.0 billion in 2021. As a result, the Liyang government's budget deficit widened to -57.7% in 2022 from -18.1% in 2021. Yet Liyang's government fund income, mainly generated by land sales, maintained a stable trend in the past three years and reached RMB28.3 billion in 2022, remaining the largest contributor to aggregate fiscal revenue.

The outstanding debt of the Liyang government continued to grow over the past three years. At end-2022, the Liyang government's outstanding debt reached RMB36.0 billion, representing a year-over-year growth rate of 24.2%, mainly due to the new issuance of special debt to support Liyang's project development. As a result, the government debt ratio (total government debt/aggregate revenue) increased to 89.5% in 2022 from 66.9% in 2020.

JZHG's Financial and Liquidity Position: JZHG's asset size expanded rapidly in the past few years due to the company's active participation in Liyang EDZ's development. Its total asset almost tripled to RMB20.6 billion at end-August 2023 from RMB7.0 billion at end-2020. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. The company's total debt surged to RMB7.5 billion at end-August 2023 from RMB3.5 billion at end-2020. It also received multiple capital and assets injections from the local government, enhancing its equity to RMB11.4 billion from RMB3.1 billion over the same period. JZHG's financial leverage (total debt to capitalization) stayed largely stable between c. 53% and 58% between 2020 to 2022, and decreased substantially to 39.6% at end-August 2023 as the company received a capital injection of RMB1.5 billion from the local government.

The liquidity of JZHG was sufficient. At end-August 2023, JZHG had cash of RMB3.5 billion (including restricted cash of RMB598 million), compared to its debts due within one year of around RMB1.9 billion. Besides, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. At end-August 2023, JZHG had unused bank line of RMB1.9 billion.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Liyang

Liyang is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Changzhou on behalf of Jiangsu Province. At end-2022, Liyang has a residential population of 806 thousand, with an urbanization rate of 64.6%. Liyang is located in the southwest of Changzhou, bordering Zhejiang and Anhui provinces, with a total land area of 1,535 square kilometers. It was listed in China's top 100 counties and managed to maintain its economic growth in the past three years, with growth rates of 4.6%, 10.1% and 6.2% in 2020, 2021 and 2022. Liyang realized a GDP of RMB141.6 billion in 2022. Liyang's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 54.2% and 41.7% of GDP in 2022, respectively.

Under the Jiangsu-Anhui Cooperation Demonstration Zone Development Plan approved by National Development and Reform Commission in 2018, Liyang has been participating in the integration development between Jiangsu province and Anhui province, which focus on the promoting transportation connectivity, industrial development and joint construction and sharing of infrastructure and public services between two provinces. Besides, it also owns one national tourism resort (Tianmu Lake), one provincial high-tech zone (Liyang High-tech Industrial Development Zone), one provincial development zone (Liyang Economic Development Zone) and one provincial tourism resort (Cao Moutain).

Liyang EDZ was established in 1992 and approved as a provincial economic development zone by Jiangsu Province Government in 1993. It adopts the strategy of connecting with Nanjing and integrating into Nanjing, and focus on the development of high-end equipment manufacturing, health, and conference and exhibition industries.

Liyang's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	108.6	126.1	141.6
-Primary industry (%)	5.0	4.5	4.1
-Secondary industry (%)	49.7	51.4	54.2
-Tertiary industry (%)	45.3	44.1	41.7
GDP growth rate (%)	4.6	10.1	6.2
Fixed asset investment growth rate (%)	5.1	8.0	10.1
Population (million)	0.8	0.8	0.8

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Liyang

The aggregate fiscal revenue of the Liyang government was primarily derived from budgetary revenue and government fund income. The Liyang government's budgetary revenue decreased to RMB8.1 billion in 2022 from RMB8.7 billion in 2021, mainly due to the large-scale value-added tax refund policy to support the economy. Meanwhile, the Liyang government's budgetary expenditure increased to RMB12.8 billion in 2022 from RMB11.0 billion in 2021. As a result, the Liyang government's budget deficit widened to -57.7% in 2022 from -18.1% in 2021. Yet Liyang's government fund income, mainly generated by land sales, maintained a stable trend in the past three years and reached RMB28.3 billion in 2022, remaining the largest contributor to aggregate fiscal revenue.

The outstanding debt of the Liyang government continued to grow over the past three years. At end-2022, the Liyang government's outstanding debt reached RMB36.0 billion,

representing a year-over-year growth rate of 24.2%, mainly due to the new issuance of special debt to support Liyang's project development. As a result, the government debt ratio (total government debt/aggregate revenue) increased to 89.5% in 2022 from 66.9% in 2020.

Liyang's Fiscal Conditions

(RMB billion)	2020	2021	2022
Budgetary revenue	7.4	8.7	8.1
Budgetary revenue growth rate (%)	5.0	18.3	6.0*
Tax revenue	6.3	7.6	6.8
Tax revenue (% of budgetary revenue)	85.9	87.1	83.4
Government fund income	24.0	27.9	28.3
Transfer payment	2.8	1.9	3.8
Aggregate revenue	34.2	38.6	40.2
Budgetary expenditure	11.6	10.3	12.8
Budget deficit ¹ (%)	-57.4	-18.1	-57.5

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

* Notes: excluding the effect of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Full Government Ownership

JZHG, formerly known as Jiangsu Chengxing Park Construction and Development Co., Ltd., was established in June 2021 with an initial registered capital of RMB0.1 billion, funded by the Jiangsu Zhongxing Industrial Investment and Development Group Co., Ltd. In June 2023, the shareholder of the company was changed to the Liyang SAMC, and the company name was changed to the current one.

After a capital injection of RMB1.5 billion in August 2023, JZHG is now solely owned and ultimately controlled by Liyang SAMC. At end-August 2023, the company's registered and paid-in capital were RMB3.0 billion and RMB1.5 billion, respectively.

Strategic Importance and Government Linkage

Strategic Importance of JZHG to Liyang

JZHG is the most important LIDC undertaking infrastructure development, resettlement housing construction and land consolidation in the Liyang EDZ. The company is responsible for promoting the local government's initiative of integrating into Nanjing Metropolitan Area. Its business operations and strategic planning have been aligned with the local government's economic and social development policies.

Strong Linkage with the Local Government

The Liyang government holds 100% shares of JZHG through Liyang SAMC. The Liyang 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.

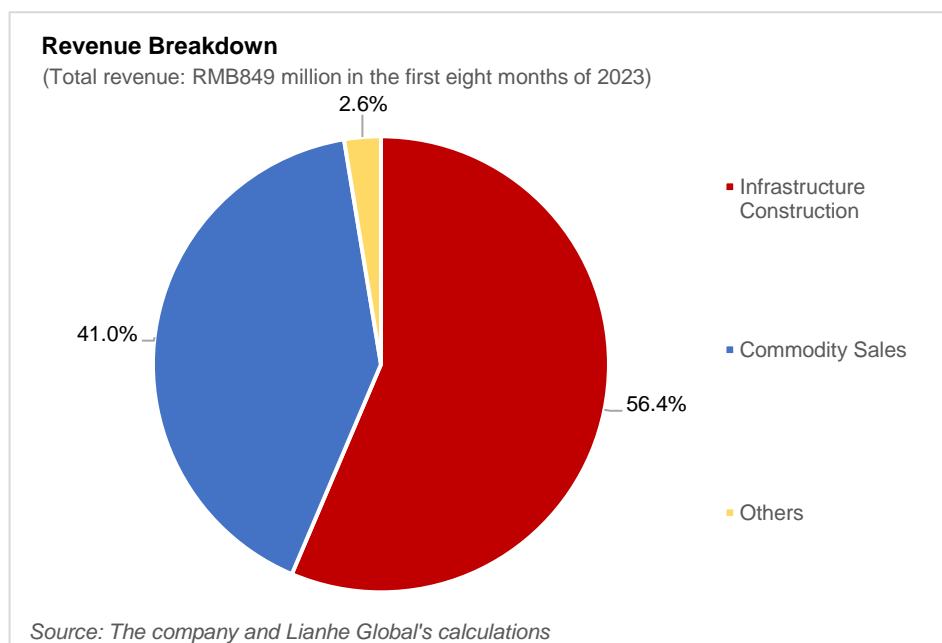
Ongoing Government Support

The local government provides ongoing support to JZHG. The local government injected cash capital, debts resolving funds, project assets and equity of local SOEs totaling RMB9.9 billion between 2020 and the first eight months of 2023. In addition, JZHG received operational subsidies of RMB371 million in relation to its activities of providing public goods. We expect JZHG to receive ongoing support from the local government in the coming years considering its strategic importance in Liyang.

Business Profile

The Key Entity Responsible for Infrastructure Construction in Liyang EDZ

JZHG, as the most important LIDC in Liyang EDZ, is mainly responsible for the infrastructure construction, resettlement housing construction and land consolidation with a strong regional franchise. The primary sources of operating revenue for JZHG are infrastructure construction and commodity sales, while it also engaged in property management, leasing, sewage treatment, conference service, etc. The company's total revenue reached RMB1.2 billion, RMB1.3 billion, RMB1.3 billion and RMB849 million in 2020, 2021, 2022 and the first 8 months of 2023, respectively. The overall gross profit margin of JZHG fluctuated between 5% and 10% over the same period. In general, JZHG's business was relatively concentrated, yet it has regional advantages in its major businesses.



Infrastructure Construction

As the major source of revenue for the company, infrastructure construction business covers resettlement housing, public facilities, greening and landscaping, supporting facilities for industrial park, etc. The company undertakes infrastructure construction projects under agent construction mode. According to agent construction agreements signed with the local government agencies, JZHG handles funds raising, planning and constructing for entrusted projects. The company settles construction costs plus a certain percentage of profit with the entrusting parties after examination.

The revenue derived from this segment reached c. RMB467 million, RMB420 million RMB548 million and RMB479 million in 2020, 2021, 2022 and the first eight months of 2023, respectively. The gross profit margin of this segment remained stable at 16% over the same period. At end-June 2023, JZHG had 14 projects under construction and 18 projects scheduled to be constructed, in which required RMB983 million and 2,380 million to be invested, putting high capital expenditure pressure on JZHG in the coming next two to three years.

Land Consolidation

The land consolidation business is also conducted under agent construction mode, where the company settles construction costs plus a certain percentage of profit with the entrusting parties after examination in accordance with the agent construction agreement. At end-June 2023, JZHG had a strong pipeline of land consolidation projects with total planned investments of c. RMB4.2 billion, of which RMB1.8 billion were scheduled to be invested in the next two to three years. However, the revenue of land consolidation business is subject to land market conditions and the government's land policy. No revenue was realized in this segment between 2020 and the first eight months of 2023.

Commodity Sales

JZHG engages in the trading of channel steel, hot-rolled strips, metal products, steel angles, zinc ingots and solar modules, etc. The company adopts a "demand-driven" mode where it determines the amount of materials to be procured strictly based on the actual orders placed by customers. The company makes a profit from the spread between buying and selling prices. The customers of this segment are relatively concentrated, and most of them are private enterprises, indicating a relatively high counterparty risk. The revenue derived from this segment reached RMB693 million, 851 million 722 million and 348 million in 2020, 2021, 2022 and the first eight months of 2023, respectively. However, the gross profit margin of this segment was low, staying at 0.1%-0.3% over the same period.

Other Businesses

Other businesses of JZHG include property management, leasing, sewage treatment, conference service, etc., with each segment accounted for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the revenue of the core business and diversifying the company's revenue structure.

Financial Profile

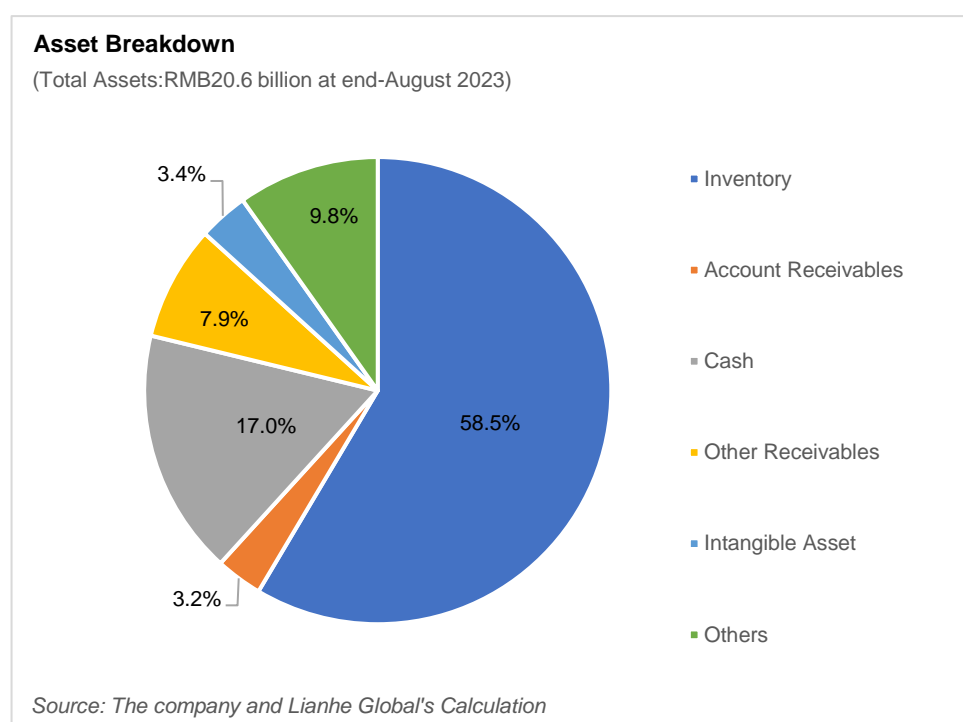
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	Aug 2023
Total Asset	6,958	10,998	13,524	20,615
Equity	3,065	4,334	5,070	11,413
Debt	3,472	5,767	5,785	7,480
Debt/(Debt+Equity) (%)	53.1	57.1	53.3	39.6
LT Debt	2,345	3,959	4,457	5,557
LT Debt/(LT Debt+Equity) (%)	43.3	47.7	46.8	32.7

Source: The company and Lianhe Global's calculation

JZHG's asset size expanded rapidly in the past few years due to the company's active participation in Liyang EDZ's development. Its total asset almost tripled to RMB20.6 billion at end-August 2023 from RMB7.0 billion at end-2020. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. The company's total debt surged to RMB7.5 billion at end-August 2023 from RMB3.5 billion at end-2020. It also received multiple capital and assets injections from the local government, enhancing its equity to RMB11.4 billion from RMB3.1 billion over the same period.

JZHG's financial leverage (total debt to capitalization) stayed largely stable between c. 53% and 58% between 2020 to 2022, and decreased substantially to 39.6% at end-August 2023 as the company received a capital injection of RMB1.5 billion from the local government.



JZHG's asset liquidity was moderately weak. As the company actively participated in project development and land consolidation in Liyang EDZ, it accumulated sizeable inventories (mainly construction costs and lands to be developed), which amounted to RMB12.1 billion at end-August 2023, accounting for 58.5% of the company's total assets. These inventories usually take a long time to monetize due to protracted construction, recognition and cash collection periods. In addition, JZHG had other receivables and accounts receivable totaling RMB2.3 billion at end-August 2023, mainly due from Liyang government agencies. Their payment scheduled is highly dependent on the local government's fiscal conditions.

Debt Servicing Capability

The liquidity of JZHG was sufficient. At end-August 2023, JZHG had cash of RMB3.5 billion (including restricted cash of RMB598 million), compared to its debts due within one year of around RMB1.9 billion. Besides, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. At end-August 2023, JZHG had unused bank line of RMB1.9 billion.



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