联合評級國際
Lianhe Ratings Global

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Lianhe Global has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Jining Xiangcheng Investment Group Co., Ltd.

HONG KONG, 18 December 2023 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BBB-' global scale Long-term Issuer Credit Rating to Jining Xiangcheng Investment Group Co., Ltd. ("JXIG" or "the company"). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Jining Municipal People's Government ("the Jining government") would provide moderately strong support to JXIG if needed. This mainly considers the Jining Economic and Technological Development Zone Management Committee's ("the management committee") (a local office of the Jining government and the de facto local government of Jining Economic and Technological Development Zone ("Jining EDZ")) majority ownership of JXIG, JXIG's strategic importance as an important local investment and development company ("LIDC") responsible for infrastructure construction, as well as the development and operation of industrial parks in Jining EDZ, and the linkage between the local government and JXIG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Jining government may face negative impact on its reputation and financing activities if JXIG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JXIG's strategic importance would remain intact while the Jining government will continue to ensure JXIG's stable operation.

Key Rating Rationales

Government's Ownership and Supervision: The management committee, as a local office of the Jining government, holds 91.2% ownership of JXIG, and it is the ultimate controller of the company. The local government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the local government formulates 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: JXIG is an important LIDC in Jining that is mainly responsible for infrastructure construction, as well as the development and operation of industrial parks in Jining EDZ. It plays a significant role in promoting the economic and social development of the region. However, JXIG's business operation focuses on Jining EDZ, where only accounts for a small proportion of Jining's population and GDP. This could constrain JXIG's strategic positioning in Jining as a whole.

Ongoing Government Support: JXIG receives ongoing financial subsidies and asset/capital injections from the local government to support its business operations. Between 2020 and end-September 2022, JXIG received asset injections in the form of project funds, projects, state-owned properties and equities, etc., with a total amount of RMB3,855 million. Meanwhile, the local government provided operational subsidies totaling around RMB11 million. We expect JXIG to receive ongoing support from the local government in the coming years considering its strategic importance in Jining.

Economy and Fiscal Condition of Jining: Jining is a prefecture-level city located in the southwest of Shandong Province, boasting abundant mineral resources such as coal and rare earth. Leveraging the advantage of its resources, Jining has developed a strong secondary industry. However, its economic growth fluctuated in the past years owing to the disruption of Covid. Jining's GDP reached RMB531.7 billion in 2022, ranking 6th among 16 prefecture-level in Shandong Province. Jining EDZ was established in 2014, aiming to promote the economic development in the west of Jining. It focuses on developing mining and machinery and equipment manufacturing industries.

The Jining government's aggregate revenue was mainly derived from budgetary revenue and government fund income. The former remained stable in 2022. However, the government fund income, mainly generated from land concession revenue, dropped significantly by 20.9% year-over-year in 2022 owing to the weak property market. The outstanding debt of the Jining government showed an upward trend in the past three years and reached RMB151.4 billion at end-2022, up from RMB109.5 billion at end-2020. This was because the Jining government issued a substantial number of special debts to support shantytown renovation and other public projects. As a result, its government debt ratio, as measured by the total government debt/aggregate revenue, was lifted to 127.8% from 95.7% over the same period.

JXIG's Financial Matrix and Liquidity Position: JXIG's asset size grew rapidly to RMB10,809 million at end-September 2023 from RMB6,033 million at end-2020, as the company actively participated in Jining EDZ's project development. The company received multiple asset injections from the local government, enhancing its equity base to RMB5 billion from RMB2,330, while its total debt remained largely stable. As a result, its financial leverage, as measured by debt/capitalization decreased from 48.1% to 39.4% over the same period.

However, JXIG's asset quality was relatively weak. The company's infrastructure construction and industrial park development activities accumulated sizeable inventories (mainly construction costs), and construction in progress, as well as accounts receivable and long-term receivables (both project funds due from local government). These project related assets usually take a long time to monetize due to protracted construction, recognition and cash collection periods. Moreover, the payback period for its investment properties (mainly industrial parks for leasing) could be long, as the rental income was relatively low compared with invested amount.

The liquidity of JXIG was tight. At end-September 2023, JXIG had cash of RMB673 million (including restricted cash of RMB650 million), compared with its short-term debts of RMB2,003 million. We expect the JXIG to roll-over most of its short-term bank borrowings (RMB655 million at end-September 2023). In addition, the company has access to various financing channels, including bank borrowings and other non-traditional financing to support its debts repayment and operation. At end-September 2023, the company had unused bank facilities of RMB746 million. Nevertheless, we believe that it is important for the company to obtain prompt government support and access to additional financing channels in order to maintain its liquidity.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 JXIG'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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