

Changsha Jinzhou New City Investment Holding Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 December 2023

Key Figures of Changsha and CJNCI

(RMB billion)	2021	2022
Changsha		
GDP	1,327.1	1,396.6
GDP growth rate (%)	7.5	4.5
Budgetary revenue	118.8	118.8
Government fund	120.2	120.2
Transfer payment	112.0	112.0
Budgetary expenditure	154.2	154.9
CJNCI		
	2022	2023.6
Assets	41.3	44.4
Equity	16.8	17.8
Revenue	2.6	1.5

Source: Public information, CJNCI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Changsha Jinzhou New City Investment Holding Group Co., Ltd. (“CJNCI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Changsha City, Hunan Province (“Changsha government”) would provide moderately strong support to CJNCI if needed, in light of its controls over CJNCI through its representative office, The Ningxiang High-tech Industrial Development Zone Management Committee (“Ningxiang HIDZ MC”), CJNCI’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Ningxiang High-tech Industrial Development Zone (“Ningxiang HIDZ”), and the linkage between the Changsha government and CJNCI, 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 Changsha government and Ningxiang HIDZ MC may face negative impact on its reputation and financing activities if CJNCI encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: Ningxiang HIDZ MC, as the representative office of the Changsha government and the de facto local government of Ningxiang HIDZ, directly holds the full ownership of CJNCI, and has the final decision-making authority. The Changsha government supervises the company through Ningxiang HIDZ MC, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Changsha government and Ningxiang HIDZ MC has assessment mechanism over the company and supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Changsha and Strategic Alignment: CJNCI, as the key LIDC in Changsha City, Hunan Province (“Changsha”), is primarily responsible for the investment, development and operation of infrastructure projects and land consolidation within Ningxiang HIDZ. Serving as the sole entity in charge of infrastructure related projects and state-owned asset management throughout the entire region, CJNCI mainly engaged in resettlement housing construction, urban renewal, road and pipeline construction and improvement, water conservancy and sewage treatment projects and other infrastructure projects with strong regional advantages. CJNCI plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: CJNCI received operational and financial support from the government. CJNCI received a total subsidy amount of RMB461 million from 2020 to the first six months of 2023. Ningxiang HIDZ MC continued to inject capital, real estates and

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Applicable Criteria

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

other kinds of assets into CJNCI to expand its asset size. Besides, the Ningxiang HIDZ MC will repurchase some infrastructure projects and provide policy supports to CJNCI to ensure its business operation. Given that it is the sole entity for infrastructure construction and operation in Ningxiang HIDZ, CJNCI has an advantage in acquiring related resources and major projects. We believe CJNCI is likely going to receive government support to support its daily business operation.

CJNCI's Financial Matrix and Liquidity Position: CJNCI's total assets showed a continuous growth trend in the past years and reached RMB44.4 billion at end-June 2023, mainly due to the increase of inventories. The current assets of CJNCI accounted for 85.2% of the total assets at end-June 2023, yet the overall asset liquidity was moderate due to large amount of undeveloped land and development cost associated to its infrastructure projects. CJNCI's financial leverage (total liabilities to total assets) was 59.9% and its adjusted debt increased to RMB23.8 billion at end-June 2023 from RMB19.0 billion at end-2021. The liquidity of CJNCI was sufficient. At end-June 2023, CJNCI had a cash balance and unused credit facilities of RMB2.7 billion and RMB20.5 billion, respectively, compared with its debt due within one year of RMB4.9 billion. Besides, CJNCI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Changsha: Changsha is the capital city of Hunan Province with a total land area of 11,820 square kilometers. Changsha recorded an economic growth in 2022, achieving a GDP of RMB1,396.6 billion, with a year-on-year growth of 4.5%. Its GDP scale was ranked 15th among the cities in China.

The Changsha government's aggregate fiscal revenue is mainly derived from budgetary revenue and government fund income, which recorded RMB120.2 billion and RMB106.5 billion in 2022, respectively. The fiscal self-sufficiency of the Changsha government was insufficient, and it recorded a budget deficit of 28.9% in 2022. The fiscal debt ratio of the Changsha government, as measured by total government debt outstanding/aggregate revenue, had increased to 107.1% at end-2022 from 85.3% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Changsha

Changsha is the capital city of Hunan Province. It is located on the lower reaches of the Xiang River in northeastern Hunan. Changsha has jurisdiction over 6 municipal districts, 1 county and 2 county-level cities, with a total area of 11,820 square kilometers. Changsha's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 4.0%, 7.5% and 4.5% in 2020, 2021 and 2022, respectively. Its GDP reached RMB1,396.6

billion in 2022, which was ranked 15th among the all cities in China. Changsha's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 40.0% and 56.7% in 2022, respectively. Changsha has an industrial chain mainly consisting of construction machinery and new materials. The fixed asset investment of Changsha maintained moderate growth in recent years, with its growth rate of 5.1% in 2022.

Ningxiang HIDZ, as a National High-tech Industrial Development Zone, is located in the eastern part of Ningxiang City. It is an important channel connecting Ningxiang City to Changsha, and an important group for the development of high-tech industries in the Xiangjiang New District.

Changsha's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	1,214.3	1,327.1	1,396.6
-Primary industry (%)	3.5	3.2	3.2
-Secondary industry (%)	39.0	39.6	40.0
-Tertiary industry (%)	57.5	57.2	56.7
GDP growth rate (%)	4.0	7.5	4.5
Fixed asset investment	986.6	1,067.5	1,122.0
Fixed asset investment growth rate (%)	6.2	8.2	5.1
Population (million)	10.0	10.2	10.2

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Changsha

The Changsha government's aggregate fiscal revenue is mainly derived from budgetary revenue and government fund income. The budgetary revenue grew steadily in the past few years and reached RMB120.2 billion in 2022. The tax revenue accounted for 65% of the budgetary revenue in 2022, down from 73.2% in 2021 and 73.4% in 2020. The government fund income decreased to RMB106.5 billion in 2022 from RMB112.0 billion in 2021 owing to the weak real estate market. The fiscal self-sufficiency of the Changsha government was insufficient, and it recorded a budget deficit of 28.9% in 2022.

The outstanding debt of the Changsha government continued to grow. At end-2022, the Changsha government's outstanding debt was RMB287.0 billion, including RMB70.8 billion of general obligations and RMB216.2 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 107.1% at end-2022 from 96.9% at end-2020, mainly due to the increase in special debt.

Changsha's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	110.0	118.8	120.2
Budgetary revenue growth rate (%)	3.0	8	8.0
Tax revenue	80.7	87.0	78.1
Tax revenue (% of budgetary revenue)	73.4	73.2	65.0
Government fund income	109.3	112.0	106.5
Transfer payment	40.1	31.6	40.0
Aggregate revenue	260.7	263.5	267.8
Budgetary expenditure	150.1	154.2	154.9
Budget balance ¹ (%)	36.5	29.7	28.9

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CJNCI was established in March 2017 with an initial registered capital of RMB3.3 billion, funded by Ningxiang HIDZ MC. After an array of capital and asset injections, CJNCI had a shareholding structure in which the Ningxiang HIDZ MC, as the sole and controlling shareholder, held 100% of the company's equity, with the registered capital and paid-in capital recording at RMB3.3 billion and RMB3.685 billion (of which RMB385 million had not been registered) at end-June 2023, respectively.

Strategic Importance and Government Linkage

Strategic Importance of CJNCI to Changsha

CJNCI, as the key LIDC in Changsha, is primarily responsible for the investment, development and operation of infrastructure and land consolidation within Ningxiang HIDZ. Serving as the sole entity in charge of infrastructure related projects and state-owned asset management throughout the entire region, CJNCI mainly engaged in resettlement housing construction, urban renewal, road and pipeline construction and improvement, water conservancy and sewage treatment projects and other infrastructure projects with strong regional advantages. CJNCI plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Strong Linkage with the Local Government

CJNCI's linkage with the local government is strong as Ningxiang HIDZ MC, as the representative office of the Changsha government and the de facto local government of Ningxiang HIDZ, directly holds the full ownership of CJNCI. The Changsha government supervises the company through Ningxiang HIDZ MC, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Changsha government and Ningxiang HIDZ MC has assessment mechanism over the company and supervise the operating performance and financial position on a periodic basis.

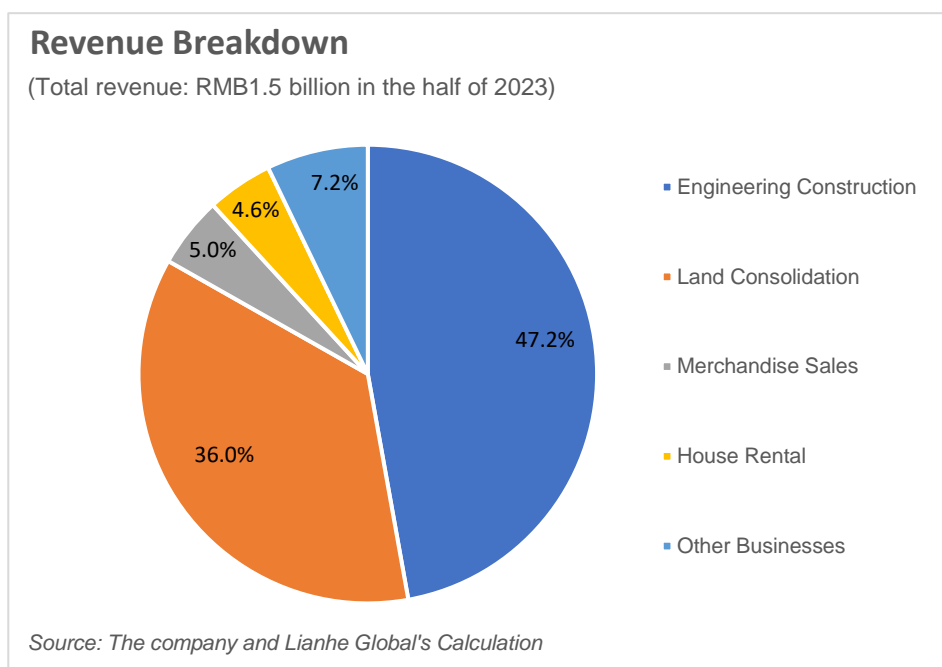
Government Support

CJNCI received operational and financial support from the government. CJNCI received a total subsidy amount of RMB461 million from 2020 to the first six months of 2023. The Changsha government continued to inject capital, real estates and other kinds of assets into CJNCI to expand its asset size. Besides, the Ningxiang HIDZ MC will repurchase some infrastructure projects and provide policy supports to CJNCI to ensure its business operation. Given that it is the sole entity for infrastructure construction and operation in Ningxiang HIDZ, CJNCI has an advantage in acquiring related resources and major projects. We believe CJNCI is likely going to receive government support to support its daily business operation.

Business Profile

The Sole Entity Responsible for Infrastructure Construction and State-owned Assets Operation in Ningxiang HIDZ

CJNCI, as the key LIDC in Ningxiang HIDZ, is mainly responsible for infrastructure construction and state-owned assets operation within the region, with a strong regional advantage. The primary sources of operating revenue for CJNCI are engineering construction and land consolidation, while it also engaged in merchandise sales, house rental, land sales, property management, sewage treatment, house sale, transportation services, etc. The company's total revenue reached c. RMB2.5 billion, RMB2.4 billion, RMB2.6 billion and RMB1.5 billion in 2020, 2021, 2022 and the first half of 2023, respectively, with the overall gross profit margin fluctuating between 18% and 24% over the same period. In general, CJNCI's business was well diversified, but it has regional advantages in its major businesses.



Engineering Construction

CJNCI is designated by the Ningxiang HIDZ MC to undertake the infrastructure construction business within the region. The projects in this segment are mainly conducted in agent construction model, where the company signs the agent construction agreements with the entrusting party and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress. The revenue of engineering construction continued declined in recent years, recording at RMB1.9 billion, RMB1.7 billion, RMB1.2 billion and RMB0.7 billion in 2020, 2021, 2022 and the first half of 2023, respectively, owing to adjustment of development planning in Ningxiang HIDZ. Its gross profit margin in this segment increased to 16.8% in the first half of 2023 from 12.6% in 2020. Currently, the company's projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

Land Consolidation

The company entrusts its two subsidiaries, Changsha Jinzhou Xincheng Development and Construction Investment Co., Ltd. (“CJXDCI”) and Changsha Enji Industrial Investment Co., Ltd. (“CEII”), to undertake land consolidation and development within region, including land leveling, infrastructure construction and other implementation work. CJXDCI and CEII signs the land development agreement with the Ningxiang HIDZ MC and other entrusted parties. The entrusted party will repurchase the land parcel with investment cost plus a certain percentage of profit after completing the land consolidation by CJXDCI and CEII. The revenue derived from this segment reached RMB0.4 billion, RMB0.3 billion, RMB0.6 billion and RMB0.6 billion in 2020, 2021, 2022 and the first half of 2023, respectively, with the gross profit margin remaining stable at c.17% over the same period.

Merchandise Sales

As an important source of revenue for CJNCI, the merchandise sales segment makes the company's business more diversified and plays a complementary role to its main business. CJNCI is mainly engaged in the sales of commodities, like lithium carbonate. The company's merchandise sales business is mainly conducted in a “demand-driven” model, where it determines the amount of materials to be procured strictly based on the actual purchase orders placed by customers. The revenue in this segment remained relatively stable in recent years, recorded at c. RMB0.1 billion, RMB0.1 billion, RMB0.2 billion and RMB0.1 billion in 2020, 2021, 2022 and the first half of 2023, respectively, with a gross profit margin staying below 1.0%.

House Rental

The company's house rental business mainly involves the rental of factory buildings, stores and office buildings, as well as self-construction and acquisition of factories. The revenue generated from this segment recorded at RMB40 million, RMB132 million, RMB246 million and RMB72 million in 2020, 2021, 2022 and the half of 2023, respectively, with a gross profit margin staying above c. 89% over the same period.

Other Businesses

Other businesses of CJNCI include land sales, property management, wastewater treatment, house sale, transportation services, 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 main business and make the revenue structure more diversified.

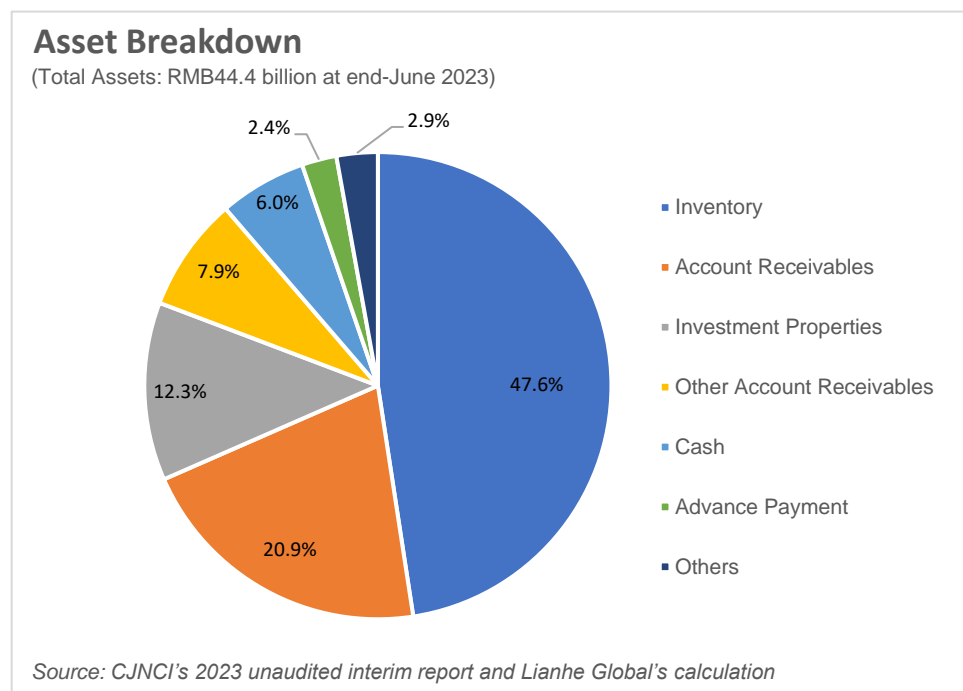
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	28,698	35,673	41,300	44,435
Equity	10,087	14,415	16,776	17,820
Debt	16,729	19,003	21,258	23,757
Debt / (Debt + Equity) (%)	62.4	56.9	55.9	57.1
LT Debt	14,881	13,453	14,931	18,836
LT Debt / (LT Debt + Equity) (%)	59.6	48.3	47.1	51.4

Source: Company information and Lianhe Global's calculations

CJNCI's asset size grew moderately to RMB44.4 billion at end-June 2023 from RMB28.7 billion at end-2020, largely attributed to the increase of inventory. The company's financial leverage, as measured by debt/capitalization remained relatively stable at 59%-65% over the same period. The total debt capitalization ratio and long-term debt capitalization ratio were both on a downward trend in the past few years, recording at 55.2% and 48.9% at end-June 2023, respectively.



Nevertheless, CJXI's asset liquidity was weak, as it has large part of inventories and investment properties. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs) and investment properties, adding up to RMB26.6 billion, and representing c. 60% of total asset at end-June 2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

In addition, the company had a large number of other account receivables and other account receivables, primarily due from government agencies. Their repayment schedules are highly subject to the fiscal conditions of the local government.

Debt Servicing Capability

The liquidity of CJNCI was sufficient. At end-June 2023, CJNCI had a cash balance and unused credit facilities of RMB2.7 billion and RMB20.5 billion, respectively, compared with its debt due within one year of RMB4.9 billion. Besides, CJNCI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

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