

Jining City Development Capital Holdings Co., Ltd.

Initial Issuer Report

Summary

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

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jining City Development Capital Holdings Co., Ltd. (“JCDCH” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Rencheng District, Jining City (“Rencheng government”) would provide strong support to JCDCH if needed, in light of its full ownership of JCDCH, JCDCH’s strategic importance as the important local investment and development company (“LIDC”) that is responsible for infrastructure construction in Rencheng District, Jining City (“Rencheng”) (“Jining”), and the linkage between the Rencheng government and JCDCH, 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 Rencheng government may face significant negative impact on its reputation and financing activities if JCDCH encounters any operational and financial difficulties.

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

Rating Rationale

Rencheng Government’s Ownership and Supervision: The Rencheng government holds the full ownership of JCDCH through Rencheng Finance Bureau (“Rencheng FB”), and it is the ultimate controller of the company. The Rencheng government has the final decision-making authority and supervision over the company, including management appointments, decisions on its strategic development and investment plans and supervision of its major funding decisions. In addition, the Rencheng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Rencheng and Strategic Alignment: JCDCH, an important LIDC in Rencheng, is mainly responsible for the construction and operation of industrial parks as well as trading and agent construction businesses within the Jining Canal Economic Development Zone (“JCEDZ”). It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: JCDCH continued to receive financial subsidies and asset/capital injections from the Rencheng government to support its business operations. We believe the government support will remain intact given the company’s strategic role in the economic development of Rencheng. In 2020-2022, JCDCH received subsidies totaling around RMB170 million. Meanwhile, JCDCH received asset and capital injections in the form of cash, buildings, equity transfer, properties, etc., reaching around RMB3.6 billion during the same period.

JCDCH’s Financial Matrix and Liquidity Position: JCDCH’s total assets showed a strong growth in the past few years, with a growth rate of 177.6% and 136.7% in 2021 and 2022, respectively, and reached RMB11.0 billion at end-September 2023. The increase of

Key Figures of Rencheng and JCDCH

(RMB billion)	2021	2022
Rencheng		
GDP	59.1	61.3
GDP growth rate (%)	8.1	3.6
Budgetary revenue	7.5	7.1
Government fund	11.2	0.3
Transfer payment	1.7	9.4
Budgetary expenditure	6.6	6.5
JCDCH	2022	2023.9
Assets	8.3	11.0
Equity	6.9	8.2
Revenue	0.7	0.3

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

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Applicable Criteria

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

JCDCH's total assets was largely due to the increase in other non-current assets. JCDCH's financial leverage (total liabilities to assets) was at a moderately low level in the past few years, which increased to 25.0% at end-September 2023 from 3.0% at end-2020. We expect JCDCH to continue to rely on external financing to support its capital expenditures and debt repayments.

The liquidity of JCDCH was tight. At end-September 2023, JCDCH had unrestricted cash balance and unused credit facilities of RMB110.1 million and RMB0.4 million, respectively, compared with its debt due within one year of RMB1,147.3 million. In addition, JCDCH's financing channel has concentrated in bank loans. Therefore, JCDCH needs to successfully roll over its short-term bank borrowings and obtain additional funding channels or government support to maintain its liquidity.

Economy and Fiscal Condition of Rencheng: Rencheng is the main urban district of Jining, Shandong Province, and is also the political, economic and cultural center of Jining. Rencheng's economic growth fluctuated in the past years, with GDP growth rates at 2.6%, 8.1% and 3.6%, respectively, in 2020, 2021 and 2022. Rencheng's GDP reached RMB61.3 billion in 2022, and was ranked the 2nd among all districts and county-level cities under the administration of Jining.

The Rencheng government's aggregate fiscal revenues are mainly derived from budgetary revenue. The Rencheng government's budgetary revenue decreased to RMB7.1 billion in 2022 from RMB7.5 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. The financial self-sufficiency rate of Rencheng was relatively high and it recorded a budget surplus of 9.6% in 2022. On the other hand, Rencheng's government fund income and transfer payment were relatively volatile in the past years, recorded at RMB0.3 billion and RMB9.4 billion in 2022, respectively. The debt ratio, as measured by the total government debt/aggregate revenue, was lifted to 106.8% in 2022 from 82.7% in 2021, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Rencheng

Rencheng is the main urban district of Jining, Shandong Province, and is also the political, economic and cultural center of Jining. Rencheng has jurisdiction over 2 towns, 13 streets and one provincial economic development zone, with a total area of 651 square kilometers. At end-2022, Rencheng had a resident population of 1.1 million, with an urbanization rate of 80.6%.

Rencheng's economic growth fluctuated in the past years, with GDP growth rates at 2.6%, 8.1% and 3.6%, respectively, in 2020, 2021 and 2022. Rencheng's GDP reached RMB61.3 billion in 2022, and was ranked the 2nd among all districts and county-level cities under the administration of Jining. Rencheng focused on the development of advanced equipment, new material and IT industries in recent years. Rencheng's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 25.6% and 69.1% in 2022, respectively. Due to weak property market, Rencheng's fixed asset investment decreased to RMB41.9 billion in 2022 from RMB51.9 billion in 2021.

JCEDZ, formerly known as Rencheng Economic Development Zone, was established in 1992 and renamed as the present one in 2019, with the authorization from Shandong provincial government. With a total planned area of 98 square kilometers, JCEDZ has set up the Intelligent Modern Logistics Industrial Park, the Advanced Light Industry Park, the New Materials Industrial Park and the Equipment Manufacturing Industrial Park along the Beijing-Hangzhou Grand Canal.

Rencheng's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	53.6	59.1	61.3
-Primary industry (%)	5.0	5.2	5.3
-Secondary industry (%)	27.9	28.9	25.6
-Tertiary industry (%)	67.1	65.9	69.1
GDP growth rate (%)	2.6	8.1	3.6
Fixed asset investment	46.6	51.9	41.9
Fixed asset investment growth rate (%)	5.7	11.4	-19.3
Population (million)	1.1	1.1	1.1

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Rencheng

The Rencheng government's aggregate fiscal revenues are mainly derived from budgetary revenue. The Rencheng government's budgetary revenue decreased to RMB7.1 billion in 2022 from RMB7.5 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. The financial self-sufficiency rate of Rencheng was relatively high and it recorded a budget surplus of 9.6% in 2022. On the other hand, Rencheng's government fund income and transfer payment were relatively volatile in the past years, recorded at RMB0.3 billion and RMB9.4 billion in 2022, respectively.

The outstanding debt of the Rencheng government showed an upward trend in recent years and reached RMB18.1 billion at end-2022, which included RMB6.6 billion of general obligations and RMB11.5 billion of special debt. The debt ratio, as measured by the total government debt/aggregate revenue, was lifted to 106.8% in 2022 from 82.7% in 2021, mainly due to the increase in special debt.

Rencheng's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	7.0	7.5	7.1
Budgetary revenue growth rate (%)	2.0	8.5	-5.2
Tax revenue	4.7	5.4	4.7
Tax revenue (% of budgetary revenue)	67.9	71.3	65.1
Government fund income	4.0	11.2	0.3
Transfer payment	4.4	1.7	9.4
Aggregate revenue	15.4	20.4	16.9
Budgetary expenditure	6.5	6.6	6.5
Budget deficit ¹ (%)	6.0	12.2	9.6

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JCDCH, formerly known as Jining Canal Development Equity Investment Management Co., Ltd., was established in August 2017, with Jining Canal Development Venture Capital Co. Ltd. as the sole shareholder. In July 2021, the company was renamed as the present one. After several shareholding changes, by the end of September 2023, the company's registered and paid-in capital was both RMB2.0 billion, with the Rencheng FB as the sole shareholder and actual controller of the company.

Strategic Importance and Government Linkage

Strategic Importance of JCDCH to Rencheng

JCDCH, as an important LIDC in Rencheng, is mainly responsible for the construction and operation of industrial parks as well as trading and agent construction businesses within the JCDZ. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

Strong Linkage with the Local Government

JCDCH's linkage with the local government is strong as the Rencheng government holds the full ownership of JCDCH through the Rencheng FB, and it is the ultimate controller of the company. The Rencheng government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Rencheng government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Government Support

JCDCH continued to receive financial subsidies and asset/capital injections from the Rencheng government to support its business operations. We believe the government support will remain intact given the company's strategic role in the economic development of Rencheng. In 2020-2022, JCDCH received subsidies totaling around RMB170 million. Meanwhile, JCDCH received asset and capital injections in the form of cash, buildings,

equity transfer, properties, etc., reached about RMB0.57 billion, RMB1.48 billion and RMB1.55 billion in 2020, 2021 and 2022, respectively.

Business Profile

The Important Entity Responsible for Infrastructure Construction in Rencheng

JCDCH, as an important LIDC in Rencheng, is mainly responsible for the construction and operation of industrial parks as well as trading and agent construction businesses within the JCEDZ. The company's franchise advantages enables it to undertake important infrastructure construction projects under the instruction of the Jining Canal Economic Development Zone Administration Committee ("JCEDZAC") and other government units.

The primary sources of operating revenue for the company are agent construction, trading and leasing businesses, while it also engaged in financial advisory business. The company's total revenue reached RMB114.3 million, RMB447.9 million, RMB707.6 million in 2020, 2021, 2022, respectively, representing a steady growth trend. In the first nine months of 2023, its total revenue was RMB306.1 million. The overall gross profit margin of JCDCH was 100%, 57.8%, 41.5% in 2020, 2021, 2022, respectively, and recording at 68.7% in the first nine months of 2023. In general, the company's business was relatively concentrated.



Agent Construction

Agent construction business is operated by the subsidiary of the company, Jining Tangxingshengcai Rural Development Construction Co., Ltd. ("JTRDC"), as well as JTRDC's subsidiaries. The projects in this segment are generally conducted under the agent construction model, where JTRDC and its subsidiaries signed contracts with JCEDZAC and other government agencies, and the revenue recognition includes construction costs incurred plus a certain percentage of profit (generally 8%). The source of funding is mainly self-financing.

Leasing

As an important source of revenue for JCDCH, the leasing segment makes the company's business more diversified and plays a complementary role to its main business. Leasing business mainly comprises property leasing, which includes properties transferred from the government. The company generates operating income from tenants' rental payments. The gross profit margin of this segment was relatively high, staying above 90% in past years.

Trading

Trading business is operated by the company's subsidiary, JTRDC, which mainly engaged in the sales of commodities (electrolytic aluminum and aluminum ingots). After signing agent contracts with customers and receiving full payment or down payment of 15%-20%, the company will make the purchase, and then the customer will pay the balance within a specified period and take delivery of the goods. The revenue generated from this segment was RMB27.8 million in the first nine months of 2023, with a gross profit margin of 0.01%, making limited contribution to the company's profit.

Other Businesses

JCDCH's other businesses include financial advisory business, which accounting for a relatively small proportion of the company's total revenue. Other business mainly plays the role of supplementing the revenue of the main business and make the revenue structure more diversified.

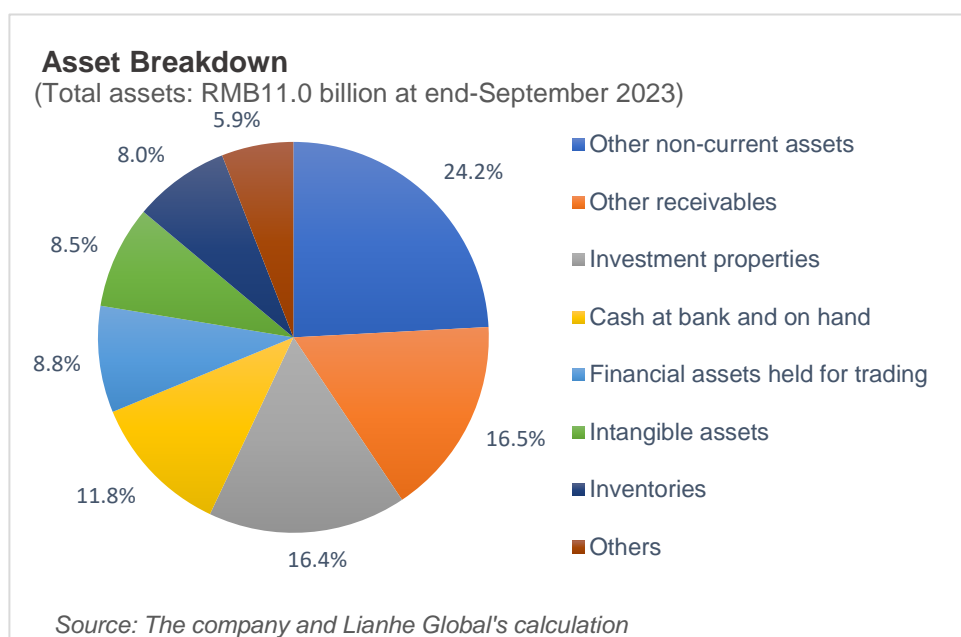
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	2023
Total Asset	1,266	3,514	8,319	10,952
Equity	1,228	3,327	6,943	8,222
Debt	0	0	945	2,065
Debt / (Debt + Equity) (%)	-	-	12.0	20.1
LT Debts	0	0	338	918
LT Debt / (LT Debt + Equity) (%)	-	-	4.6	10.0

Source: Company information and Lianhe Global's calculations

JCDCH's total assets showed a strong growth in the past few years, with a growth rate of 177.6% and 136.7% in 2021 and 2022, respectively, and reached RMB11.0 billion at end-September 2023. The increase of JCDCH's total assets was largely due to the increase in other non-current assets. Its overall asset liquidity was weak, primarily due to the large proportion of other non-current assets, other receivables and investment properties. Other non-current assets primarily comprised of advance payment on lands. Other receivables mainly included transactions with the Rencheng FB, other government departments and state-owned enterprises in Rencheng with controllable counterparty risk. Investment properties mainly consisted of the houses and buildings, science and technology centers, and the properties of disease control centers, which were injected by the local government and had signed entrusted management agreements for rental.



JCDCH's financial leverage (total liabilities to assets) was at a moderately low level in the past few years, which increased to 25.0% at end-September 2023 from 3.0% at end-2020, mainly due to the increasing debt borrowings. The company had no debt in 2020 and 2021, but its total debt reached RMB2.1 billion at end-September 2023, more than doubled compared with RMB0.9 billion at end-2022. The short-term debt and long-term debt accounting for 55.6% and 44.4% of the end-September 2023 total debt, respectively. We expect JCDCH to continue to rely on external financing to support its capital expenditures and debt repayments, while the management of the company expects its leverage would be managed within 50% in the next 1-2 years.

Debt Servicing Capability

The liquidity of JCDCH was tight. At end-September 2023, JCDCH had unrestricted cash balance and unused credit facilities of RMB110.1 million and RMB0.4 million, respectively, compared with its debt due within one year of RMB1,147.3 million. In addition, JCDCH's financing channel has concentrated in bank loans. Therefore, JCDCH needs to successfully roll over its short-term bank borrowings (RMB1,044.9 million) and obtain additional funding channels or government support to maintain its liquidity.

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