

Jiangsu Runxin City Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	11 December 2023

Key Figures of Suining and JRCI

(RMB billion)	2021	2022
Suining		
GDP	67.6	68.3
GDP growth rate (%)	8.7	0.4
Budgetary revenue	4.3	4.2
Government fund	8.9	7.7
Transfer payment	5.2	6.1
Budgetary expenditure	10.4	10.9
JRCI	2022	2023.6
Assets	67.5	70.8
Equity	31.3	31.5
Revenue	3.1	1.2

Source: Public information, JRCI 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 Jiangsu Runxin City Investment Group Co., Ltd. (“JRCI” or “the company”)

Summary

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

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

Rating Rationale

Suining Government’s Ownership and Supervision: The Suining government indirectly holds 100% ownership of JRCI through the Suining Extra-Budgetary Funds Management Bureau (“SEFMB”), and is the actual controller of the company. The Suining 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 Suining government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Suining and Strategic Alignment: JRCI, as the most important LIDC in Suining, is mainly responsible for the infrastructure construction in Suining. Besides, the company also engages in land development, affordable housing construction, projects construction, grain and commodity sales and other businesses. JRCI 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: JRCI continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in the economic development of Suining. In 2020-1H2023, JRCI received subsidies totaling around RMB1,468 million. Meanwhile, JRCI received asset and capital injections in the form of cash and equity transfer during the same period.

JRCI’s Financial and Liquidity Position: JRCI’s total assets showed a continuous growth in the past few years, with a growth rate of 18.2%, 6.1% and 4.8% in 2021, 2022 and 1H2023, respectively, and reached RMB70.8 billion at end-June 2023. The increase of JRCI’s total assets was largely due to inventories. Although JRCI had large proportion of current assets (84.5% at end-June 2023), its assets were illiquid, primarily due to the significant proportion

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Applicable Criteria

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

of development and construction cost, land to be developed and receivables. The financial leverage (total liabilities to assets) of JRCI increased slightly to 55.5% at end-June 2023 from 53.1% at end-2020. JRCI's total debts surged to RMB23,698 million at end-June 2023, increased by 17.1% compared to that at end-2022.

The liquidity of JRCI was moderate. At end-June 2023, JRCI had unrestricted cash balance and unused credit facilities of RMB4.7 billion and RMB10.2 billion, respectively, compared with its debt due within one year of RMB6.4 billion. JRCI has access to various financing channels, including bank loans and bond issue, to support its debt repayments and business operations.

Economy and Fiscal Condition of Suining: Suining is a district of Xuzhou City, Jiangsu Province, and is located in the southeast of Xuzhou. Suining's GDP reached RMB68.3 billion in 2022, representing a year-on-year growth rate of 0.4%, and its GDP amount was ranked 6th among all jurisdictions in Xuzhou. The Suining government's budgetary revenue decreased to RMB4.2 billion in 2022 from RMB4.3 billion in 2021, due to the large-scale value-added tax refund policy to support the economy. Moreover, the contribution of the tax revenue decreased to 69.4% from 83.1% over the same period. The fiscal self-sufficiency rate of the Suining government was relatively low, and its budget deficit widened to 156.9% in 2022 from 142.5% in 2021. Suining's government fund income, which is mainly generated by land-use right transfers, decreased to RMB7.7 billion in 2022 from RMB8.9 billion in 2021. Transfer payments from higher government fluctuated in the past three years, and reached RMB6.1 billion in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 82.0% at end-2022 from 74.3% at end-2020, mainly due to the increase in special purpose debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Suining

Suining is a county under the jurisdiction of Xuzhou, Jiangsu Province, and is located in the southeast part of Xuzhou. Suining is the place where Xuzhou Guanyin International Airport locates and is also one of the six major port areas of Xuzhou Port. It has jurisdiction over 15 towns, three streets, two provincial development zones and one provincial wetland park, with a total land area of 1,769 square kilometers. According to the 7th national census, Suining has a residential population of 1.1 million, with an urbanization rate of 56.46%.

Suining's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 2.8%, 8.7% and 0.4% in 2020, 2021 and 2022, respectively. Suining realized a GDP of RMB68.3 billion in 2022, which was ranked 6th among all jurisdictions of Xuzhou. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 39.4% and 43.4% of Suining's aggregate GDP, respectively, in 2022. Suining's GDP per

capita was RMB62,500 in 2022, which was lower than the GDP per capita of Xuzhou (RMB93,700) as well as that of China (RMB85,700).

Suining's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	61.9	67.6	68.3
-Primary industry (%)	17.7	16.8	17.2
-Secondary industry (%)	38.7	40.1	39.4
-Tertiary industry (%)	43.6	43.1	43.4
GDP growth rate (%)	2.8	8.7	0.4
Fixed asset investment	29.2	31.7	31.8
Fixed asset investment growth rate (%)	6.2	8.8	0.2
Population (million)	1.1	1.1	1.1

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Suining

The Suining government's budgetary revenue decreased to RMB4.2 billion in 2022 from RMB4.3 billion in 2021, due to the large-scale value-added tax refund policy to support the economy. Moreover, the contribution of the tax revenue decreased to 69.4% from 83.1% over the same period.

The fiscal self-sufficiency rate of the Suining government was relatively low, and its budget deficit widened to 156.9% in 2022 from 142.5% in 2021. Therefore, the Suining government highly relied on government fund income and transfer payments from higher government. Suining's government fund income, which is mainly generated by land-use right transfers, decreased to RMB7.7 billion in 2022 from RMB8.9 billion in 2021, mainly due to the weak property market. Transfer payments from higher government fluctuated in the past three years, and reached RMB6.1 billion in 2022.

Suining's government debt continued to grow in the past few years. At end-2022, Suining's government debt reached RMB14.8 billion, including RMB3.9 billion of general obligations and RMB10.8 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 82.0% at end-2022 from 74.3% at end-2020, mainly due to the increase in special purpose debt.

Suining's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	3.9	4.3	4.2
Budgetary revenue growth rate (%)	1.2	10.9	-1.0
Tax revenue	3.1	3.5	2.9
Tax revenue (% of budgetary revenue)	81.8	83.1	69.4
Government fund income	7.7	8.9	7.7
Transfer payment	5.9	5.2	6.1
Aggregate revenue	17.5	18.5	18.0
Budgetary expenditure	10.1	10.4	10.9
Budget balance ¹ (%)	-162.0	-142.5	-156.9

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JRCI was established in May 2016 with an initial registered capital of RMB200.0 million, funded by SEFMB. By the end of June 2023, the company's registered capital and the paid-in capital were RMB1.5 billion and RMB800.0 million, respectively. The SEFMB, as the sole shareholder, held 100% of the company's equity. The actual controller of the company is the Suining government.

Strategic Importance and Government Linkage

Strategic Importance of JRCI to Suining

JRCI, as the most important LIDC in Suining, is mainly responsible for the infrastructure construction business within the region, with regional franchises advantage. JRCI 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

JRCI's linkage with the local government is strong as the Suining government indirectly holds 100% ownership of JRCI through the SEFMB. The Suining 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 Suining government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

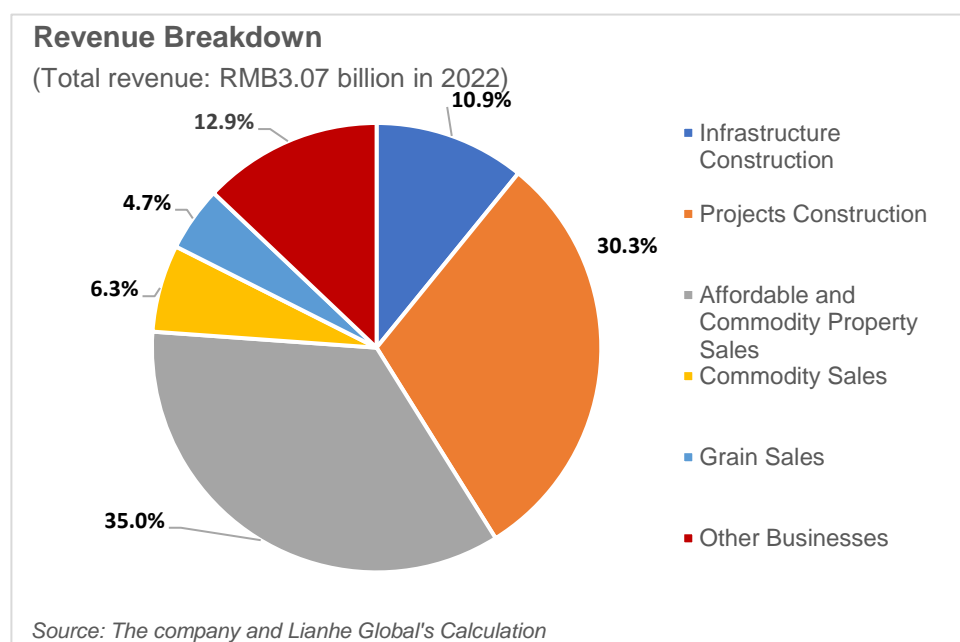
Government Support

JRCI continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of Suining. In 2020-1H2023, JRCI received subsidies totaling around RMB1,468 million. Meanwhile, JRCI received asset and capital injections in the form of cash and equity transfer during the same period.

Business Profile

The Most Important Entity Responsible for Infrastructure Construction in Suining

JRCI, as the most important LIDC in Suining, is mainly responsible for the infrastructure construction in Suining. Apart from infrastructure construction, the company also engages in land development, affordable housing construction, projects construction, grain and commodity sales and other businesses. The total revenue of JRCI was RMB2.7 billion, RMB2.9 billion, RMB3.1 billion and RMB1.2 billion in 2020, 2021, 2022 and 1H2023, respectively. The gross profit margin ranged from 13.1% to 17.1% over the same period.



Infrastructure Construction

As the most important LIDC in Suining, the company undertakes shantytown renovation, industrial parks construction, transportation infrastructure construction and other infrastructure construction in Suining, except for Suining Economic and Development Zone and Suining Airport Economic and Development Zone. The entrusting parties are mainly the Suining government and relevant government departments. The revenue of the infrastructure construction business includes the revenue of affordable housing under the entrusted construction model. This part of the property is delivered to the government after completion, and the government resettle the relocation households according to demands. The revenue derived from infrastructure construction segment was RMB714.2 million, RMB563.3 million, RMB333.5 million and RMB45.4 million in 2020, 2021, 2022 and 1H2023, respectively. The gross margin fluctuated between 3.6% and 13.0% over the same period.

Affordable and Commodity Property Sales

JRCI is mainly responsible for affordable housing construction and commodity property sales. JRCI assists in the demolition and land collection for its affordable housing construction businesses; the underlying properties are repurchased by the Suining government and resettled to the relocation households. This part of revenue has been included in the revenue of infrastructure construction business. On the other hand, JRCI also undertakes some property development projects which are sold to the specific buyers affected by the demolition and relocation. The revenue derived from the property sales segment was RMB732.5 million, RMB1,034.1 million, RMB1,075.7 million and RMB146.4 million in 2020, 2021, 2022 and 1H2023, respectively. The gross margin fluctuated from 15.1% to 24.9% over the same period.

Projects Construction

JRCI mainly obtains construction projects in Suining through market-based bidding. The projects mainly include road and bridge construction, river remediation, water conservancy transformation and other projects. The income from the project construction segment was RMB334.6 million, RMB476.9 million, RMB929.1 million and RMB374.8 million in 2020,

2021, 2022 and 1H2023, respectively. The gross margin fluctuated between 8.8% and 16.3% over the same period.

Grain and Commodity Sales

The grain sales mainly include self-operating grain sales and strategic storage businesses. JRCI purchases grains (mainly wheat and rice) from local farmers and manages the food storage function based on policies. The revenue of strategic storage businesses is mainly generated from subsidies from local governments and is recorded in the "other income" account. The revenue in this segment is from self-operating grain sales, which was RMB69.3 million, RMB109.7 million, RMB143.1 million and RMB269 million in 2020, 2021, 2022 and 1H2023, respectively.

The company also participates in the commodity sales business. The main trading commodities are building materials, such as steel and asphalt. The revenue from the material sales segment was RMB83.3 million, RMB158.9 million, RMB193.2 million and RMB2.8 million in 2020, 2021, 2022 and 1H2023, respectively.

Other Businesses

Except for the above businesses, the company also engaged in public transportation, heating, waste disposal, landscaping and other businesses to supplement revenues. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

Financial Profile

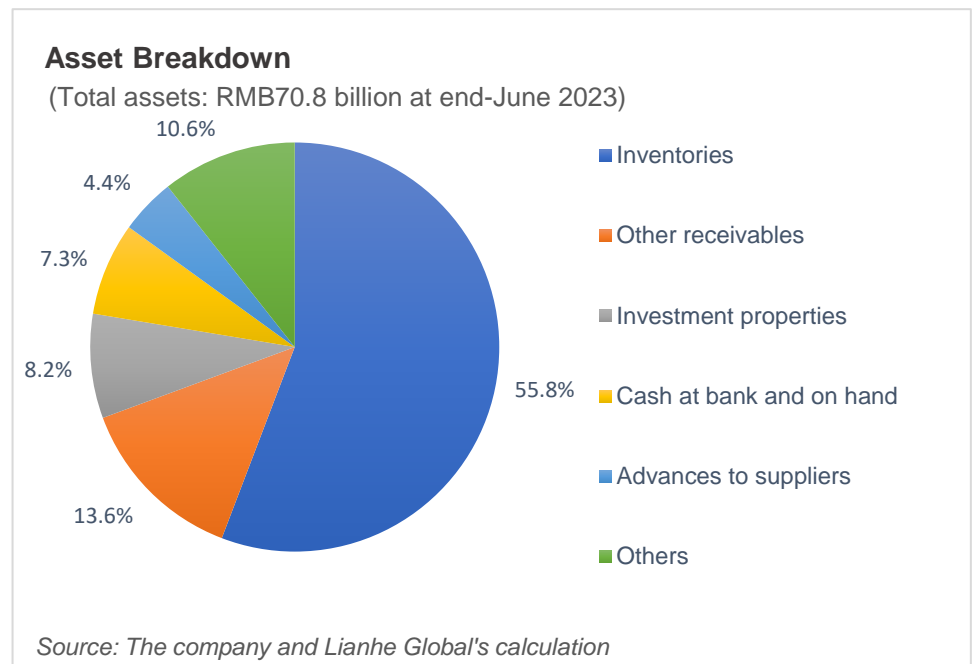
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	53,812	63,610	67,521	70,790
Equity	25,215	29,291	31,316	31,475
Debt	20,836	22,706	20,242	23,698
Debt / (Debt + Equity) (%)	45.2	43.7	39.3	43.0
LT Debts	16,012	16,152	12,503	17,320
LT Debt / (LT Debt + Equity) (%)	38.8	35.5	28.5	35.5

Source: Company information and Lianhe Global's calculations

JRCI's total assets showed a continuous growth in the past few years, with a growth rate of 18.2%, 6.1% and 4.8% in 2021, 2022 and 1H2023, respectively, and reached RMB70.8 billion at end-June 2023. The increase of JRCI's total assets was largely due to inventories. Although JRCI had large proportion of current assets (84.5% at end-June 2023), its assets were illiquid, primarily due to the significant proportion of development and construction cost, land to be developed and receivables.

JRCI's assets mainly consisted of inventories, other receivables, investment properties, cash at bank and on hand and advances to suppliers. Inventories primarily comprised of development cost and land use right. Other receivables were mainly transactions with government departments in Suining, with controllable counterparty risk, while the investment properties mainly consisted of land use rights, houses and buildings at end-June 2023.



The financial leverage (total liabilities to assets) of JRCI increased slightly to 55.5% at end-June 2023 from 53.1% at end-2020. The change in financial leverage was mainly due to the rise in long-term accounts payable, which surged to RMB1,738.8 million at end-June 2023 from RMB1,662.4 million at end-2022. JRCI's total debts surged to RMB23,698 million at end-June 2023, increased by 17.1% compared to that at end-2022. The total debt and long-term debt ratios, which are measured as total debt over the sum of debt and equity, and long-term debt over the sum of long-term debt and equity, increased to 43.0% and 35.5% at end-June 2023, respectively.

Debt Servicing Capability

The liquidity of JRCI was moderate. At end-June 2023, JRCI had unrestricted cash balance and unused credit facilities of RMB4.7 billion and RMB10.2 billion, respectively, compared with its debt due within one year of RMB6.4 billion. JRCI has access to various financing channels, including bank loans and bond issue, to support its debt repayments and business operations.

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