

Jining Xiangcheng Investment Group Co., Ltd. Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	18 December 2023

Key Figures of Jining and JXIG

(RMB billion)	2021	2022
Jining		
GDP	50.7	53.2
GDP growth rate (%)	8.5	4.4
Budgetary revenue	44.1	44.8
Government fund	55.0	43.5
Transfer payment	24.3	29.5
Budgetary expenditure	72.7	74.7
JXIG		
Asset	10.5	10.8
Equity	4.5	5.0
Revenue	0.56	0.45

Source: Public information, JXIG 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 Jining Xiangcheng Investment Group Co., Ltd. ("JXIG" or "the company")

Summary

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.

Rating Rationale

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.

Analysts

Sigmund Jiang, CFA, CESGA
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Roy Luo, FRM, CESGA
(852) 3462 9582
roy.luo@lhratingsglobal.com

Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)



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.

Operating Environment

Economic 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. It has jurisdiction over 13 districts, functional districts, county-level cities and counties, with a total area of 11 thousand square kilometers. At end-2022, Jining had a resident population of 8.29 million, with an urbanization rate of 62.0%.

Leveraging the advantage of its resources, Jining has developed a strong secondary industry. However, economic growth fluctuated in the past years owing to the disruption of Covid, with GDP growth rates at 3.6%, 8.5% and 4.4%, respectively, in 2020, 2021 and 2022. Jining's GDP reached RMB531.7 billion in 2022, ranking 6th among 16 prefecture-level in Shandong Province. Due to weak property market, Jining's fixed asset investment decreased by 16.1% year-over-year in 2022.

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.

Jining's GDP and Fixed Asset Investment (RMB billion)

	2020	2021	2022
GDP	443.4	507.0	531.7
-Primary industry (%)	11.8	11.6	11.5
-Secondary industry (%)	38.2	39.2	38.9
-Tertiary industry (%)	50.0	49.2	49.6
GDP growth rate (%)	3.6	8.5	4.4
Fixed asset investment growth rate (%)	3.2	12.4	-16.1
Population (million)	8.36	8.34	8.29

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jining

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 Jining government's fiscal balance was moderately weak, with budget deficit ranging from 56%-70% in the past three years.

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.



Jining's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	41.2	44.1	44.8
Budgetary revenue growth rate (%)	1.7	7.0	8.6*
Tax revenue	30.2	33.2	30.2
Tax revenue (% of budgetary revenue)	73.3	75.3	67.4
Government fund income	46.1	55.0	43.5
Transfer payment	26.8	24.3	29.5
Aggregate revenue	114.5	123.8	118.5
Budgetary expenditure	69.6	72.7	74.7
Budget balance ¹ (%)	-69.0	-65.1	-66.9

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

*Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JXIG was established in March 2015 with an initial registered capital of RMB50 million, funded by the management committee. After an array of capital injections and equity transfers, the company's registered and paid-in capital were c. RMB1.8 billion and RMB600 million at end-2022, respectively. Jining EDZ MC, as the controlling shareholder and actual controller of the company, held 91.2% of the company's equity; The remaining 8.8% shares were held by CDB Development Fund Co., Ltd. and ADKC Key Construction Fund Co., Ltd., which are actually debts.

Strategic Importance and Government Linkage

Strategic Importance of JXIG to Jining

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, which could constrain its strategic positioning in Jining as a whole.

Strong Linkage with the Local Government

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.

Government Support

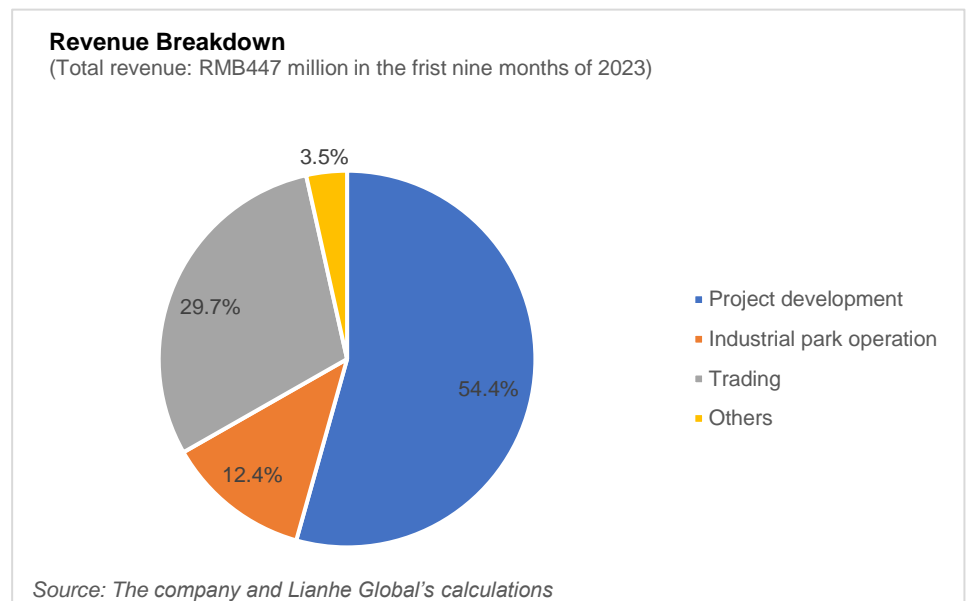
JXIG receives ongoing financial subsidies and asset/capital injections from the local government to support its business operations. Between 2020 and end-September 2022, JXIG received asset injections in the form of project funds, projects, state-owned properties and equities, etc., with a total amount 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.

Business Profile

The Key Entity in Jining EDZ

JXIG is an important LIDC in Jining mainly responsible for infrastructure construction within Jining EDZ. The company also develops and operates industrial parks in Jining EDZ to promote local economic development. JXIG realized total revenue of RMB330 million, RMB552 million, RMB560 million and RMB447 million in 2020, 2021, 2022 and the first nine months of 2023, respectively, representing an upward trend.



Project Development

JXIG is designated by the management committee to undertake infrastructure construction projects (mainly shantytown renovation) within the Jining EDZ. The company mainly conducts these projects in government purchase model, where the company signs government purchase agreement with the management committee and constructs relevant projects with its own funds and fiscal funds (usually 20%-30%) provided by the government. JXIG settles construction costs plus a percentage (usually 10%) of management fees annually with the management committee according to the project's progress.

At end-September 2023, JXIG had four shantytown renovation projects under construction. The company also plans to develop other projects, including pipe gallery, photovoltaic power, sewage treatment and healthy care center, with total planned investment amounting to RMB2,240 million. The strong project pipeline supports the segment's development in the next two to three years, yet it also brings high capital expenditure pressure on JXIG.

Industrial Park Operation

JXIG is the sole entity responsible for industrial park development and operation within Jining EDZ. According to the overall planning of the Jining EDZ, the company builds office buildings, factories and supporting infrastructure projects, then rent or sell to investment-attracting enterprises after completion. JXIG also provides property management, water and electric supply for industrial parks. The segment promotes the industrial development in Jining EDZ.

Trading and Others

Except for the above businesses, JXIG also operates other businesses including trading, equipment and vehicle leasing, etc. These businesses mainly play the role of supplementing the revenue of main business and diversifying the company's revenue structure.

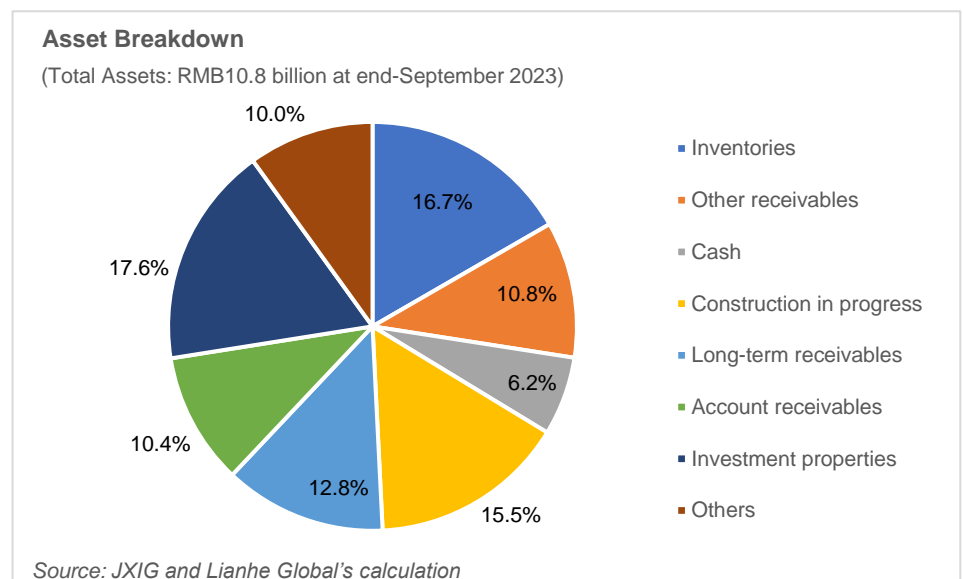
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	2020	2021	2022	2023.9
Total Asset	6,033	9,049	10,533	10,809
Equity	2,512	4,037	4,511	5,000
Debt	2,330	3,488	3,159	3,246
Debt / (Debt + Equity) (%)	48.1	46.4	41.2	39.4
LT Debts	1,295	1,597	1,333	1,243
LT Debt / (LT Debt + Equity) (%)	34.0	28.3	22.8	19.9

Source: Company information and Lianhe Global's calculations

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.





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), which added up to RMB5,996 million at end-September 2023, accounting for 55.5% of the company's total assets. 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, which was RMB74 million and RMB55 million in 2022 and the first nine-months of 2023, compared with invested amount of RMB1,897 million by end-September 2023. In addition, the company had a large amount of accounts receivable and other receivables, primarily due from local government agencies and SOEs without specified repayment schedule.

Debt Servicing Capability

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.

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.