

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jianli City Development Investment Group Co., Ltd.

HONG KONG, 2 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jianli City Development Investment Group Co., Ltd. (“JCDIG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Jianli Government’s Ownership and Supervision: The Jianli government holds the full ownership of JCDIG through the State-owned Assets Management Center of Jianli City (“Jianli SAMC”). The Jianli government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Jianli 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 Jianli and Strategic Alignment: JCDIG, as the key LIDC in Jianli, is primarily responsible for the investment, development and operation of infrastructure projects and state-owned management within the city. Serving as the sole entity in charge of infrastructure-related projects throughout the region, JCDIG is mainly engaged in affordable housing construction, shantytowns construction, road construction and maintenance, rural development, industrial park development and other infrastructure-related projects with strong regional advantages. JCDIG 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: JCDIG received operational and financial support from the government. The Jianli government continued to inject capital, land assets, right of use asset, equities of other companies and other kinds of assets into JCDIG to expand its asset size and diversify its business. Besides, the Jianli government will repurchase some infrastructure projects and provide policy supports to JCDIG to ensure its business operation. Given that it is the sole entity for infrastructure construction and state-owned management in Jianli, JCDIG has an advantage in acquiring related resources and major projects. We believe JCDIG is likely going to receive government support to support its daily business operation.

JCDIG's Financial and Liquidity Position: JCDIG's total assets showed a continuous growth trend in the past years and reached RMB32.1 billion at end-September 2023, mainly due to the increase of intangible assets such as tidal flat operating rights. The non-current assets of JCDIG accounted for 44.8% of the total assets at end-September 2023, and the overall asset liquidity was moderately weak due to large amount of inventories and intangible assets (mainly newly transferred intangible assets). JCDIG's financial leverage (total liabilities to total assets) was 34.8% and its adjusted debt increased to RMB7.5 billion at end-September 2023 from RMB6.0 billion at end-2021. The liquidity of JCDIG was sufficient. At end-September 2023, JCDIG had a cash balance and unused credit facilities of RMB564.5 million and RMB1.6 billion, respectively, compared with its debt due within one year of RMB877.8 million. Besides, JCDIG 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 Jianli: Jianli realized GDP of RMB37.1 billion in 2022, representing a year-on-year growth rate of 4.9%. Its GDP scale was ranked 5th in all jurisdictions of Jingzhou City, Hubei Province ("Jingzhou") in 2022. Jianli has jurisdiction over 21 towns, with a total area of 3,460 square kilometers. At end-2022, Jianli had a resident population of 1.5 million, with an urbanization rate of 44.9%.

The Jianli government's aggregate fiscal revenues are mainly derived from government fund income and transfer payment from higher government. Following a sharp year-over-year decline of 27.5% in 2020, the Jianli government's budgetary revenue maintained relatively stable growth in the past few years and reached RMB1.1 billion in 2022. Its fiscal self-sufficiency was improving but remained weak, with budget deficits of 515.5% in 2022. Therefore, the Jianli government highly relied on transfer payments from higher government and government fund income. The government fund income, mainly generated by land sales, decreased to RMB1.5 billion in 2022 from RMB2.0 billion, owing to the weak property market. The outstanding debt of the Jianli government continued to grow in the past few years, recording at RMB7.2 billion at end-2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 85.1% at end-2022 from 60.6% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

We would consider upgrading JCDIG's rating if there is an upgrade in our internal credit assessment on the Jianli 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 JCDIG'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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