

Jianli City Development Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	4 January 2024

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

Summary

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.

Rating Rationale

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

Key Figures of Jianli and JCDIG

(RMB billion)	2021	2022
Jianli		
GDP	33.6	37.1
GDP growth rate (%)	13.0	4.9
Budgetary revenue	0.9	1.1
Government fund	2.0	1.5
Transfer payment	5.7	5.9
Budgetary expenditure	6.3	6.6
JCDIG		
	2022	2023.9
Assets	19.7	32.1
Equity	10.5	20.9
Revenue	1.9	1.2

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

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Applicable Criteria

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

projects. We believe JCDIG is likely going to receive government support to support its daily business operation.

JCDIG's Financial Matrix 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 Moderate Fiscal Strength 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.

Operating Environment

Economic Condition of Jianli

Jianli is a county-level city directly under the jurisdiction of Hubei Province and managed by Jingzhou City on behalf of Hubei Province. Located in the middle reaches of Yangtze River and the south-central part of Hubei Province, Jianli is known as "the land of fish and rice".

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Jianli's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was -7.3%, 13.0% and 4.9% in 2020, 2021 and 2022, respectively. Jianli's GDP reached RMB37.1 billion in 2022, which was ranked 5th in all jurisdictions of Jingzhou. Jianli's economic growth was mainly fueled by the primary and tertiary industries, which accounted for 36.8% and 43.0% in 2022, respectively. GDP per capita of Jianli reached RMB35,200 in 2022, which was lower than that of Jingzhou (RMB58,600) and that of China (RMB85,700).

Jianli's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	28.9	33.6	37.1
-Primary industry (%)	36.8	37.2	36.1
-Secondary industry (%)	19.9	18.6	20.9
-Tertiary industry (%)	43.3	44.2	43.0
GDP growth rate (%)	-7.3	13.0	4.9
Fixed asset investment	21.9	30.8	37.7
Fixed asset investment growth rate (%)	-30.9	40.8	22.5
Population (million)	1.1	1.1	1.5

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jianli

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 1,097.2%, 568.3% and 515.5% in 2020, 2021 and 2022, respectively. Therefore, the Jianli government highly relied on transfer payments from higher government and government fund income. The transfer payment from higher government reached RMB5.9 billion in 2022, accounting for 70% of the aggregate revenue. On the other hand, 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.

Jianli's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	0.7	0.9	1.1
Budgetary revenue growth rate (%)	-27.5	35.9	19.9*
Tax revenue	0.5	0.8	0.8
Tax revenue (% of budgetary revenue)	75.6	80.0	77.6
Government fund income	1.4	2.0	1.5
Transfer payment	7.3	5.7	5.9
Aggregate revenue	9.4	8.7	8.5
Budgetary expenditure	8.3	6.3	6.6
Budget balance ¹ (%)	-1,097.2	-568.3	-515.5

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

JCDIG was established in March 2008 with an initial registered capital of RMB1.0 billion, co-funded by the Jianli SAMC and three local SOEs. In September 2021, the Jianli government transferred the assets of 24 local SOEs to the JCDIG without compensation. In April 2022, the registered capital of the company increased to RMB3.2 billion and Jianli SAMC became the sole shareholder of the company.

At end-September 2023, the company's registered and paid-in capital were RMB3.2 billion and RMB52.8 million, respectively. JCDIG had a shareholding structure in which the Jianli SAMC, as the sole shareholder and actual controller of the company, held 100% of the company's equity.

Strategic Importance and Government Linkage

Strategic Importance of JCDIG to Jianli

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.

Strong Linkage with the Local Government

JCDIG's linkage with the local government is strong as the Jianli government holds the full ownership of JCDIG through Jianli SAMC. The Jianli government 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 it appoints auditors to supervise the operating performance and financial position on a periodic basis.

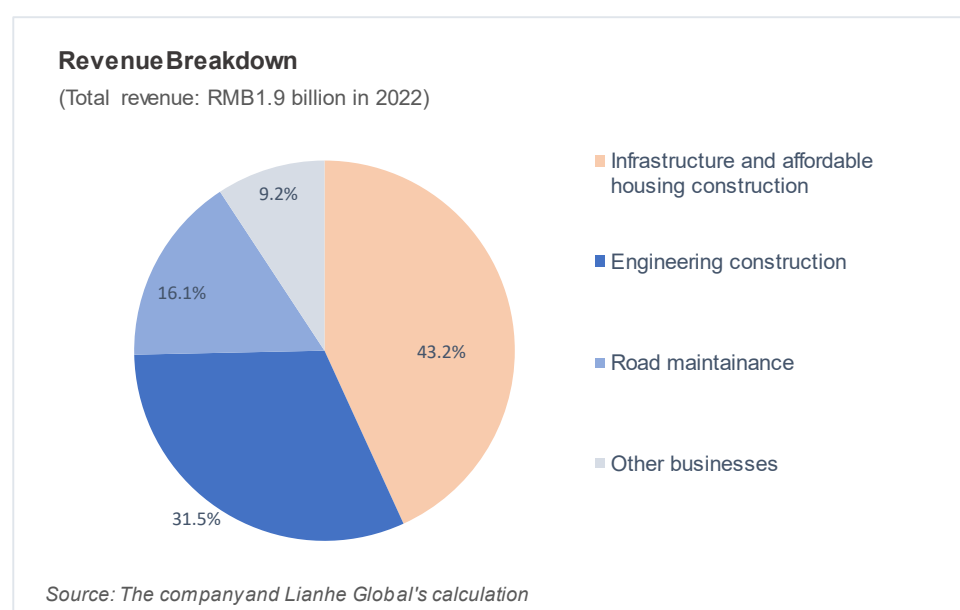
Government Support

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.

Business Profile

The Key Entity Responsible for Infrastructure Construction and Land Consolidation in Jianli

JCDIG, as an important LIDC in Jianli, is mainly responsible for the infrastructure construction and state-owned asset operation within the region, with a strong regional franchise advantage. The primary sources of operating revenue for JCDIG are infrastructure and affordable housing construction, engineering construction and road maintenance, while it also engaged in water supply, leasing, passenger transportation, etc. The company's total revenue was on an upward trend in the past few years, recording at RMB1.0 billion, RMB1.1 billion and RMB1.9 billion in 2020, 2021 and 2022, respectively. Its gross profit margin fluctuated between 18% and 22% over the same period.



Infrastructure and Affordable Housing Construction

JCDIG is designated by the Jianli government to undertake infrastructure and affordable housing construction business within the region, enjoying a strong regional franchise advantage. The company adopts both agent construction and self-operated models. Under the agent construction model, the company signs the agent construction agreements with the Jianli government and construct entrusted projects with fiscal and external funds. The company settles construction costs plus a percentage of management fees annually with the Jianli government according to the project's progress. Under the self-operated model, the company constructs the projects with internal and external funds, and sells or rents them for income upon completion. The revenue derived from this segment grew steadily in the past few years, recording at RMB713 million, RMB718 million and RMB808 million in 2020, 2021 and 2022, respectively, with the gross profit margin remaining at 14.2% over the same period. Currently, projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

Engineering Construction

As an important source of revenue for the company, engineering construction business mainly involves the construction of buildings, municipal facilities, roads, etc. The projects in

this segment are mainly conducted in general contracting model, where the company obtains projects through bidding and settles with the customer according to the project's progress after an advance payment for the project. The revenue derived from this segment grew rapidly in the past few years, recording at RMB117 million, RMB170 million and RMB589 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment was relatively high, fluctuating between 19% and 40% over the same period.

Road Maintenance

JCDIG also engages in road maintenance business within Jianli. The company obtains projects through bidding and settles with the customer according to the project's progress or upon the completion of the project. The revenue derived from this segment reached RMB25 million, RMB41 million and RMB301 million in 2020, 2021 and 2022, respectively. Its gross profit margin was relatively high, staying between 20% and 34% over the same period.

Other Businesses

Except for the above businesses, the company also operates other businesses including water supply, leasing, passenger transportation, etc., making the company's income structure more diversified while forming a better complement to the company's overall income.

Financial Profile

Balance Sheet Structure and Quality

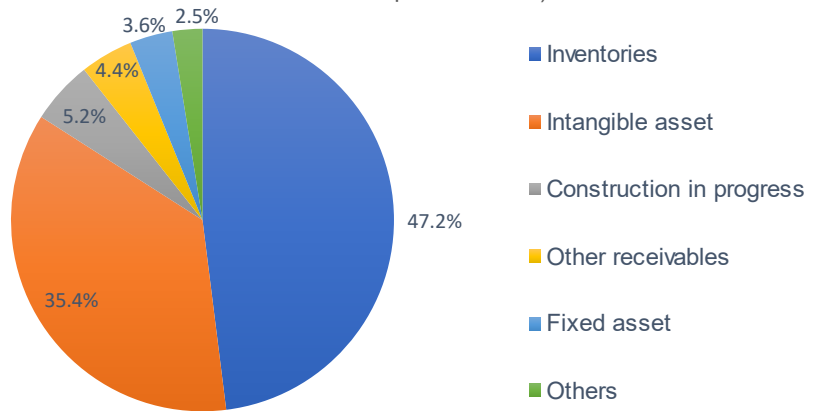
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September 2023
Total Asset	13,689	17,886	19,748	32,101
Equity	6,902	10,255	10,464	20,919
Debt	5,678	6,017	6,793	7,499
Debt / (Debt + Equity) (%)	45.1	37.0	39.4	26.4
LT Debt	4,881	5,081	5,570	6,621
LT Debt / (LT Debt + Equity) (%)	41.4	33.1	34.7	24.0

Source: Company information and Lianhe Global's calculations

JCDIG's total asset surged to RMB32.1 billion end-September 2023, more than doubled compared with RMB13.7 billion recorded at end-2020. The company mainly relied on capital and asset injections from the local government to fund its asset expansion. The company's financial leverage, as measured by debt/capitalization was on a downward trend in the past few years, recording at 35% at end-September 2023.

Asset Breakdown

(Total assets: RMB32.1 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

JCDIG's asset liquidity was relatively weak, as it has a large size of inventories (mainly construction costs and land use rights), which amounted to RMB15.1 billion at end-September 2023, representing 47% of total asset. 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 amount of intangible assets (mainly newly transferred land use rights and franchise rights), which accounted for 35% of total asset.

Debt Servicing Capability

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.

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