

Jinhua Communications Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 March 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jinhua Communications Investment Group Co., Ltd. (“JCIG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jinhua City, Zhejiang Province (“Jinhua government”) would provide strong support to JCIG if needed, in light of its majority ownership of JCIG, JCIG’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for transportation-related infrastructure construction, management and operation in Jinhua City, Zhejiang Province (“Jinhua”), and the key entity for infrastructure construction and land consolidation in Jinyi New Area (“Jinyi”), and the linkage between the Jinhua government and JCIG, 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 Jinhua government may face significant negative impact on its reputation and financing activities if JCIG encounters any operational and financial difficulties.

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

Rating Rationale

Jinhua Government’s Ownership and Supervision: The Jinhua government holds the majority ownership of JCIG through the State-owned Assets Supervision and Administration Commission of the People’s Government of Jinhua City (“Jinhua SASAC”)’s wholly-owned subsidiary, Jinhua State-owned Capital Operation Co., Ltd. (“JSCO”). The Jinhua 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 Jinhua 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 Jinhua and Strategic Alignment: JCIG, as the key LIDC in Jinhua, is primarily responsible for the investment, development and operation of transportation-related infrastructure in Jinhua. Serving as the sole entity in charge of transportation-related infrastructure related projects throughout the entire city, JCIG is primarily responsible for the construction of projects such as highways, water transport, and railways, as well as investments, financing, construction, and management of projects related to roads and industries across in the region with strong regional advantages. Additionally, it is the key entity in the construction of urban infrastructure in Jinyi, overseeing the development and construction activities, including infrastructure construction, land consolidation and resettlement housing construction in the area. JCIG 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: JCIG received operational and financial support from the government. JCIG received a total subsidy amount of RMB1.8 billion from 2020 to the first

Key Figures of Jinhua and GSAIM (RMB billion)

	2021	2022
Jinhua		
GDP	535.5	556.2
GDP growth rate (%)	9.8	2.5
Budgetary revenue	49.2	48.9
Government fund	157.7	84.5
Transfer payment	23.2	25.4
Budgetary expenditure	79.1	83.0
JCIG	2022	2023.9
Assets	62.0	78.3
Equity	25.8	27.0
Revenue	3.3	2.8

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

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Applicable Criteria

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

nine months of 2023. The Jinhua government continued to inject capital, real estate and other kinds of assets, and equities of other companies (such as Zhejiang Jinhua Jinyi New Area Development Group Co. Ltd.) into JCIG to expand its asset size and diversify its business. Besides, the Jinhua government will repurchase some transportation-related infrastructure projects and provide policy supports to JCIG to ensure its business operation. Given that it is the key entity for transportation-related infrastructure construction and operation in Jinhua, JCIG has an advantage in acquiring related resources and major projects. We believe JCIG is likely going to receive government support to support its daily business operation.

JCIG's Financial Matrix and Liquidity Position: JCIG's total assets showed a continuous growth trend in the past years and reached RMB78.3 billion at end-September 2023, mainly due to the injection of other two companies from the Jinhua government. The current assets of JCIG accounted for 75.4% of the total assets at end-September 2023, yet the overall asset liquidity was moderate due to large amount of development cost. JCIG's financial leverage (total liabilities to total assets) was 65.6% and its adjusted debt increased to RMB41.9 billion at end-September 2023 from RMB6.3 billion at end-2021. The liquidity of JCIG was sufficient. At end-September 2023, JCIG had a cash balance and unused credit facilities of RMB12.3 billion (including restricted cash of RMB116 million) and RMB7.2 billion, respectively, compared with its debt due within one year of RMB9.1 billion. Besides, JCIG 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 Jinhua: Jinhua is a prefecture-level city located in the middle of Zhejiang Province, and the south wing of the Yangtze River Delta economic circle, bordering Shaoxing and Hangzhou in the north. It has a well-developed economy with counties specializing in different sectors. For example, Yiwu is known as an international small commodities center. Jinhua realized a GDP of RMB556.2 billion in 2022, representing a year-over-year growth of 2.5%, down from 9.8% in 2021. This was mainly caused by Covid's disruption during the year. Yet the city maintained a strong fixed asset investment growth of 13.5% in 2022, as the government promoted investments in transportation infrastructure, urban renewal and ecological protection projects to boost economic growth.

The Jinhua government's budgetary revenue decreased to RMB48.9 billion in 2022 from RMB49.2 billion in 2021, mainly due to the large-scale value-added tax credit refunds, a policy to support the economy. In contrast, its budgetary expenditure increased to RMB83.0 billion from RMB79.1 billion. Therefore, the Jinhua government's budget deficit was enlarged. In addition, Jinhua's government fund income, mainly generated by land sales, dropped while its government debt grew in 2022.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Jinhua

Jinhua is a prefecture-level city located in the middle of Zhejiang Province, and the south wing of the Yangtze River Delta economic circle, bordering Shaoxing and Hangzhou in the north. Jinhua administers over two districts (Wucheng and Jindong), four county-level cities (Lanxi, Yiwu, Dongyang and Yongkang), three counties (Wuyi, Pujiang and Pan' an) and two state-level economic and technological development zones (Jinhua Economic and Technological Development Zone and Yiwu Economic and Technological Development Zone), with a total land area of 109.4 thousand square kilometers and a residential population of 7.1 million and an urbanization rate of 69.4 % at end-2022.

Jinhua has a well-developed economy with counties specializing in different sectors. For example, Yiwu is known as an international small commodities center, while Yongkang focuses on manufacturing hardware products and the largest film and television base is in Dongyang. In addition, its digital economy (e.g., e-commerce) and strategic emerging industries have developed rapidly in recent years. Jinhua is also an important transportation hub connecting the Yangtze River Delta urban agglomeration, which has formed a comprehensive transportation network of highways, railways, waterways and aviation. Jinhua's economic structure mainly consisted of secondary and tertiary industries, accounting for 41.9 % and 55.2 % of Jinhua's aggregate GDP, respectively, in 2022.

Jinhua realized a GDP of RMB556.2 billion in 2022, representing a year-over-year growth of 2.5%, down from 9.8% in 2021. This was mainly caused by the covid's disruption during the year. Yet the city maintained a strong fixed asset investment growth of 13.5% in 2022, as the government promoted investments in transportation infrastructure, urban renewal and ecological protection projects to boost economic growth.

Jinhua's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	470.4	535.5	556.2
-Primary industry (%)	3.3	2.8	2.9
-Secondary industry (%)	38.6	41.2	41.9
-Tertiary industry (%)	58.1	56.0	55.2
GDP growth rate (%)	2.8	9.8	2.5
Fixed asset investment	264.3	306.6	348.0
Fixed asset investment growth rate (%)	4.2	16.0	13.5
Population (million)	7.1	7.1	7.1

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jinhua

The Jinhua government's budgetary revenue decreased to RMB48.9 billion in 2022 from RMB49.2 billion in 2021 due to the large-scale value-added tax credit refunds to support the economy. In contrast, its budgetary expenditure increased to RMB83.0 billion from RMB79.1 billion. Therefore, the Jinhua government's budget deficit was enlarged to -69.8% from -60.8% over the same period.

In addition, Jinhua's government fund income, mainly generated by land sales, dropped sharply to RMB84.5 billion in 2022 from RMB157.7 billion in 2021 owing to the weak property market. As a result, the Jinhua government recorded aggregate revenue of RMB159.4 billion in 2022, down from RMB230.6 billion in 2021. However, its government debt grew significantly in 2022, lifting the government debt ratio, as measured by total government debt/aggregate revenue, to 86.5% from 50.6% over the same period.

Jinhua's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	42.3	49.2	48.9
Budgetary revenue growth rate (%)	2.9	16.3	6.9*
Tax revenue	38.0	44.7	41.0
Tax revenue (% of budgetary revenue)	89.9	90.7	83.8
Government fund income	84.4	157.7	84.5
Transfer payment	25.5	23.2	25.4
Aggregate revenue	152.4	230.6	159.4
Budgetary expenditure	70.3	79.1	83.0
Budget balance ¹ (%)	-66.2	-60.8	-69.8

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JCIG was established in 1994 with an initial registered capital of RMB5 million. Over the years, through equity transfers and capital increases, the registered capital and paid-in capital increased to RMB1 billion by the end of September 2023, all funded by the Jinhua SASAC.

Jinhua SASAC transferred 98% of JCIG's equity to JSCO, a wholly-owned subsidiary of Jinhua SASAC in June 2022, making it the controlling shareholder. The Jinhua government remains to be the actual controller of JCIG. The remaining 2% equity is held by Zhejiang Finance Development Co., Ltd.

Strategic Importance of JCIG to Jinhua

JCIG, as the key LIDC in Jinhua, is primarily responsible for the investment, development and operation of transportation-related infrastructure in Jinhua. Serving as the sole entity in charge of transportation-related infrastructure related projects throughout the entire city, JCIG is primarily responsible for construction of projects such as highways, water transport, and railways, as well as investments, financing, construction, and management of projects related to roads and industries across in the region with strong regional advantages. Additionally, it is the key entity in the construction of urban infrastructure in Jinyi, overseeing the development and construction activities, including infrastructure construction, land consolidation and resettlement housing construction in the area. JCIG 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

JCIG's linkage with the local government is strong as the Jinhua government holds the majority ownership of JCIG through Jinhua SASAC's wholly owned subsidiary JSCO. The Jinhua 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 Jinhua government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

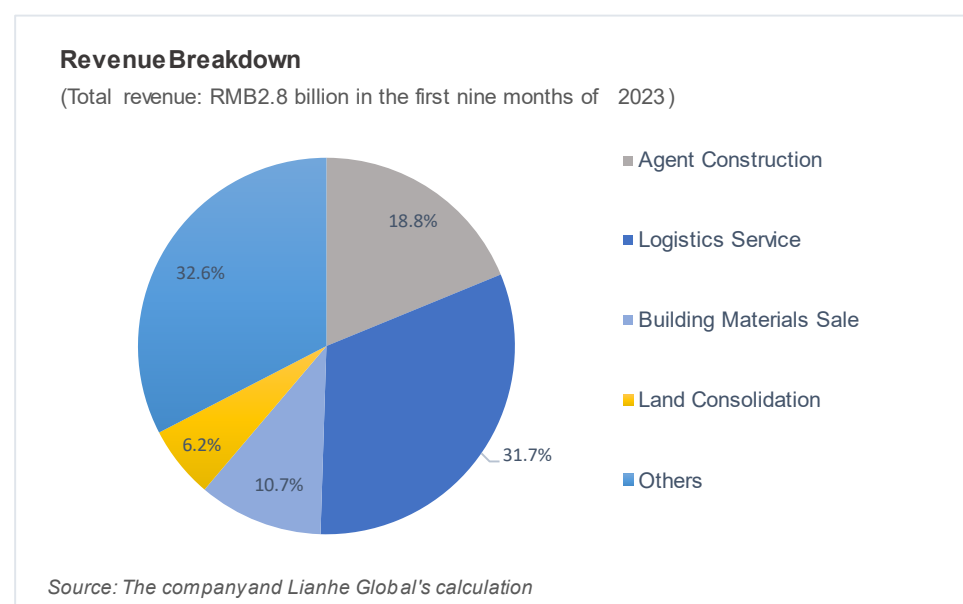
Government Support

JCIG received operational and financial support from the government. JCIG received a total subsidy amount of RMB1.83 billion from 2020 to the first nine months of 2023. The Jinhua government continued to inject capital, real estate and other kinds of assets, and equities of other companies (such as Zhejiang Jinhua Jinyi New Area Development Group Co. Ltd.) into JCIG to expand its asset size and diversify its business. Besides, the Jinhua government will repurchase some transportation-related infrastructure projects and provide policy supports to JCIG to ensure its business operation. Given that it is the key entity for transportation-related infrastructure construction and operation in Jinhua, JCIG has an advantage in acquiring related resources and major projects. We believe JCIG is likely going to receive government support to support its daily business operation.

Business Profile

The Key Entity Responsible for Transportation Related Infrastructure Construction and Operation in Jinhua

JCIG, as the key LIDC in Jinhua, is mainly responsible for the construction of transportation-related infrastructure facilities and resettlement housing, land consolidation, and logistics services within the region, enjoying a regional franchise advantage. The primary sources of operating revenue for JCIG are logistics services and agent construction, while it also engaged in building materials sales, real estate sales, grain and oil sales, and property leasing business. The company's total revenue reached RMB1.7 billion, RMB2.5 billion, RMB3.3 billion and RMB2.8 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin of JCIG fluctuated between -6.7% and 5.17% over the same period.



Agent Construction

JCIG is designated by the Jinhua government to undertake transportation related infrastructure construction projects within the region. The entrusted construction projects operate under a commission-based model. A construction agreement is signed between JCIG and the entrusted entity, allowing the latter to delegate the investment and construction of the project to JCIG. The company manages construction and investment autonomously, with the entrusted entity monitoring quality and progress. Project funds are sourced from

internal funds and external financing, allocated based on feasibility studies and investment plans. Construction is typically outsourced through competitive bidding to qualified contractors. Upon completion, the entrusted entity conducts acceptance, transfers, and settles project completion fees with JCIG. Payments, determined as a percentage of the project cost plus a 5-10% markup, are made according to agreed-upon terms, either in a lump sum or in installments. The revenue derived from this segment was RMB534.3 million and RMB523.7 million in 2022 and the first nine months of 2023, respectively. Its gross profit margin in this segment remained stable at 5.2% over the same period. Currently, the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

Land Consolidation

JCIG's land consolidation business relies on its subsidiary. It primarily undertakes commissioned first-level development and infrastructure construction projects within the scope of Jinyi New Area, delegated by the Jinyi New Area Management Committee and the Jinhua Municipal Bureau of Land and Resources. The subsidiary handles development costs, collaborates on land-related procedures with local governments, and ensures the land meets construction conditions. Payments from the commissioning party to the JCIG include development costs plus a 5%-10% profit margin. Settlement documents determine payments, affirming revenue for the company. The revenue derived from this segment was RMB239.9 million and RMB523.7 million in 2022 and the first nine months of 2023, respectively. Its gross profit margin in this segment remained stable at 5.2% over the same period.

Logistics Service

JCIG responds to the national "Belt and Road" initiative, emphasizing Jinhua's foreign open platform development. Aligned with the decisions of the municipal government, it participates in constructing the Jinhua international logistics channel. The company currently operates the Jinhua-Central Asia International Block Train and the daily Jinhua-Ningbo Sea-Rail Intermodal Container Block Train. With established routes to Russia and France, it aims to explore additional international logistics channels, providing diverse options for businesses. The revenue derived from this segment shows an upward trend in the past few years, recording at RMB739.1 million, RMB862.8 million and RMB833.5 million in 2021, 2022 and the first nine months of 2023, respectively. Despite lower gross profits in logistics services over the past two years, attributed to high operational costs, the company receives significant annual subsidies from the Jinhua municipal government, aligning with its commitment to the "Belt and Road"

Other Businesses

Except for the above businesses, the company also operates other businesses including passenger transportation services, building material sales, real estate sales, grain and oil sales, and property leasing 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	11,176	17,425	62,024	78,338
Equity	5,362	8,620	25,843	26,960
Debt	3,478	6,261	29,698	41,864
Debt / (Debt + Equity) (%)	39.3	42.1	53.5	60.8
LT Debt	2,641	4,684	21,923	32,807
LT Debt / (LT Debt + Equity) (%)	33.0	35.2	45.9	54.9

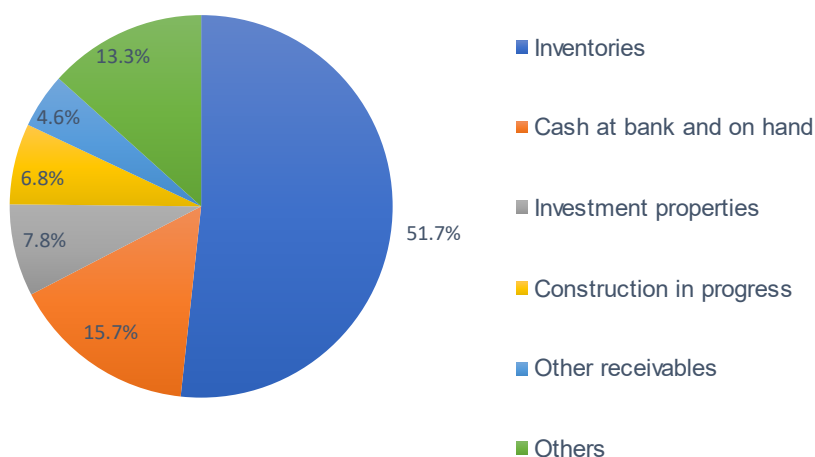
Source: Company information and Lianhe Global's calculations

JCIG's asset size grew significantly to RMB78.3 billion at end-September 2023 from RMB17.4 billion at end-2020, largely attributed to the injection of other two companies from Jinhua government in 2022. The current assets (RMB59.1 billion at end-September 2023) accounted for 75.4% of the company's total assets at end-September 2023, and were mainly constituted of inventory, other account receivables, and cash. The cash accounted for 15.7% of its current assets at end-September 2023. The non-current assets of JCIG were RMB19.3 billion at end-September 2023, which mainly consisted of investment properties and construction in progress.

The company's asset liquidity remains moderate, driven by substantial development costs, undeveloped land, accounts receivable, and fixed assets. As of September 2023, development costs comprised 88.1% of the company's inventory, mainly tied to regional infrastructure projects. The primary investment properties were lands in Jinhua, designated for development purposes. Construction in progress was predominantly linked to infrastructure projects, escalating with ongoing project development. Receivables were largely from the government and other LIDCs in the region, displaying a concentrated profile with a low provision for bad debts.

Asset Breakdown

(Total assets: RMB78.3 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

The financial leverage (total liabilities to assets) of JCIG increased moderately to 65.6% at end-September 2023 from 52.0% at end-2020. The increase in financial leverage was mainly due to the increase in long-term borrowing and bond payables. Given the company's substantial scale of ongoing or planned infrastructure projects, implying significant capital expenditures, we expect a continuous increase in the company's financial leverage. However, in consideration of government guidelines, it is expected to be maintained below 70%. JCIG's total debts expanded to RMB41.9 billion at end-September 2023, compared

with RMB3.5 billion at end-2020. The total debt and long-term debt ratios, which are measured as total debt over the sum of debt and equity, together with long-term debt over the sum of long-term debt and equity, increased to 60.8% and 54.9% at end-September 2023, respectively (end-2020: 39.3% and 33.0%, respectively).

Debt Servicing Capability

The liquidity of JCIG was sufficient. At end-September 2023, JCIG had a cash balance and unused credit facilities of RMB12.3 billion (including restricted cash of RMB116 million) and RMB7.2 billion, respectively, compared with its debt due within one year of RMB9.1 billion. Besides, JCIG 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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