Jinhua State-owned Capital Operation Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	26 March 2024

Key Figures of Jinhua and JSCO (RMB billion)

Jinhua	2022	2023
GDP	556.2	601.1
GDP growth rate (%)	2.5	6.8
Budgetary revenue	48.9	52.3
Government fund	84.5	86.0
Transfer payment	27.3	25.8
Budgetary expenditure	83.0	84.5
JSCO	**2022**	**2023.9**
Asset	151.1	186.1
Equity	70.6	71.7
Revenue	14.0	8.2

Source: Public information, JSCO and Lianhe Global's calculations

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Applicable Criteria

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

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'A' global scale Long-term Issuer Credit Rating of Jinhua State-owned Capital Operation Co., Ltd. ("JSCO" or "the company"); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that Jinhua Municipal People's Government ("the Jinhua government") would provide strong support to JSCO if needed, in light of its full ownership of JSCO, JSCO's strategic importance as the flagship local investment and development company ("LIDC") responsible for urban development and city operation in Zhejiang's Jinhua City ("Jinhua"), and the linkage between the Jinhua government and JSCO, including the appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Jinhua government may face significant negative impact on its reputation and financing activities if JSCO encounters any operational and financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: The Jinhua government holds 100% shares of JSCO through State-owned Assets Supervision Administration Commission of Jinhua ("Jinhua SASAC"). The Jinhua government also has strong control over the company, including appointment of the senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the Jinhua government has formulated 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: In 2022, Jinhua initiated state-owned assets consolidation. Jinhua SASAC transferred an array of shares of major LIDCs in Jinhua JSCO, making the company Jinhua's flagship LIDC. Nevertheless, transferred LIDCs retains a certain level of independence in their operations, while JSCO mainly serves the supervision functions. JSCO's development plan has been aligned with the local government's economic and social policies. The company and its subsidiaries are responsible for infrastructure construction, primary land development, resettlement housing development, transportation and water supply in Jinhua.

Ongoing Government Support: JSCO has also received ongoing operational subsidies from the Jinhua government since its establishment. The company received subsidies of RMB2.6 billion between 2019 and 2023 from local governments. These subsidies mainly support JSCO's activities in relation to providing public goods and services. In 2022, JSCO's registered capital and paid-in capital were enlarged to RMB5 billion from RMB300 million due to the injection of LIDCs' equity. Besides, JSCO also received shares of local LIDCs with a total value of RMB13.8 billion as equity allocation from the local government. Given the strategic importance of JSCO in Jinhua, we believe the company is likely to receive ongoing government support.

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 RMB601.1 billion in 2023, representing a year-over-year growth rebounded to 6.8% in 2023 from 2.5% in 2022, the year disrupted by the covid. Jinhua maintained a strong fixed asset investment growth of 18.5% in 2023, which was mainly driven by a larger increase of investment in high-tech industries.

The Jinhua government's budgetary revenue increased to RMB52.6 billion in 2023 from RMB48.9 billion in 2022. The Jinhua government's fiscal self-sufficiency was improving and its budget deficit was narrowed to -61.4% in 2023 from -69.8% in 2022. In addition, Jinhua's government fund income, mainly generated by land sales, increased slightly to RMB86.0 billion in 2023 from RMB84.5 billion in 2022, despite the weak property market. Jinhua's government debt ratio, as measured by total government debt/aggregate revenue, to 102.7% from 85.5% over the same period, mainly due to the large new issuance of special debt to support public projects.

JSCO's Financial and Liquidity Position: JSCO's total asset increased to RMB176.7 billion at end-June 2023 from RMB151.1 billion at end-2022, as the company actively participated in Jinhua's project development. The company mainly relied on debt financing to support its assets expansion and project constructions. Its leverage, as measured by total debt capitalization ratio, increased significantly to 54.6% at end-June 2023 from 47.3% at end-2022.

The liquidity of JSCO was adequate. At end-June 2023, JSCO had a cash balance of RMB25.1 billion (including restricted cash of RMB258 million) compared with its debt due within one year of RMB22.2 billion. Besides, JSCO has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. In addition, the company had unused bank credit lines of RMB59.6 billion at end-June 2023.

Rating Sensitivities

We would consider downgrading JSCO'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 JSCO, or (3) there is a downgrade in our internal credit assessment on the Jinhua government.

We would consider upgrading JSCO'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.

Company Profile

Wholly and directly owned by the Jinhua government, JSCO is the largest flagship LIDC in Jinhua. JSCO has majority ownership over several important LIDCs in Jinhua, including but not limited to Jinhua City Construction Investment Group Co., Ltd., Jinhua Communications Investment Group Co., Ltd. and Jinhua Rail Transit Group Co., Ltd. The company also engages in building materials, medicine, health industry Instrument manufacturing industries.

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