

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangyou Xingyi Agricultural Investment Co., Ltd.

HONG KONG, 14 May 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Jiangyou Xingyi Agricultural Investment Co., Ltd. (“JXAI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Jiangyou People’s Government (“the Jiangyou government”) would provide strong support to JXAI if needed, in light of its majority ownership of JXAI, JXAI’s strategic importance as an important local investment and development company (“LIDC”) responsible for project construction and agricultural development in Jiangyou, and the linkage between the Jiangyou government and JXAI, 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 Jiangyou government may face significant negative impact on its reputation and financing activities if JXAI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Jiangyou government holds 67% shares of JXAI through Jiangyou State-owned Assets Supervision and Administration Office; the remaining 33% is held by Mianyang Miantai Industrial Co., Ltd. It is subsidiary of an important prefecture-level LIDC, Mianyang Investment Holding (Group) Co., Ltd. owned by Mianyang Municipal People’s Government, the higher government.

The Jiangyou government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local 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 to Jiangyou and Strategic Alignment: JXAI is an important LIDC that is responsible for project construction and agricultural development in Jiangyou. Its strategic development plan has been aligned with the local government’s economic and social policies. The company undertakes rural infrastructure projects and supplies water for rural township within the region. It is also involved in agricultural business, such as pig farming and grain collection and storage to support rural development in Jiangyou.

Ongoing Government Support: The company received ongoing operational subsidies from the Jiangyou government in relation to providing public services, amounting to RMB172 million between 2021 and 2023. In addition, the Jiangyou government injected cash capital of RMB788 million and assets totally valued at RMB2,340 million over the same period. We expect the company to continue receiving government support in the future, considering its strategic importance in Jiangyou.

Economy and Fiscal Condition of Jiangyou: Jiangyou is a county-level city directly under the jurisdiction of Sichuan Province (“Sichuan”) and managed by Mianyang City (“Mianyang”). It is an important industrial base in Sichuan Province, specializing in producing special steel and machinery. In addition, as the hometown of Li Bai, a renowned Chinese poet who lived during the Tang Dynasty, Jiangyou has been leveraging this advantage to develop its tourism industry in recent years. Jiangyou’s economic growth accelerated to 5.7% in 2023 from 3.9% in 2022. The GDP amount of Jiangyou was RMB66.9 billion in 2023, which was ranked 2nd among all Mianyang’s jurisdictions.

The budgetary revenue of the Jiangyou government increased from RMB3.0 billion in 2022 to RMB3.6 billion in 2023. However, its fiscal self-sufficiency rate was still weak but improving, with the budget deficit narrowing to 73.2% in 2023 from 78.1% in 2022. The government fund income as another important part of aggregate revenue, increased slightly from RMB3.7 billion in 2022 to RMB3.9 billion in 2023.

The outstanding amount of the Jiangyou government’s debt continued to increase in 2023, mainly due to the rise in special debts to support public projects. By end-2023, the Jiangyou government’s outstanding debt was RMB12.7 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, elevated to 119.1% in 2023 from 106.4% in 2022.

JXAI’s Financial and Liquidity Position: JXAI’s total asset increased steadily to RMB13.4 billion at end-2023 from RMB11.0 billion at end-2020, as the company actively participated in project development within Jiangyou. The company relied on both borrowings and asset injections from the local government to fund its asset expansion. JXAI’s total debt reached RMB3.5 billion at end-2023, up from RMB2.6 billion at end-2021. Over the same period, JXAI received asset injections including reservoir and sand and gravel resources from the Jiangyou government, increasing its equity to RMB8.4 billion from RMB7.4 billion. As a result, the company’s financial leverage, as measured by debt/capitalization, stayed at below 30% level.

JXAI’s asset liquidity was relatively weak, as the company had accumulated a large amount inventory (mainly lands to be developed), construction in progress and contract asset, which added up to RMB6.1 billion at end-2023, representing 45.0% of total asset. These project related assets usually take a long time to monetize due to the protracted construction and payment collection period. Moreover, the company had other receivables amounting to RMB1.4 billion, mainly due from other LIDCs and SOEs in Jiangyou without specified repayment schedule.

The short-term debt serving pressure of JXAI is moderately high. At end-2023, JXAI had a cash balance of RMB504 million (including restricted cash of RMB98 million) compared with its debts due within one year of RMB1,280 million. Yet JXAI has access to various financing channels, including bank loans, bond issuance and other non-traditional financings, to support its debt repayments and business operations. At end-2023, The company had unused bank credit lines of RMB1,237 million.

Rating Sensitivities

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

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