

## Jiangyou Hongfei Investment (Group) Co., Ltd. Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Jiangyou Hongfei Investment (Group) Co., Ltd. (“JHIG” or “the company”); Issuer Rating Outlook is Stable

### Summary

The Issuer Credit Rating reflects a high possibility that the Jiangyou People’s Government (“the Jiangyou government”) would provide strong support to JHIG if needed, in light of its majority ownership of JHIG, JHIG’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction, industrial development and public utility operation in Jiangyou and the linkage between the Jiangyou government and JHIG, 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 JHIG encounters any operational and financial difficulties.

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

### Rating Rationale

**Jiangyou Government’s Ownership and Supervision:** The Jiangyou government indirectly holds 67% shares of JHIG through Finance Bureau of Jiangyou (Jiangyou State-owned Assets Supervision and Administration Office) (“Jiangyou SASAO”), via Jiangyou Hongyuan Hechuang Industry Development Group Co., Ltd. (“JHHID”); the higher government, Mianyang Municipal People’s Government owns the rest shares indirectly.

JHHID was a subsidiary of JHIG. On 4 January 2024, JHIG transferred 100% equity of JHHID to Jiangyou SASAO without compensation. At the same time, Jiangyou SASAO transferred 67% equity of JHIG, and Jiangyou Chuangyuan Development and Investment Co., Ltd., another important LIDC in Jiangyou to JHHID without compensation. These equity transfers were under the policy backdrop of LIDC consolidation. JHIG remains as an important LIDC in Jiangyou.

The local 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:** JHIG is an important LIDC responsible for infrastructure construction, industrial development and public utility operation in Jiangyou. It undertakes major land consolidation, road construction, resettlement housing development, environment improvement and other infrastructure-related projects. It also provides critical public services in Jiangyou, including gas supply, water supply, public transportation and waste garbage disposal. JHIG plays an important role in promoting the urban development and operation of the region. JHIG’s strategic development plan has been aligned with the local government’s economic and social policies.

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	6 May 2024

### Key Figures of Jiangyou and JHIG (RMB billion)

Jiangyou	2022	2023
GDP	60.1	66.9
GDP growth rate (%)	3.9	5.7
Budgetary revenue	3.0	3.6
Government fund	3.7	3.9
Transfer payment	3.1	3.2
Budgetary expenditure	5.4	6.3
JHIG	2022	2023.9
Asset	32.2	33.1
Equity	12.5	12.6
Revenue	1.7	1.3

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

### Analysts

Karis Fan, CESGA  
(852) 3462 9579

[karis.fan@lhratingsglobal.com](mailto:karis.fan@lhratingsglobal.com)

Roy Luo, FRM, CESGA  
(852) 3462 9582

[roy.luo@lhratingsglobal.com](mailto:roy.luo@lhratingsglobal.com)

### Applicable Criteria

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

**Ongoing Government Support:** JHIG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. The company received ongoing operational subsidies from the Jiangyou government in relation to providing public services, amounting to RMB1.6 billion between 2020 and the first nine months of 2023. In addition, JHIG received capital and asset injections in the form of cash, equity transfers, sewage pipe network, etc. of about RMB2.2 billion between 2020 and 2022. We expect JHIG to receive ongoing support from the local government in the coming years considering its strategic importance in Jiangyou.

**Economy and Fiscal Condition of Jiangyou:** 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 2<sup>nd</sup> 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. The financial self-sufficiency rate of Jiangyou 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 expand in 2023, mainly due to the rise in special debts to support its public projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, elevated to 119.1% in 2023 from 106.4% in 2022.

**JHIG's Financial and Liquidity Position:** JHIG's asset size grew steadily to RMB33.1 billion at the end of September 2023 from RMB32.2 billion at end-2022. The total debt of the company increased to RMB14.5 billion from RMB14.1 billion over the same period. JHIG's debt to capitalization ratio slightly increased to 53.6% from 52.9%. As the company received multiple asset injections, its financial leverage was largely stable in the past three years.

JHIG's liquidity was tight. At end-September 2023, JHIG had unrestricted cash balance of RMB506 million, compared with its debt to be due within one year of RMB6.7 billion. JHIG mainly relies on external financing and has access to various channels of financing, including bank loans, bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-September 2023, the company had unused credit facilities of RMB3.5 billion. Therefore, successfully rolling over its short-term bank borrowings (end-September 2023: RMB3.6 billion) or obtaining government support is important for the company to maintain its liquidity.

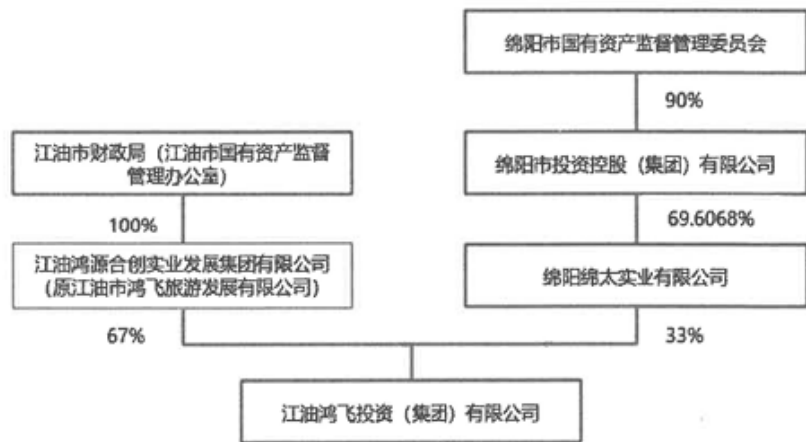
## Rating Sensitivities

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

We would consider upgrading JHIG'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.

## Company Profile

JHIG was established in December 2003 with an initial registered capital of RMB0.5 billion, funded by Jiangyou SASAO. After an array of capital injections, its paid capital was enlarged to RMB500 million. The company's shareholding structure is as follow.



## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.