

# Jiangyou Xingyi Agricultural Investment Co., Ltd.

## Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangyou Xingyi Agricultural Investment Co., Ltd. (“JXAI” or “the company”)

### Summary

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.

### Rating Rationale

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

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 May 2024

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

	2022	2023
Jiangyou		
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	3.8	3.2
Budgetary expenditure	5.4	6.2
JXAI		
Asset	13.3	13.4
Equity	8.2	8.4
Revenue	1.3	1.7

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

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### Applicable Criteria

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



**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.

## Operating Environment

### Economic Condition of Jiangyou

Jiangyou is a county-level city directly under the jurisdiction of Sichuan and managed by Mianyang. Jiangyou has jurisdiction over twenty-three towns, one street and one provincial high-tech industrial area, with a total area of 2,719 square kilometers. At end-2022, Jiangyou had a resident population of 0.7 million, with an urbanization rate of 54.6%.

Jiangyou 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 2<sup>nd</sup> among all Mianyang's jurisdictions. The economic structure of Jiangyou was mainly driven by the secondary and tertiary industries, which accounted for 45.0% and 45.4% of its GDP in 2023, respectively.

<b>Jiangyou's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
GDP	52.8	60.1	66.9
-Primary industry (%)	11.6	10.3	9.5
-Secondary industry (%)	42.8	46.7	45.0
-Tertiary industry (%)	45.6	43.0	45.4
GDP growth rate (%)	8.6	3.9	5.7
Fixed asset investment growth rate (%)	12.3	5.5	3.2
Population (million)	0.7	0.7	0.7

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Jiangyou

The aggregate fiscal revenue of the Jiangyou government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Jiangyou government increased from RMB3.0 billion in 2022 to RMB3.6 billion in 2023, while the contribution of tax revenue declined from 42.9% to 39.3% over the same period. 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 the end of 2023, the Jiangyou government's outstanding debt was RMB12.7 billion, including RMB3.4 billion of general obligations and RMB9.3 billion of special debts. Its fiscal debt ratio, as measured



by total government debt outstanding/aggregate revenue, elevated to 119.1% in 2023 from 106.4% in 2022.

<b>Jiangyou's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Budgetary revenue	2.4	3.0	3.6
Budgetary revenue growth rate (%)	6.0	23.2	20.0
Tax revenue	1.3	1.3	1.4
Tax revenue (% of budgetary revenue)	54.5	42.9	39.3
Government fund income	4.3	3.7	3.9
Transfer payment	2.5	3.1	3.2
<b>Aggregate revenue</b>	<b>9.2</b>	<b>9.8</b>	<b>10.6</b>
Budgetary expenditure	4.6	5.4	6.2
Budget deficit <sup>1</sup> (%)	-88.9	-78.1	-73.2

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government Ownership

JXAI was established in August 2016 with an initial registered capital of RMB100 million, funded by Jiangyou SASAO. In December 2021, Jiangyou SASAO transferred 33% of the JXAI's equity without compensation to MMIC, which is subsidiary of MIGH, an important prefecture-level LIDC. The equity transfer aimed to enhance the coordination between prefecture-level and county-level LIDCs. At end-September 2023, Jiangyou SASAO, as the actual controller, held 67% shares of JXAI; MMIC held the remaining 33%.

## Strategic Importance and Government Linkage

### Strategic Importance of JXAI to Jiangyou

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.

### Linkage with the Local Government

JXAI has a strong linkage with the local government. Jiangyou government holds majority shares of JXAI through Jiangyou SASAO. 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.

### Ongoing Government Support

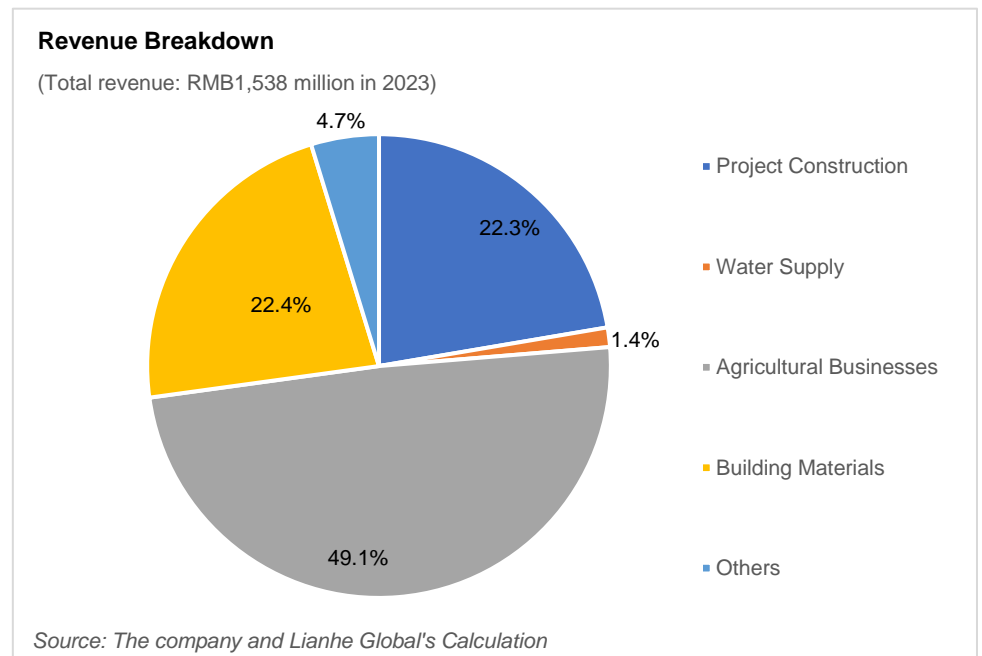
The company received ongoing operational subsidies from the Jiangyou government in relation to providing public services, amounting to RMB172 million between 2021 and 2023. In addition, the Jiangyou government injected cash capital of RMB788 million and

assets such as agricultural machinery, pipe network, stated-owned properties, reservoir, as well as sand and gravel resources 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.

## Business Profile

### An Important LIDC Responsible for Project Construction and Agricultural Development in Jiangyou

JXAI, as an important LIDC in Jiangyou, is mainly responsible for project construction and agricultural development within the region, with a strong regional franchise advantages. The primary sources of income for the company are agricultural businesses, project construction and sales of building materials. The company has also diversified into leasing, building construction and sales of sand and gravel businesses. JXAI recorded revenue of RMB679 million, 1,324 million and 1,538 million in 2021, 2022 and 2023, respectively, representing an upward trend. Its gross margin was 6.7% in 2023.



## Project Construction

JXAI is designated by the different departments of Jiangyou government to undertake the projects such as rural infrastructure, pipe network and road works, etc. within the region.

The projects in this segment are conducted under both agent construction and self-operated models. Under the agent construction model, the company signs the agent construction agreements with local government departments and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a 15% of management fees with the entrusting party upon the completion of the entrusted projects. 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 segment maintained a stable gross revenue of 13.0% in the past three years. Currently, JXAI is working on several large-scale projects, which could bring high capital expenditure pressure on the company.

### Agricultural Businesses

JXAI is involved in an array of agricultural business, including pig farming, grain collection and storage, and trading of other agricultural products. This segment generates a relatively low gross margin of 2.3% in 2023. Yet it plays an important role to support rural development in Jiangyou.

### Water Supply, Building Materials and Others

JXAI is also responsible for water supply of rural township in Jiangyou. The company owns nine water treatment plants and pipe network covering 85% rural area.

In addition, JXAI participates in trading of building materials, which contributed a significant portion of the company's total revenue in 2023. However, its gross margin was as low as 0.6%. The company's other businesses included leasing, building construction and sales of sales of sand and gravel. Yet these activities only accounted for a small portion of the company's income and has no significant impact on the company's creditworthiness.

## Financial Profile

### Balance Sheet Structure and Quality

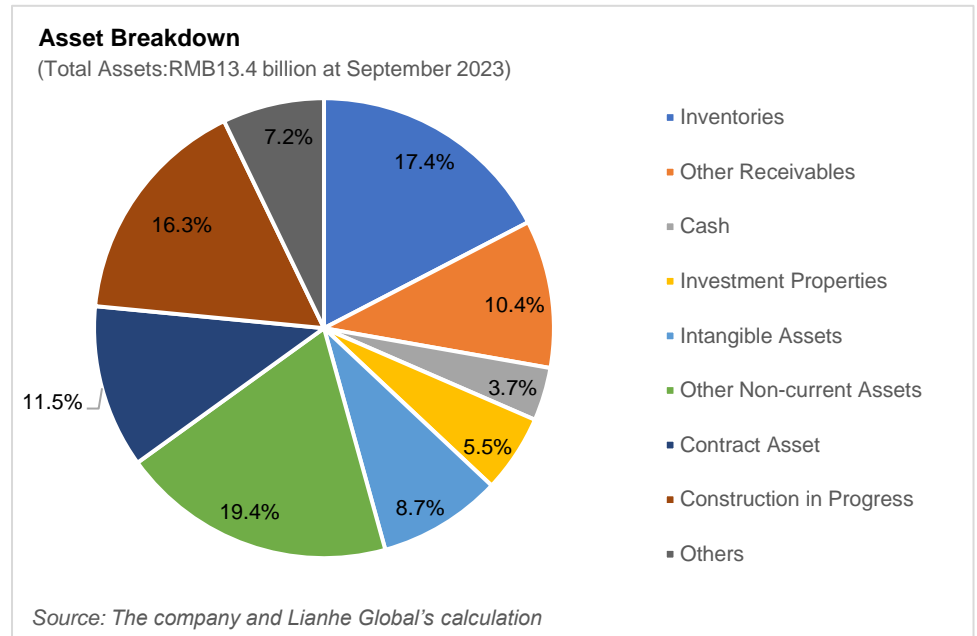
<b>Balance Sheet Structure and Quality</b>			
<b>(RMB million)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total Asset	11,006	13,335	13,449
Equity	7,361	8,204	8,420
Debt	2,644	2,668	3,511
Debt / (Debt + Equity) (%)	26.4	24.5	29.4
LT Debt	1,874	1,964	2,231
LT Debt / (LT Debt + Equity) (%)	20.3	19.3	20.9

*Source: The company's financial reports and Lianhe Global's calculations*

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The company's other non-current assets and intangible assets mainly included reservoir as well as sand and gravel resources transferred from the local government. We believe that these assets are also illiquid due to their public nature.



### Debt Servicing Capability

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.

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