

Zhengzhou Jinshui Holdings Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 May 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zhengzhou Jinshui Holdings Group Co., Ltd. (“ZJHG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jinshui District (“Jinshui government”) would provide strong support to ZJHG if needed, in light of its indirect full ownership of ZJHG, ZJHG’s strategic importance as the most important local investment and development company (“LIDC”) that is responsible for resettlement housing development and infrastructure construction in Jinshui, and the linkage between the Jinshui government and ZJHG, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Jinshui government may face significant negative impact on its reputation and financing activities if ZJHG encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Jinshui government indirectly holds the full ownership of ZJHG via the Jinshui Finance Bureau and Henan Jinshui Investment Management Company Limited. The actual controller of the company is the Jinshui Finance Bureau. The Jinshui government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Jinshui government has formulated a performance assessment mechanism for the company and appoints auditors to review the company’s operating performance and financial position.

Strategic Importance to Jinshui and Strategic Alignment: ZJHG, as the most important LIDC in Jinshui, is mainly responsible for resettlement housing development and infrastructure construction within the region. The company is also engaged in management fee, properties sales, infrastructure construction, leasing, parking service, property management service, etc. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: ZJHG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. We believe the government support will remain intact given the company’s strategic importance in Jinshui. Between 2020 and the first nine months of 2023, SZIHG received financial subsidies totaling around RMB27.4 million from the local government. Over the same period, the company received asset and capital injections in the form of cash, operation rights, property, debt transfer and other assets, which reached about RMB5.6 billion.

ZJHG’s Financial and Liquidity Position: ZJHG’s total asset increased steadily to RMB19.8 billion at end-September 2023 from RMB12.7 billion at end-2020, as the company actively participated in resettlement housing and infrastructure project development in

Key Figures of Jinshui and ZJHG

(RMB billion)	2022	2023
Jinshui		
GDP	193.2	205.8
GDP growth rate (%)	1.8	6.7
Budgetary revenue	11.4	11.0
Government fund	0.0	0.0
Transfer payment	7.9	2.7
Budgetary expenditure	5.1	5.2
ZJHG	2022	2023.9
Assets	17.5	19.8
Equity	8.1	7.8
Revenue	1.8	0.9

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

Analysts

Karis Fan, CESGA
 (852) 3462 9579
karis.fan@lhratingsglobal.com

Toni Ho, CFA, FRM
 (852) 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

Jinshui. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. ZJHG's total debt reached RMB6.9 billion at end-September 2023, which increased significantly compared with RMB2.9 billion at end-2020. However, the company's financial leverage, as measured by debt/capitalization decreased to 46.9% from 51.5% over the same period, which was mainly due to the larger increase in the company's equity.

The short-term debt servicing pressure of ZJHG was moderate. At end-September 2023, the company had cash balance of RMB628 million (including restricted cash of RMB2 million) and unused credit facilities of RMB5.7 billion, while its debt due within one year was RMB2.0 billion. Besides, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Jinshui: Jinshui is a district under the jurisdiction of Zhengzhou City ("Zhengzhou"), Henan Province, and located in the northeastern part of Zhengzhou's main urban area. Jinshui's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 1.8% and 6.7% in 2021, 2022 and 2023, respectively. Jinshui's GDP amount reached RMB205.8 billion in 2023, which was ranked 1st among all jurisdictions of Zhengzhou.

The Jinshui government's aggregate revenue is mainly derived from budgetary revenue and transfer payment from higher government, while government fund income is very limited. Budgetary revenue of the Jinshui government was on a downward trend in the past few years and reached RMB11.0 billion in 2023, with tax revenue accounting for 89.2% of budgetary revenue. Nevertheless, the fiscal self-sufficiency rate of the Jinshui government was high and it recorded budget surplus in the past few years, which reached 53.0% in 2023. The fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 43.6% at end-2023 from 12.2% at end-2021, due to the increase in special debt and the decrease in aggregate revenue.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Jinshui

Jinshui is a district under the jurisdiction of Zhengzhou, Henan Province, and located in the northeastern part of Zhengzhou's main urban area. Jinshui has jurisdiction over 17 streets, 40 villages, 174 communities and 3 high-tech parks, with a total area of 136.66 square kilometers. In addition, Jinshui is the place where the Henan provincial government locates. At end-2022, Jinshui had a resident population of 1.6 million, with an urbanization rate of 97.4%.

Jinshui's GDP growth rate fluctuated in the past three years, owing to Covid's disruption, which was 3.1%, 1.8% and 6.7% in 2021, 2022 and 2023, respectively. Jinshui's GDP amount reached RMB205.8 billion in 2023, which was ranked 1st among all jurisdictions of Zhengzhou. Jinshui's economic growth was mainly fueled by the tertiary industry in the past few years, which accounted for 88.7% of the GDP in 2023. Jinshui's fixed asset investment accelerated in 2023, with a year-over-year growth rate of 12.1%, compared with -2.4% and -9.5% recorded in 2021 and 2022, respectively.

Jinshui's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	187.9	193.2	205.8
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	11.6	11.2	11.3
-Tertiary industry (%)	88.4	88.8	88.7
GDP growth rate (%)	3.1	1.8	6.7
Fixed asset investment	52.0	47.1	52.8
Fixed asset investment growth rate (%)	-2.4	-9.5	12.1
Population (million)	1.6	1.6	*1.6
<i>*Estimated data</i>			
<i>Source: Public information and Lianhe Global's calculations</i>			

Fiscal Condition of Jinshui

The Jinshui government's aggregate revenue is mainly derived from budgetary revenue and transfer payment from higher government, while government fund income is very limited. Budgetary revenue of the Jinshui government was on a downward trend in the past few years and reached RMB11.0 billion in 2023, with tax revenue accounting for 89.2% of budgetary revenue. Nevertheless, the fiscal self-sufficiency rate of the Jinshui government was high and it recorded budget surplus in the past few years, which reached 53.0% in 2023. Transfer payment from higher government was also on a downward trend, which decreased to RMB2.7 billion in 2023 from RMB10.7 billion in 2021.

The outstanding debt of the Jinshui government continued to grow. At end-2023, the Jinshui government's outstanding debt was RMB5.9 billion, including RMB4.0 billion of general obligations and RMB1.9 billion of special debt. The fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 43.6% at end-2023 from 12.2% at end-2021, due to the increase in special debt and the decrease in aggregate revenue.

Jinshui's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	12.1	11.4	11.0
Budgetary revenue growth rate (%)	1.8	-5.7	-4.0
Tax revenue	11.1	9.7	9.8
Tax revenue (% of budgetary revenue)	91.8	85.2	89.2
Government fund income	0.0	0.0	0.0
Transfer payment	10.7	7.9	*2.7
Aggregate revenue	22.8	19.3	13.6
Budgetary expenditure	8.1	5.1	5.2
Budget balance ¹ (%)	32.8	54.9	53.0
¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%			
<i>* Data according to 2023 adjusted budget report</i>			
<i>Source: Public information and Lianhe Global's calculations</i>			

Ownership Structure

Government's Ownership

ZJHG was established in 1988. After an array of equity transfers and capital injections, ZJHG's registered capital and paid-in capital were RMB1.0 billion and RMB0.2 billion, respectively, at end-September 2023. The company is wholly-owned by Henan Jinshui Investment Management Company Limited. The actual controller of the company is the Jinshui Finance Bureau.

Strategic Importance and Government Linkage

Strategic Importance of ZJHG to Jinshui

ZJHG, as the most important LIDC in Jinshui, is mainly responsible for resettlement housing development and infrastructure construction within the region. The company is also engaged in management fee, properties sales, infrastructure construction, leasing, parking service, property management service, etc. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

Strong Linkage with the Local Government

ZJHG's linkage with the local government is strong as the Jinshui government indirectly holds the full ownership of ZJHG via the Jinshui Finance Bureau and Henan Jinshui Investment Management Company Limited. The actual controller of the company is the Jinshui Finance Bureau. The Jinshui government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Jinshui government has formulated a performance assessment mechanism for the company and appoints auditors to review the company's operating performance and financial position.

Government Support

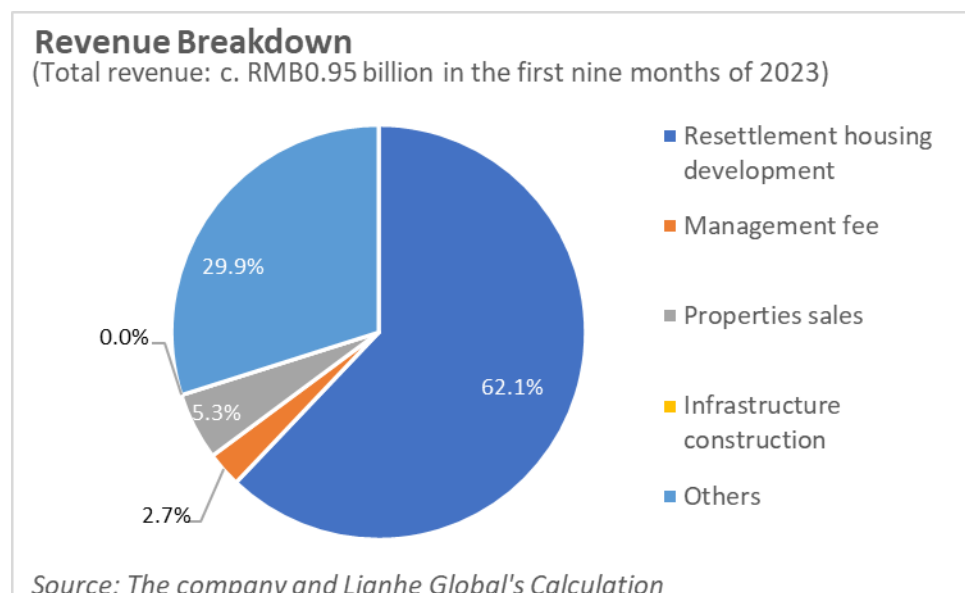
ZJHG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. We believe the government support will remain intact given the company's strategic importance in Jinshui. Between 2020 and the first nine months of 2023, ZJHG received financial subsidies totaling around RMB27.4 million from the local government. Over the same period, the company received asset and capital injections in the form of cash, operation rights, property, debt transfer and other assets, which reached about RMB5.6 billion.

Business Profile

The Key Entity Responsible for Resettlement Housing Development and Infrastructure Construction in Jinshui

ZJHG, as the most important LIDC in Jinshui, is mainly responsible for resettlement housing development and infrastructure construction within the region. The primary source of operating revenue for the company is resettlement housing construction, while it also engages in management fee, properties sales, infrastructure construction, leasing, parking

service, property management service, etc. The company's total revenue reached RMB1.09 billion, RMB1.46 billion, RMB1.75 billion and RMB0.95 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin slumped to 12.7% in 2021 from 52.5% in 2020, and stayed around 12% in both 2022 and the first nine months of 2023.



Resettlement Housing Development

ZJHG undertakes resettlement housing development business in Jinshui. The company signs agreement with the entrusting parties and is responsible for fundraising, land bidding and construction of entrusted projects. The company settles construction costs plus management fees annually with the entrusting parties according to the progress of resettlement housing construction. The revenue of this segment reached RMB0.30 billion, RMB1.17 billion, RMB1.43 billion and RMB0.56 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment remained stable at 2%-5% over the same period. This segment is the primary source of revenue of the company. Having said that, the company is shifting the focus to urban renewal going forward.

Management Fee

ZJHG's management fee is mainly derived from its lending to companies responsible for resettlement housing construction. According to their lending agreement, the company provides lending to companies responsible for resettlement housing construction with a management fee equivalent to a certain percentage of the principal. The local government is responsible for the repayment of principals and supervision of the lending. The revenue of this segment was on a downward trend, which reached RMB325 million, RMB232 million, RMB125 million and RMB26 million in 2020, 2021, 2022 and the first nine months of 2023, respectively.

Properties Sales

Properties business of ZJHG mainly involves the sales of commercial properties arising from resettlement housing projects. The revenue of this segment reached RMB419 million, RMB12 million, RMB47 million and RMB50 million in 2020, 2021, 2022 and the first nine

months of 2023, respectively. The gross profit margin of this segment stayed around 80% in 2020-2022, but slumped to -0.6% in the first nine months of 2023.

Infrastructure Construction

Infrastructure construction business mainly involves the construction of roads and other municipal facilities in Jinshui. The company signs construction agreements with local government agencies and is responsible for the construction of entrusted projects. The company settles construction costs plus management fees with the entrusting parties according to the agreement. The revenue generated from this segment reached RMB26 million, RMB13 million and RMB8 million in 2020, 2021 and 2022, respectively, and no revenue was recognized in the first nine months of 2023.

Other Businesses

Except for the above businesses, the company also operates other businesses including leasing, parking service, property management service, etc., making the company's income structure more diversified while forming a better complement to the company's overall income.

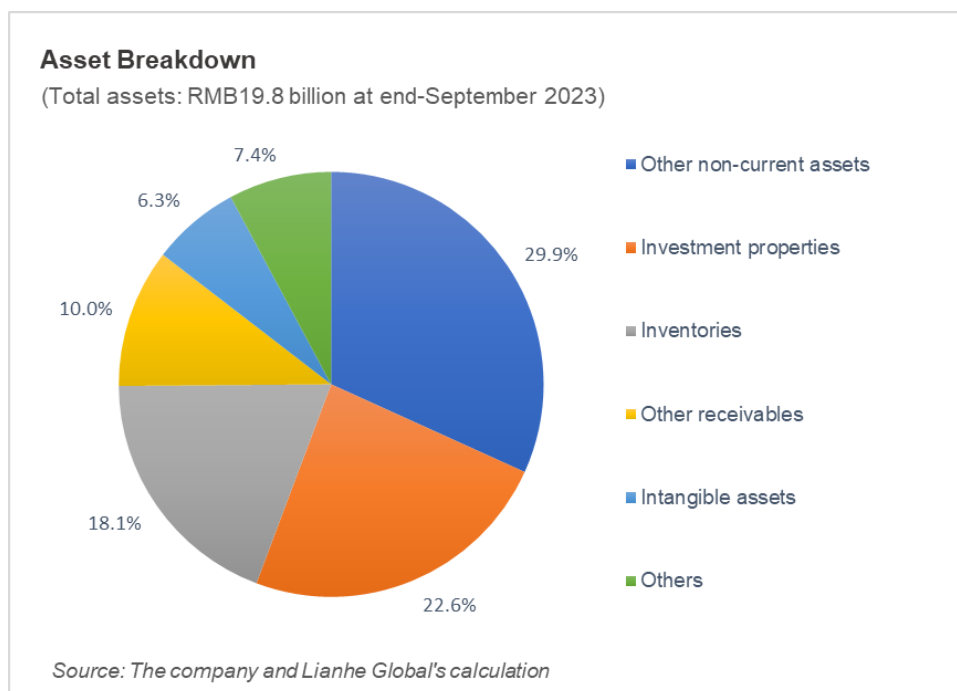
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September 2023
Total Asset	12,682	13,565	17,545	19,772
Equity	2,752	4,701	8,130	7,821
Debt	2,922	3,180	4,493	6,899
Debt / (Debt + Equity) (%)	51.5	40.3	35.6	46.9
LT Debts	2,164	3,010	3,477	3,741
LT Debt / (LT Debt + Equity) (%)	44.0	39.0	30.0	32.4

Source: Company information and Lianhe Global's calculations

ZJHG's total asset increased steadily to RMB19.8 billion at end-September 2023 from RMB12.7 billion at end-2020, as the company actively participated in resettlement housing and infrastructure project development in Jinshui. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. ZJHG's total debt reached RMB6.9 billion at end-September 2023, which increased significantly compared with RMB2.9 billion at end-2020. However, the company's financial leverage, as measured by debt/capitalization decreased to 46.9% from 51.5% over the same period, which was mainly due to the larger increase in the company's equity.



ZJHG's asset liquidity was moderately weak, as the non-current asset accounted for 62.4% of total asset at end-September 2023. The company's non-current assets mainly consisted of investment properties, intangible assets and other non-current assets. Investment properties are mainly commercial properties transferred by the local governments, while other non-current assets are mainly project payments from agent construction projects and long-term claims from lending activities. In addition, the company had a large amount of inventories (mainly construction costs), which accounted for 18% of total asset at end-September 2023. These inventories usually take a long time to monetize due to protracted construction, recognition and cash collection periods.

Debt Servicing Capability

The short-term debt servicing pressure of ZJHG was moderate. At end-September 2023, the company had cash balance of RMB628 million (including restricted cash of RMB2 million) and unused credit facilities of RMB5.7 billion, while its debt due within one year was RMB2.0 billion. Besides, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing, to support its debt repayments and business operations.

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

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 upgrade or downgrade 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 relies 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.