

Jurong Rongfeng Construction Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 June 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jurong Rongfeng Construction Co., Ltd. (“JRC” or “the company”)

Summary

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

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

Rating Rationale

Ownership and Supervision: The Jurong government indirectly holds the full ownership of JRC through the Finance Bureau of Jurong City’s (“Jurong FB”) fully-owned subsidiary, Jiangsu Jurong Investment Group Co., Ltd. (“JJIG”). The Jurong government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Jurong government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Jurong and Strategic Alignment: JRC, as the key LIDC in Jurong, is primarily responsible for the construction and development of infrastructure projects, industrial park projects and residential renovation projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, JRC is mainly engaged in urbanization construction, road and pipeline construction, healthcare and other infrastructure related projects with strong regional advantages. In addition, as the sole general construction contractor in Jurong, the company also plays an important role in projects related to urban renewal and real estate development in the region. JRC plays an important role in promoting the economic and social development of Jurong. Its business operation and development have been aligned with the government’s development plans.

Ongoing Support: JRC received operational and financial support. The Jurong FB continued to inject capital, project-related assets, equities of other companies and other kinds of assets into JRC to expand its asset size and diversify its business. Besides, the Jurong government will provide policy supports to JRC to ensure its business operation. Given that it is the key entity for building construction and state-owned assets operation in Jurong, JRC has an advantage in acquiring related resources and major projects. We believe JRC is likely going to receive government support to support its daily business operation.

Key Figures of Jurong and JRC

(RMB billion)	2022	2023
Jurong		
GDP	75.5	79.2
GDP growth rate (%)	1.0	5.5
Budgetary revenue	4.9	5.0
Government fund	11.6	11.1
Transfer payment	2.4	2.2
Budgetary expenditure	8.0	8.3
JRC		
Assets	9.0	12.8
Equity	2.9	3.7
Revenue	0.2	0.3

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

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Applicable Criteria

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

JRC's Financial Matrix and Liquidity Position: JRC's total assets showed a continuous growth trend in the past few years and reached RMB12.8 billion at end-2023, as the company actively participated in construction projects in Jurong. The current assets of JRC accounted for 76.8% of the total assets at end-2023, and the overall asset liquidity was moderately weak due to large amount of inventories and receivables. JRC's financial leverage (total liabilities to total assets) increased to 71.0% and its adjusted debt increased to RMB2.7 billion at end-2023 from RMB1.0 billion at end-2022. JRC's liquidity was moderately weak. At end-2023, JRC had a cash balance of RMB716.3 million, compared with its debt due within one year of RMB1.5 billion. Having said that, JRC has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. JRC also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Strength of Jurong: Jurong is a county-level city directly under the jurisdiction of Jiangsu Province and administered by Zhenjiang City ("Zhenjiang"). Jurong had a land area of 1,385 square kilometers, a residential population of 0.64 million, and an urbanization rate of 66.5% at end-2023. Jurong realized a GDP of RMB79.2 billion in 2023, representing an economic growth rate of 5.5%, up from 1.0% in 2022. In addition, as the investment in manufacturing and high-tech industries decreased slightly, the city recorded a fixed asset investment growth rate of -0.4% in 2023.

The Jurong government's budgetary revenue increased slightly to RMB5.0 billion in 2023 from RMB4.9 billion in 2022, mainly due to the rapid growth of tax revenue. The Jurong government's aggregate revenue highly relied on the income from the government-managed fund, contributing 60.5% to its aggregate revenue in 2023. The Jurong government's fiscal self-sufficiency rate was moderately low, and its budget deficit widened to 65.8% in 2023 from 62.6% in 2022. In addition, its government debt ratio, as measured by total debt outstanding/aggregate revenue, was moderately high. This was mainly due to the increase in government special debt to support the development of railway projects, lifting the total debt outstanding to RMB25.3 billion at end-2023 from RMB21.6 billion at end-2022.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Jurong

Jurong is a county-level city administered by Zhenjiang. Jurong had a land area of 1,385 square kilometers, a residential population of 0.64 million, and an urbanization rate of 66.5% at end-2023. Located between Nanjing, the provincial capital of Jiangsu, and Zhenjiang, Jurong is developing itself as the transportation hub of the Nanjing-Zhenjiang-Yangzhou Integrated Development by building key railway projects across the city, including Nanjing-

Jurong Railway, South Railway along the Yangtse River, Jurong-Maoshan Railway and Nanjing-Zhenjiang-Yangzhou-Maanshan Railway.

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Jurong's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	73.7	75.5	79.2
-Primary industry (%)	7.5	7.6	7.4
-Secondary industry (%)	42.5	45.2	44.0
-Tertiary industry (%)	50.0	47.2	48.6
GDP growth rate (%)	9.3	1.0	5.5
Fixed asset investment growth rate (%)	10.3	-16.6	-0.4
Population (million)	0.64	0.64	0.64

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jurong

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Jurong's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	5.8	4.9	5.0
Budgetary revenue growth rate (%)	5.1	-17.7	25.7
Tax revenue	4.8	3.6	3.6
Tax revenue (% of budgetary revenue)	83.9	72.7	71.2
Government fund income	10.8	11.6	11.1
Transfer payment	1.8	2.4	2.2
Aggregate revenue	19.0	18.9	18.3
Budgetary expenditure	8.6	8.0	8.3
Budget balance ¹ (%)	-48.9	-62.6	-65.8

¹ Budget balance = (1 - budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JRC was established in May 2019 with an initial registered capital of RMB40 million, funded by Taizhou Sulu Construction Engineering Co., Ltd. After an array of capital injections, JRC's registered capital and paid-in capital were both RMB60 million at end-March 2024. The company is now wholly owned and ultimately controlled by Jurong FB.

Strategic Importance and Government Linkage

Strategic Importance of JRC to Jurong

JRC, as the key LIDC in Jurong, is primarily responsible for the construction and development of infrastructure projects, industrial park projects and residential renovation projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, JRC is mainly engaged in urbanization construction, road and pipeline construction, healthcare and other infrastructure related projects with strong regional advantages. In addition, as the sole general construction contractor in Jurong, the company also plays an important role in projects related to urban renewal and real estate development in the region. JRC plays an important role in promoting the economic and social development of Jurong. Its business operation and development have been aligned with the government's development plans.

Strong Linkage with the Local Government

JRC's linkage with the local government is strong as the Jurong FB holds the full ownership of JRC through JJIG. It is the actual controller of the company. The Jurong FB supervises the company and has assessment mechanism over the company. In addition, it appoints auditors to supervise the operating performance and financial position on a periodic basis.

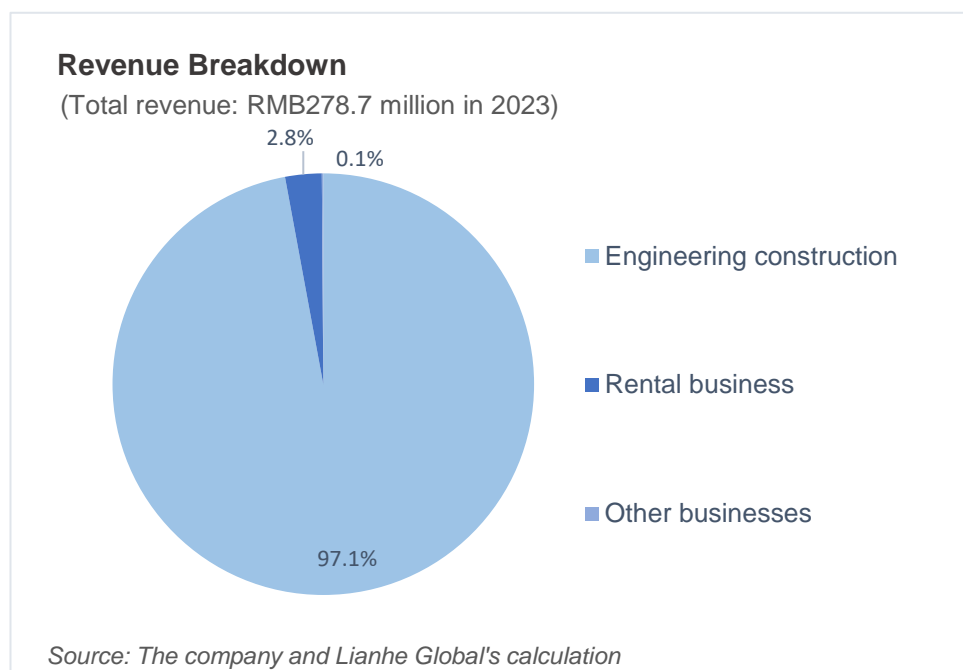
Government Support

JRC received operational and financial support. The Jurong SASAB continued to inject capital, project-related assets, equities of other companies and other kinds of assets into JRC to expand its asset size and diversify its business. Besides, the Jurong government will provide policy supports to JRC to ensure its business operation. Given that it is the key entity for building construction and state-owned assets operation in Jurong, JRC has an advantage in acquiring related resources and major projects. We believe JRC is likely going to receive government support to support its daily business operation.

Business Profile

The Key Entity Responsible for Building Construction in Jurong

JRC, as an important LIDC in Jurong, is mainly responsible for engineering construction business within the region, including construction of municipal infrastructure and residential properties within the region, with a strong regional advantage. The company's main business exhibits low diverse characteristics, with a strong concentration in engineering construction segment. The revenue generated from engineering construction segment accounted for more than 90% of the total revenue in the past three years. Having said that, the company's total revenue was on an upward trend in the past few years, recording at RMB175.9 million, RMB241.2 million and RMB278.7 million in 2021, 2022 and 2023, respectively. The gross profit margin of the company reached 7.4% in 2023, up from 6.6% and 0.2% in 2022 and 2021, respectively.



Engineering Construction

Engineering construction, as the largest component of JRC's total revenue, is divided into municipal engineering construction projects and housing construction projects, of which the former accounting for 30-40% while the latter accounting for the rest 60%-70% based on the value of contracts signed in the past. Relying on its background as a state-owned entity, JRC has certain advantages in acquiring local municipal projects. In terms of projects locations, signed contracts were mainly concentrated in Jurong.

The total revenue generated from this segment reached RMB175.5 million, RMB239.5 million, and RMB270.6 billion in 2021, 2022 and 2023, respectively, with a stable gross margin at around 6% in the past two years. The revenue in this segment showed an increasing trend due to the expansion of the company's main business. The engineering construction projects are generally settled by stages according to the progress of the project. The cash collection period for the general municipal projects and housing construction is 2 years, while the former typically has a longer repayment period. For municipal engineering construction projects, JRC mainly undertakes relevant projects through open market bidding. Currently, the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

Other Businesses

JRC's other businesses mainly include housing leasing, property management and equipment leasing, most of which are ancillary service businesses aligned with its integral industrial chain. The other businesses have limited impact and contribution to JRC's total revenue due to their small business scales.

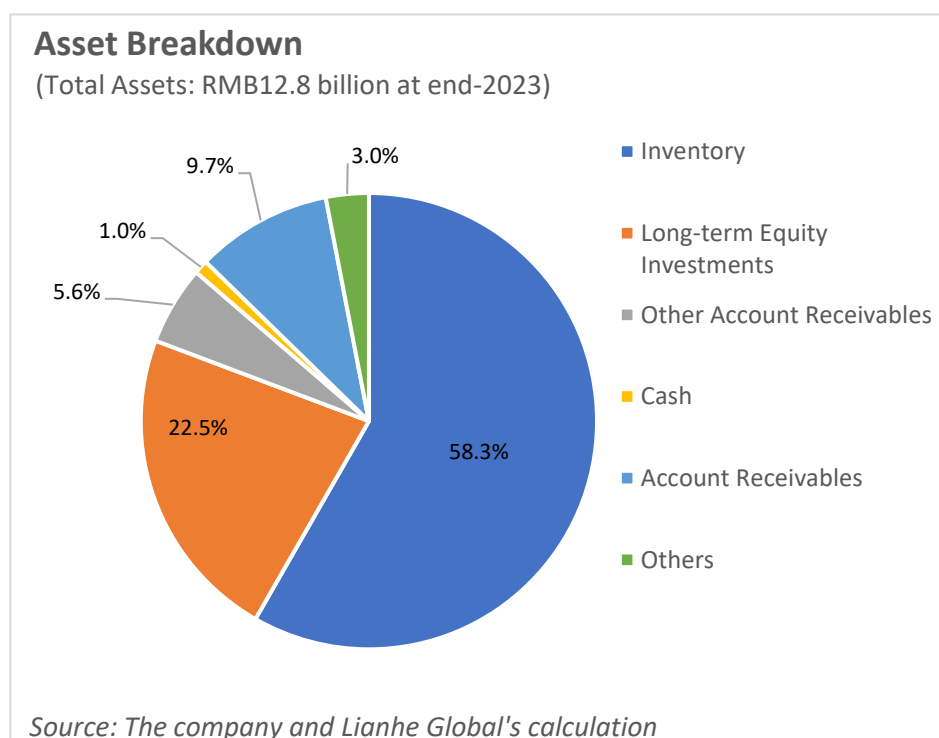
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality			
(RMB million)	2021	2022	2023
Total Asset	5,446	8,986	12,832
Equity	2,778	2,864	3,727
Debt	1,014	1,809	2,692
Debt/(Debt+Equity) (%)	26.7	38.7	41.9
LT Debt	790	973	1,240
LT Debt/(LT Debt+Equity) (%)	22.1	25.4	25.0

Source: Company information and Lianhe Global's calculation

JRC's total asset surged to RMB12.8 billion at end-2023 from RMB5.4 billion at end-2021, largely attributed to the increase of inventory. The company's financial leverage, as measured by total liability/total asset, rose to 71.0% at end-2023, from 49.0% at end-2021, mainly due to the increase of long-term borrowings to support its construction business. Having said that, we expect the company's financial leverage to remain at or below this level under the government's supervision.



JRC's assets liquidity was moderately weak. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs) and fixed asset, totally amounting to RMB7.5 billion, representing 59.0% of total asset at end-2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period. The company had a large number of long-term equity investments, totally amounting to RMB2.9 billion, representing 22.5% of total asset at end-2023. In addition, the company had some account receivables and other account receivables, primarily due from government agencies, totally representing 7.1% of total asset at end-2023. Their repayment schedules are highly subject to the fiscal conditions of the local government.



Debt Servicing Capability

JRC's liquidity was moderately weak. At end-2023, JRC had a cash balance of RMB716.3 million, compared with its debt due within one year of RMB1.5 billion. Having said that, JRC has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. JRC also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

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