

Jiangshan Economic Development Zone Construction Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	3 July 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangshan Economic Development Zone Construction Investment Group Co., Ltd. (“JEDZC” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jiangshan District, Quzhou City (“Jiangshan government”) would provide very strong support to JEDZC if needed, in light of its full ownership of JEDZC, JEDZC’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and land development in Jiangshan City, Quzhou City (“Jiangshan”), especially in the Jiangshan Economic Development Zone, Zhejiang Province (“Jiangshan EDZ”) and the linkage between the Jiangshan government and JEDZC, 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 Jiangshan government may face significant negative impact on its reputation and financing activities if JEDZC encounters any operational and financial difficulties.

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

Rating Rationale

Jiangshan Government’s Ownership and Supervision: The Jiangshan government holds the full ownership of JEDZC through the Finance Bureau of Jiangshan City’s (“Jiangshan FB”) fully-owned subsidiary, Jiangshan City State-owned Assets Management Co. Ltd. (“JCSAM”). The Jiangshan government is the actual controller of the company. It has the final decision-making authority and supervises the company through, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Jiangshan 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 Jiangshan and Strategic Alignment: JEDZC, as an important LIDC in Jiangshan, is primarily responsible for the investment, development and operation of infrastructure construction projects in the Jiangshan EDZ. Serving as the sole entity in charge of infrastructure projects in Jiangshan EDZ, JEDZC is mainly engaged in road and pipeline projects, supporting facilities development, land development and consolidation, sewage treatment, and other infrastructure related projects with strong regional advantages. In addition, the company assumes a vital position in the industrial development in the region by taking the responsibility of industrial park development and business attractions and investment. JEDZC plays an important role in promoting the economic and social development of Jiangshan. Its business operation and development have been aligned with the government’s development plans.

Key Figures of Jiangshan and JEDZC

(RMB billion)	2022	2023
Jiangshan		
GDP	38.1	40.6
GDP growth rate (%)	4.6	6.8
Budgetary revenue	2.9	3.7
Government fund	4.0	3.0
Transfer payment	3.7	4.1
Budgetary expenditure	8.8	9.0
JEDZC		
Assets	13.1	22.4
Equity	6.7	8.8
Revenue	0.9	1.8

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

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Applicable Criteria

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

Ongoing Government Support: JEDZC received operational and financial support from the Jiangshan government. It received a total subsidy amount of RMB300.2 million from 2021 to 2023. The Jiangshan government continued to inject capital, real estate assets and other kinds of assets into JEDZC to expand its asset size and diversify its business. Besides, the government will repurchase some infrastructure projects and provide policy supports to JEDZC to ensure its business operation. Given that it is the key entity for infrastructure construction and land development in the Jiangshan EDZ, JEDZC has an advantage in acquiring related resources and major projects. We believe JEDZC is likely going to receive government support to support its daily business operation.

JEDZC's Financial Matrix and Liquidity Position: JEDZC's total assets showed a continuous growth trend in the past few years and reached RMB22.4 billion at end-2023, as the company actively participated in the industrial park's investment and external financing activities. The current assets of JEDZC accounted for 85% of the total assets at end-2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and investment properties. JEDZC's financial leverage (total liabilities to total assets) increased to 60.7% and its adjusted debt increased to RMB11.3 billion at end-2023 from RMB1.3 billion at end-2021. JEDZC's liquidity was tight. At end-2023, JEDZC had a cash balance of RMB464.7 million, compared with its debt due within one year of RMB1.5 billion. Having said that, JEDZC 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. The company had an unused bank facility of RMB6.1 billion at end-2023. JEDZC also has other financing channels, such as non-traditional financing and bond issuance, to support its debt repayment and business operations.

Economy and Fiscal Strength of Jiangshan: Jiangshan is a county-level city of Quzhou City, Zhejiang Province ("Quzhou"), and is located in the southern part of Quzhou. Jiangshan's economy kept moderate growth in the past three years. Its GDP amount increased from RMB36.6 billion in 2021 to RMB40.6 billion in 2023, with its GDP growth rate recording 8.5%, 4.6% and 6.8% in 2021, 2022 and 2023, respectively. The economic structure of Jiangshan was stable, which was mainly fueled by the secondary and tertiary industries, accounting for 43.2% and 50.6% of its GDP in 2023, respectively.

The aggregate fiscal revenue of the Jiangshan government was mainly derived from the budgetary revenue and transfer payment from the higher government. In 2021-2023, the budgetary revenue of the Jiangshan government increased from RMB2.6 billion to RMB3.7 billion, and the contribution of tax revenue declined from 88.8% to 60.7% over the same period. The financial self-sufficiency of Jiangshan was weak but improving, and its budget deficit narrowed to 145.7% in 2023 from 222.8% in 2021. Due to the drop in land sales revenue amid weak property market, the government fund income of the Jiangshan government decreased from RMB7.5 billion in 2021 to RMB3.0 billion in 2023. The transfer payment from the higher government is another important part of the aggregate revenue, which increased from RMB3.4 billion in 2021 to RMB4.1 billion in 2023. The Jiangshan government's fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, rose considerably to 146.3% at end-2023 from 82.5% at end-2021, mainly due to the increase in special debt.

Rating Sensitivities

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

We would consider upgrading JEDZC's rating if there is an upgrade in our internal credit assessment on the Jiangshan government.

Operating Environment

Economic Condition of Jiangshan

Jiangshan is a county-level city of Quzhou, and is located in the southern part of Quzhou. Jiangshan is enriched with ample tourism and ecological resources, and has been ranked as one of the National Top 100 Tourist Counties in 2023. Jiangshan has jurisdiction over 11 towns, 3 streets, 290 administrative villages and 29 communities with a total land area of 2,019 square kilometers. At end-2023, Jiangshan had a residential population of 495 thousand with an urbanization rate of 61.4%.

Jiangshan EDZ is a provincial-level EDZ established in August 1994 with the authorization of the Zhejiang government and is located in the south of Jiangshan. According to the requirements of the Zhejiang government, Jiangshan EDZ was integrated in 2020 and became the sole major platform of the industrial economy in Jiangshan.

Jiangshan's economy kept moderate growth in the past three years. Its GDP amount increased from RMB36.6 billion in 2021 to RMB40.6 billion in 2023, with its GDP growth rate recording 8.5%, 4.6% and 6.8% in 2021, 2022 and 2023, respectively. The economic structure of Jiangshan was stable, which was mainly fueled by the secondary and tertiary industries, accounting for 43.2% and 50.6% of its GDP in 2023, respectively. Its fixed asset investment growth rate was on an upward trend in the past few years, recording 10.7%, 20.0% and 21.5% in 2020, 2021 and 2022, respectively.

Jiangshan's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	36.6	38.1	40.6
-Primary industry (%)	6.1	6.6	6.2
-Secondary industry (%)	45.9	43.4	43.2
-Tertiary industry (%)	48.0	50.0	50.6
GDP growth rate (%)	8.5	4.6	6.8
Fixed asset investment	12.4	14.9	18.1
Fixed asset investment growth rate (%)	10.7	20.0	21.5
Population (million)	496	499	495

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jiangshan

The aggregate fiscal revenue of the Jiangshan government was mainly derived from the budgetary revenue and transfer payment from the higher government. In 2021-2023, the budgetary revenue of the Jiangshan government increased from RMB2.6 billion to RMB3.7 billion, and the contribution of tax revenue declined from 88.8% to 60.7% over the same period. The financial self-sufficiency of Jiangshan was weak but improving, and its budget deficit narrowed to -145.7% in 2023 from -222.8% in 2021. Due to the drop in land sales revenue amid weak property market, the government fund income of the Jiangshan government decreased from RMB7.5 billion in 2021 to RMB3.0 billion in 2023. The transfer payment from the higher government is another important part of the aggregate revenue, which increased from RMB3.4 billion in 2021 to RMB4.1 billion in 2023.

The outstanding amount of the Jiangshan government's debt expanded fast in the past three years, and both the general obligations and special debts were on an upward trend. At end-2023, the Jiangshan government's outstanding debt was RMB15.7 billion, including RMB6.7 billion of general obligations and RMB9.0 billion of special debt. Its fiscal debt ratio, as

measured by total government debt outstanding/aggregate revenue, rose considerably to 146.3% at end-2023 from 82.5% at end-2021, mainly due to the increase in special debt.

Jiangshan's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	2.6	2.9	3.7
Budgetary revenue growth rate (%)	20.3	13.0	27.0
Tax revenue	2.3	2.4	2.2
Tax revenue (% of budgetary revenue)	88.8	82.7	60.7
Government fund income	7.5	4.0	3.0
Transfer payment	3.4	3.7	4.1
Aggregate revenue	13.5	10.6	10.7
Budgetary expenditure	8.3	8.8	9.0
Budget balance ¹ (%)	-222.8	-203.8	-145.7

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JEDZC was established in June 2018 with an initial registered capital of RMB300.0 million, funded by the Jiangshan State-owned Assets Supervision and Administration Office ("Jiangshan SASAO"). In December 2018, Jiangshan SASAO transferred 100% of the company's equity to JCSAM without compensation. At end-2023, the registered capital and paid-in capital of the company were both RMB300.0 million. JCSAM held 100% shares of the company and the Jiangshan FB was the ultimate controller.

Strategic Importance and Government Linkage

Strategic Importance of JEDZC to Jiangshan

JEDZC, as an important LIDC in Jiangshan, is primarily responsible for the investment, development and operation of infrastructure construction projects in the Jiangshan EDZ. Serving as the sole entity in charge of infrastructure projects in Jiangshan EDZ, JEDZC is mainly engaged in road and pipeline projects, supporting facilities development, land development and consolidation, sewage treatment, and other infrastructure related projects with strong regional advantages. In addition, the company assumes a vital position in the industrial development in the region by taking the responsibility of industrial park development and business attractions and investment. JEDZC plays an important role in promoting the economic and social development of Jiangshan. Its business operation and development have been aligned with the government's development plans.

Strong Linkage with the Local Government

JEDZC's linkage with the local government is strong as the Jiangshan government holds the full ownership of JEDZC through JCSAM. The Jiangshan government 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 Jiangshan government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

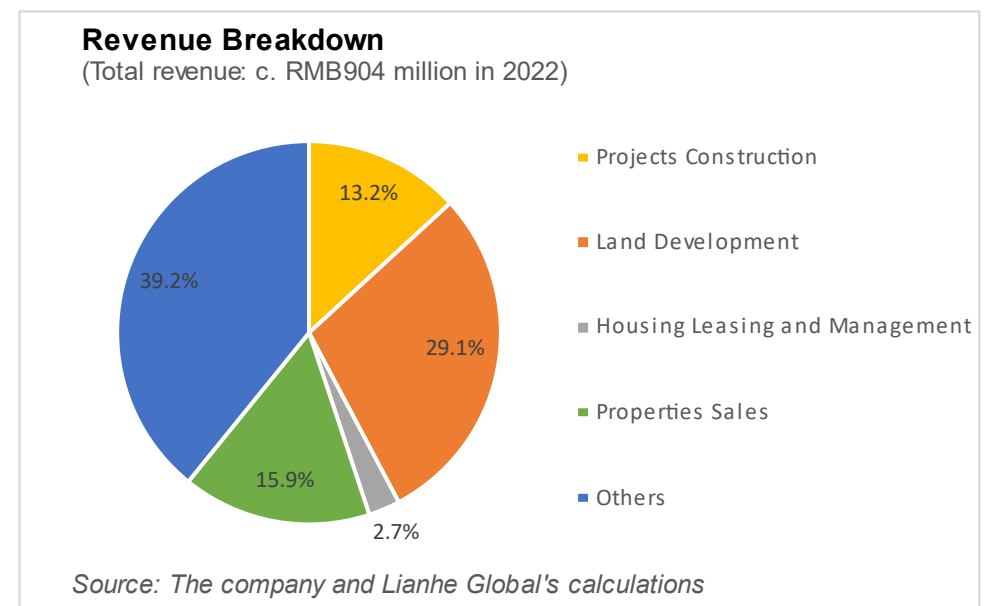
Government Support

JEDZC received operational and financial support from the Jiangshan government. It received a total subsidy amount of RMB300.2 million from 2021 to 2023. The Jiangshan government continued to inject capital, real estate assets and other kinds of assets into JEDZC to expand its asset size and diversify its business. Besides, the government will repurchase some infrastructure projects and provide policy supports to JEDZC to ensure its business operation. Given that it is the key entity for infrastructure construction and land development in the Jiangshan EDZ, JEDZC has an advantage in acquiring related resources and major projects. We believe JEDZC is likely going to receive government support to support its daily business operation.

Business Profile

The Sole Entity Responsible for Infrastructure Construction, Land Development and Assets Operation within Jiangshan EDZ

JEDZCI is an important LIDC that plays a vital role in the city renovation and development and municipal infrastructure construction within Jiangshan EDZ. The primary sources of the company's operating income are projects construction, land development, while it also engages in housing leasing and management, properties sales, building materials sales, oil sales, sewage treatment and other businesses. The total operating revenue of JEDZCI was RMB436 million, RMB903.6 million and RMB1.8 billion in 2021, 2022 and 2023, respectively. The gross profit margin ranged between 6.1% and 16.3% over the same period.



Project Construction

As the sole entity responsible for the development and construction of Jiangshan EDZ, the company mainly focuses on the infrastructure and facilities construction of the industrial parks in Jiangshan EDZ. The company and its subsidiaries sign agent construction agreements with the Jiangshan government and use its own funds to construct and manage the infrastructure, public facilities, water supply projects and others according to Jiangshan's city infrastructure construction plan. The settlement will be based on the total cost plus a

markup and confirmed by the Jiangshan government annually. The income derived from this segment was RMB108 million, RMB115 million and RMB119 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment stayed the same (16.7%) over the same period.

Land Development

The land development business is mainly operated in Jiangshan EDZ and enjoys a strong regional franchise advantage. Authorized and entrusted by the Jiangshan EDZ Management Committee, the company and its subsidiaries mainly engage in the land collection, demolition, and land levelling business for the land listed on the Jiangshan EDZ land development plan. The income derived from this segment was RMB243 million, RMB256 million and RMB263 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment stayed the same (16.7%) over the same period.

Housing Leasing and Management

The housing leasing and management business is undertaken by the company itself and the subsidiary Jiangshan City Shanghai Construction and Investment Co., Ltd. ("JCSCI"). The company and JCSCI build or purchase public housing, dormitories, parks and factories and lease them to the enterprises and employees in the Jiangshan EDZ for rent income depending on their demand. Also, the company offers property management services and charges management fees annually. The income derived from this segment was RMB13 million, RMB18 million and RMB24 million in 2020, 2021 and 2022, respectively. The gross profit margin of this segment was relatively high, varying between 31.6% and 71.4% over the same period.

Properties Sales

The properties sales business is operated by the company's subsidiary JCSCI. JCSCI purchases assets of some enterprises with low efficiency and productivity and then consolidates and sells them for revenue. The income derived from this segment was RMB3 million, RMB35 million, and RMB144 million in 2020, 2021 and 2022, respectively.

Other Businesses

Except for the businesses mentioned above, the company also engages in other businesses to supplement its operating revenue, such as building materials sales, oil sales, sewage treatment and other businesses. Among them, building materials sales business was managed by the subsidiary Jiangshan City Lianhua Mountain Investment and Development Co., Ltd. and achieved an income of RMB307 million in 2022, making a good supplement to the company's total revenue.

Financial Profile

Balance Sheet Structure and Quality

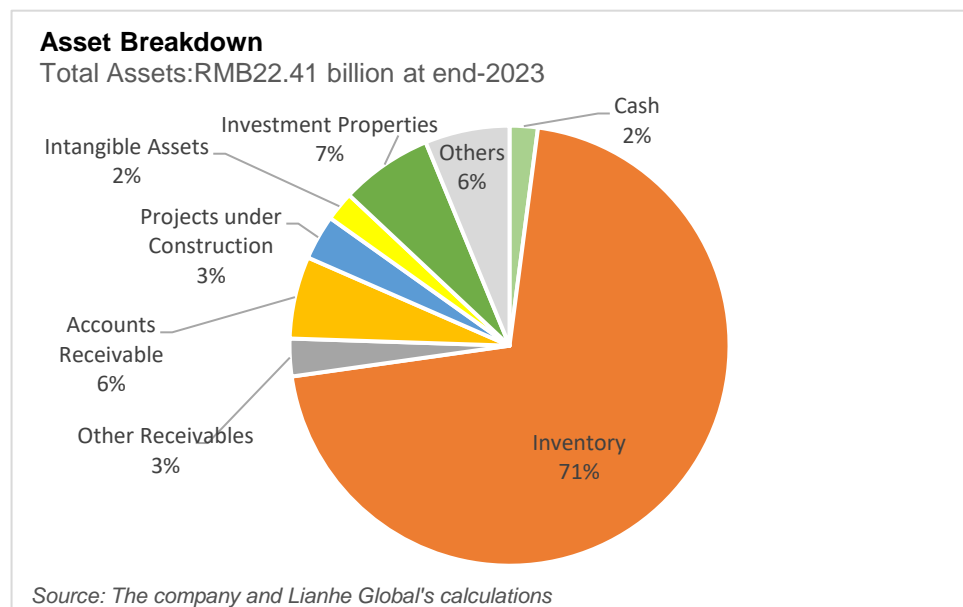
Balance Sheet Structure and Quality			
(RMB million)	2021	2022	2023
Total Asset	8,776	13,114	22,414
Equity	6,689	6,670	8,810
Debt	1,291	4,568	11,340

Debt / (Debt + Equity) (%)	16.2	40.6	56.3
LT Debts	987	3,907	9,886
LT Debt / (LT Debt + Equity) (%)	12.9	36.9	52.9

Source: Company information and Lianhe Global's calculations

JEDZCI's total asset surged to RMB 22.4 billion at end-2023 from RMB8.8 billion at end-2021, as the company actively participated in the industrial parks' investment and external financing activities. Its total debt reached RMB11.3 billion at end-2023, more than ninefold compared with RMB1.3 billion recorded at end-2021. At end-2023, the short-term debt and long-term debt accounted for 12.8% and 87.2% of the total debt, respectively. The company's financial leverage, as measured by total liability/total asset, increased to 60.7% at end-2023 from 23.8% at end-2021, mainly due to the increasing reliance on bank borrowing and other external funding.

JEDZCI's asset liquidity was moderately weak, as the company had a large size of inventory (mainly construction cost, land to be developed and land development cost), which accounted for 70.7% of the total assets at end-2023. Moreover, the company had a large amount of investment properties, projects under construction and intangible assets that may take a relatively long time to monetize.



Debt Servicing Capability

JEDZC's liquidity was tight. At end-2023, JEDZC had a cash balance of RMB464.7 million, compared with its debt due within one year of RMB1.5 billion. Having said that, JEDZC 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. The company had an unused bank facility of RMB6.1 billion. JEDZC also has other financing channels, such as non-traditional financing and bond issuance, to support its debt repayment and business operations.



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