

Zhangzhou Jiulongjiang Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 August 2024

Key Figures of Zhangzhou and Jiulongjiang Group (RMB billion)

	2022	2023
Zhangzhou		
GDP	570.7	572.8
GDP growth rate (%)	6.9	5.9
Budgetary revenue	25.1	27.9
Government fund	22.7	17.0
Transfer payment	23.0	5.8
Budgetary expenditure	49.9	49.9
Jiulongjiang Group	2023	2024.3
Assets	124.6	131.6
Equity	43.1	43.2
Revenue	70.4	15.2

Source: Public information, Jiulongjiang Group and Lianhe Global's calculations

Lianhe Ratings Global Limited ("Lianhe Global") has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Zhangzhou Jiulongjiang Group Co., Ltd. ("Jiulongjiang Group" or "the company") to 'A-' from 'BBB+'; Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects the company's increasing strategic importance in Zhangzhou, as the company is deepening its roles in the regional industry development under the guidance of the Zhangzhou Municipal People's Government ("Zhangzhou government"). The company is well-positioned to enhance its involvement in various aspects of regional industrial growth, including petrochemical industry, port logistics, utility sales and other related sectors. Besides, it is aligned with the development plans of the Zhangzhou government and strengthened Jiulongjiang Group's role as the major entity responsible for regional industrial development in Zhangzhou.

We believe this continues to present a high possibility that the Zhangzhou government would provide very strong support to Jiulongjiang Group if needed, in light of its 90% ownership of Jiulongjiang Group, Jiulongjiang Group's strategic position as an important state-owned asset management and operation entity of Zhangzhou and the strong linkage between the Zhangzhou government and Jiulongjiang Group, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Zhangzhou government may face significant negative impact on its reputation, business and financing activities should Jiulongjiang Group encounter any operational or financial difficulties.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured CNY bonds issued by Jiulongjiang Group to 'A-' from 'BBB+' at the same time. A full list of upgraded issuance rating is included in this report.

The Stable Outlook reflects our expectation that Jiulongjiang Group's strategic importance would remain intact while the Zhangzhou government will continue to ensure Jiulongjiang Group's stable operation.

Rating Rationale

Government's Ownership and Supervision: The Zhangzhou government has 90% ownership of Jiulongjiang Group via the State-owned Assets Supervision and Administration Commission of the Zhangzhou government ("Zhangzhou SASAC"). The other 10% stake is held by Fujian Provincial Department of Finance. The Zhangzhou government also has strong control and supervision over Jiulongjiang Group, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

Strategic Importance and Strategic Alignment: Jiulongjiang Group remain as the largest local investment and development company ("LIDC") in Zhangzhou. It is the major state-owned capital investment and operation entity that mainly responsible for industrial projects investment and infrastructure construction in Gulei Port Economic Development Zone ("Gulei Port EDZ") and Yuanshan High-Tech Zone, to support the local economic and industrial development. The

Analysts

Jack Li, CESGA
 +852 3462 9585
jack.li@lhratingsglobal.com

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

Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

company is well-positioned to enhance its involvement in various aspects of regional industrial growth, including petrochemical industry, port logistics, utility sales and other related sectors. The company's business operation and development have been aligned with the government's economic and social policies. In the future planning of the Zhangzhou government, Jiulongjiang Group will continue to be in charge of state-owned capital investment and operation to support the local economy.

Ongoing Government Support: Jiulongjiang Group has received supports from the Zhangzhou government for its business operation, mainly including capital injections, government subsidies, financial support, and it also benefits from preferential tax and/or tax exemption policies in encouraged high-tech industries. Jiulongjiang Group has received solid and stable financial subsidies from the local government with a total amount of RMB1.2 billion from 2021 to the first three months of 2024, including project-related subsidies in Gulei Port EDZ and interest subsidies from the municipal financial pooling fund. We believe Jiulongjiang Group will likely receive government support in the form of operational and/or financial subsidies in the future.

Jiulongjiang Group's Financial and Liquidity Position: Jiulongjiang Group's total assets showed a continuous growth trend in the past few years, with a 5.3% year-over-year in 2023 and 5.7% at end-March 2024 compared to end-2023, respectively. Jiulongjiang Group's financial leverage (total liabilities to assets) and total debt capitalization were 67.2% and 60.7% at end-March 2024, respectively, representing a stable trend. Jiulongjiang Group mainly relies on external financing for capital expenditure. The total adjusted debt of Jiulongjiang Group decreased by 8.5% at end-March 2024 from end-2022, of which the short-term and long-term debt accounted for 36.2% and 63.8% of its total debt, respectively. The liquidity of Jiulongjiang Group was sufficient. At end-March 2024, Jiulongjiang Group had a total unrestricted cash balance of RMB12.5 billion and a total credit line of RMB80.2 billion (unused: RMB45.4 billion), compared with its debt to be due within one year of RMB24.1 billion. Besides, Jiulongjiang Group has access to multiple financing channels including bank borrowings, corporate bonds and other financing channels such as finance lease.

Zhangzhou's Economy and Fiscal Condition: Zhangzhou's GDP reached RMB572.8 billion in 2023, representing a year-on-year growth rate of 5.9%, which was ranked 4th out of all cities in Fujian Province in terms of GDP in 2023. Zhangzhou government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Zhangzhou government increased to RMB27.9 billion and represented a growth rate of 11.5% in 2023, with the contribution of tax revenue to the budgetary revenue elevating to 59.8% in 2023 from 51.8% in 2022. The financial self-sufficiency rate of Zhangzhou remained low and recorded a budget deficit of 86.8% in 2023. The outstanding debt of the Zhangzhou government continued to grow in 2023, which was mainly due to the rise in special purpose debt. The outstanding debt was RMB142.8 billion in 2023, including RMB49.6 billion of general obligations and RMB93.2 billion of special purpose debt. The debt ratio (total outstanding debt/aggregate fiscal revenue) surged to 269.5% in 2023 from 161.2% in 2022.

Rating Sensitivities

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

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



Any rating action on Jiulongjiang Group's rating would result in a similar rating action on its CNY bonds.

Company Profile

Jiulongjiang Group was established in December 1992 with an initial registered capital of RMB47.25 million under the approval of the Zhangzhou government. After several capital injections and equity transfers, the registered capital and paid in capital of Jiulongjiang Group both became RMB4.0 billion at end-March 2024. The Zhangzhou government, as the actual controller of the company, has 90% ownership of Jiulongjiang Group via the Zhangzhou SASAC. The remaining 10% stake is held by Fujian Provincial Department of Finance.

Jiulongjiang Group is a diversified state-owned entity that primarily engages in pharmaceutical manufacturing, machinery manufacturing, trading and investment in Zhangzhou. It also engages in property development, industrial park construction, power distribution, and other businesses to a lesser degree to facilitates the economic development in Zhangzhou.

Full List of Issuance Ratings

A full list of issuance ratings is included below. Any rating action on Jiulongjiang Group's rating would result in a similar rating action on its CNY bonds:

- CNY1.37 billion 4.28% senior unsecured bonds due 2026 upgraded to 'A-' from 'BBB+'
- CNY2.13 billion 4.20% senior unsecured bonds due 2026 upgraded to 'A-' from 'BBB+'

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 which 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 a credit committee vesting process. 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 circumstances 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 fees 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 entities nor its related parties 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 part, 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.