

Credit Opinion

28 December 2022

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Chongqing Jinyun Asset Management (Group) Co Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Chongqing Jinyun Asset Management (Group) Co Ltd, with stable outlook.

Summary

The BBB_g long-term credit rating of Chongqing Jinyun Asset Management (Group) Co Ltd. (“CJAM” or the “Company”) reflects Chongqing Beibei District Government’s strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of the Beibei District Government’s capacity to provide support reflects Beibei District’s status as one of the nine main districts in the central area of Chongqing City and is an important part of Liangjiang New Area, with good industrial foundation and economic strength.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the largest state-owned enterprise with the strongest comprehensive strength in Beibei District; (2) solid track record of receiving government payments; and (3) good access to funding.

However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; and (2) moderate debt growth and assets liquidity.

The stable outlook on CJAM’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its key role as an important infrastructure construction and state-owned assets operating entity in Beibei District.

Rating Drivers

- Important role as the largest state-owned enterprise with the strongest comprehensive strength in Beibei District
- Focus on land consolidation and infrastructure construction in Beibei District
- Solid track record of receiving government payments
- Low but increasing exposure to commercial activities
- Moderate debt growth and asset liquidity
- Good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved debt management and asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or increased exposure to commercial activities.

Key Indicators

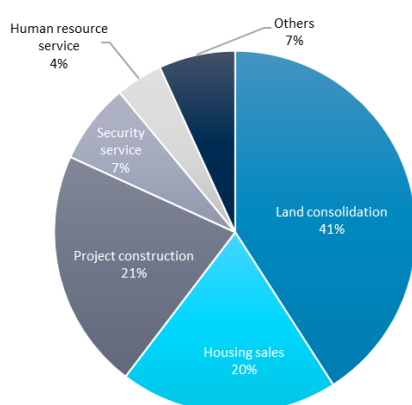
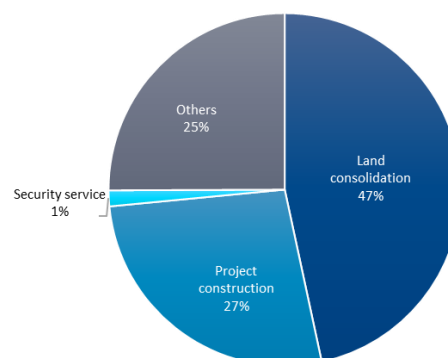
	2019FY	2020FY	2021FY	2022H1
Total Asset (RMB billion)	70.8	75.0	78.3	80.2
Total Equity (RMB billion)	29.7	30.5	30.7	30.6
Total Revenue (RMB billion)	20.3	20.6	21.1	0.2
Total Debt/Total Capital (%)	45.2	46.3	50.0	50.5

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 2003, CJAM is the most important local infrastructure investment and financing company ("LIIFC") in Beibei District. It is also the largest LIIFC by asset size and the dominant platform engaged in infrastructure construction, land consolidation, construction of resettlement housing and state-owned assets operation in Beibei District. The Company also undertakes diversified commercial activities such as security service, human resources service, engineering inspection and road maintenance. As of 30 June 2022, the State-owned Assets Supervision and Administration Commission of Beibei District ("Beibei SASAC") is the sole shareholder and ultimate controller of the Company.

Exhibit 1. Revenue Structure in 2021**Exhibit 2. Gross Profit Structure in 2021**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Beibei District Government has a strong capacity to provide support to the Company, given its good industrial foundation and economic strength.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing City. Thanks to the vigorous development of the industrial sector, Chongqing City's economy has demonstrated steady growth. In 2021, Chongqing City recorded a gross regional product ("GRP") of RMB2.8 trillion, with a GRP growth rate of 8.3% year on year ("YoY"), ranking 5th among municipalities and cities in China. Due to good tax support and the easing of the pandemic, the general public budget revenue of Chongqing City has returned to pre-pandemic levels, recording RMB228.5 billion in 2021, an increase of 9.1% YoY. The debt balance of Chongqing City was RMB861 billion in 2021, accounting for 30.9% of GRP. In the first half of 2022, Chongqing's GRP was RMB1.4 trillion, with a GRP growth rate of 4.0% YoY, which was higher than the national GRP growth rate. We expect Chongqing City to continue to serve as an important strategic city for the development of Western China, the connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and to play a unique and important role in the country's regional development and opening-up policy.

Exhibit 3. Key Economic and Fiscal Indicators of Chongqing City

	2019FY	2020FY	2021FY
GRP (RMB billion)	2,360.6	2,500.3	2,789.4
GRP Growth (%)	6.3	3.9	8.3
General Budgetary Revenue (RMB billion)	213.5	209.5	228.5
General Budgetary Expenditure (RMB billion)	484.8	489.4	483.5
Local Government Debt (RMB billion)	560.4	679.9	861.0

Source: CCXAP research

Beibei District is located in the northwest of central Chongqing City, at the intercept area of Western Chongqing Science City and Northern Smart City. It is one of the nine main districts of the central city area in Chongqing City and is an important part of Liangjiang New Area. Approved by the State Council in 2010, Liangjiang New

Area is China's first inland national-level new area. Liangjiang New Area has formed two pillar industries of automobile and electronic information and several emerging industrial clusters focusing on equipment manufacturing and biomedicine. As of end-2021, Liangjiang New Area is home to more than 40 research institutes, more than 600 high-tech enterprises, more than 3,000 technology-based firms and more than 6,000 digital economy corporations. Relying on the six pillar industries of electronic information, motorcycle, equipment manufacturing, materials, instrumentation and medicine, Beibei District has continued to grow and develop in recent years. In 2021, the GRP of Beibei District increased by 8.9% YoY to RMB71.8 billion. The general budgetary revenue of Beibei District increased by 4.7% to RMB4.2 billion (including RMB2.9 billion from Beibei District's and RMB1.3 billion from Liangjiang New Area) in 2021, of which tax revenue accounted for 82.2%. Its fiscal balance ratio was 45.9% in 2021, which was at a moderate level. The debt burden of Beibei District Government was also manageable, with an outstanding debt of RMB13.9 billion, accounting for 19.4% of the Beibei District's GRP. In the first half of 2022, Beibei District recorded a GRP of RMB35.3 billion, an increase of 4.4% YoY.

Exhibit 4. Key Economic and Fiscal Indicators of Beibei District

	2019FY	2020FY	2021FY
GRP (RMB billion)	59.9	63.6	71.8
GRP Growth (%)	6.0	3.8	8.9
General Budgetary Revenue (RMB billion)	3.1	2.8	2.9
General Budgetary Expenditure (RMB billion)	6.7	7.0	6.2
Local Government Debt (RMB billion)	9.5	12.7	13.9

Source: CCXAP research

Government's Willingness to Provide Support

Important role as the largest state-owned enterprise with the strongest comprehensive strength in Beibei District

CJAM is the largest LIIFC by total assets and the most important infrastructure construction and state-owned assets operation entity in Beibei district. In addition, the Company has the largest business scope and strongest comprehensive strength in Beibei District as most of the major LIIFCs in Beibei District being its subsidiaries, such as Chongqing Beibei District Xincheng Construction Co., Ltd. ("BDXC") and Chongqing Caijia Zutuan Construction and Development Co Ltd. ("CZCD"). It also has an absolute advantage in urban development and related businesses in Beibei District. The Company is also mandated by the local government to undertake local public activities, such as local infrastructure construction and resettlement housing construction, as well as land consolidation. Considering the Company's high strategic significance to the development of Beibei District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Focus on land consolidation and infrastructure construction in Beibei District

CJAM focuses on the development of land consolidation businesses in Beibei District. The Company's two core subsidiaries, BDXC and CZCD, are mainly responsible for land consolidation projects. Since 2020, the Company has signed the Land Development Entrusting Agreement with the Land Remediation Reserve Center of Beibei District, and payment will be made after the completion of the project. The payment is based on the actual cost plus a markup in return, generally 15%-30%. In 2021, the Company had completed land consolidation with an area of 1,470.00 mu with a total investment of RMB1.3 billion. The Company owns a large area of unconsolidated land, indicating strong sustainability in its land consolidation business. As of 30 June 2022, the Company had a total area of land parcels of 67.3 square kilometers under consolidation or planning.

These projects are mainly located in industrial park areas, such as Tongxing Industrial Park, New City Area, Jinyun Humanities Science and Technology City.

The Company's infrastructure construction projects are mainly undertaken by its subsidiaries, CZCD, BDXC and Chongqing Beibei Traffic Construction Development Co., Ltd. ("TCDC"). CZCD and BDXC are responsible for the construction of infrastructure projects in their respective land consolidation areas. In 2019, with the inclusion of TCDC in the Company's consolidation scope, the business scope was further expanded to include urban and rural arterial roads in Beibei District. The Company had successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, schools, parks, and affordable housing. Each subsidiary signed an agency construction agreement separately with the entrusting party, who would repurchase the construction upon completion. The repurchase payments were calculated based on the construction cost plus an agreed rate of return, which was generally 5%-23%. As of 30 June 2022, the Company had 20 infrastructure construction projects under construction or planning, with a total investment of RMB6.8 billion and an outstanding amount of RMB4.2 billion. Considering the large outstanding investment amount of the infrastructure construction business, the Company may face greater pressure on capital expenditures pressure in the future.

In addition, CJAM is entrusted by the local government to undertake the construction and sales of resettlement housing through BDXC and CZCD. BDXC mainly develops resettlement housing projects through the agency construction model, while CZCD mainly develops the projects through a market-oriented sales model. Under the agency construction model, the Company signs an agency construction agreement with the entrusting party, who will repurchase the construction upon completion. The repurchase payments are based on the construction cost plus an agreed rate of return, generally 10%-20%. As of 30 June 2022, CJAM had 8 resettlement housing construction projects under the agency construction model under construction or planning, with a total investment of RMB3.6 billion and an outstanding amount of RMB3.3 billion.

Overall, the Company has a large development scope in Beibei District and a strong capability for business sustainability. However, the continuous investment in infrastructure projects, land consolidation and resettlement housing projects will increase the pressure on the Company's capital expenditures.

Low but increasing exposure to commercial activities

In addition to public activities, CJAM is also involved in various commercial activities such as security services, human resources services, engineering inspections and road maintenance. We consider CJAM's commercial business exposure to be low, as its market-driven businesses account for less than 15% of its total assets.

Some of the Company's resettlement housing construction projects are conducted via a market-oriented sales model. Under this model, the resettlement houses are sold to resettled households at prices stipulated by the government. As of 30 June 2022, the Company had completed 2 resettlement housing projects under the market-oriented sales model, achieving sales revenue of RMB610.0 million. However, these resettlement housing projects are subject to price-limited sales and targeted resettlement, and their profitability is relatively low.

Other commercial activities such as security services, human resources services, engineering inspections and road maintenance bring additional income to the Company. The Company provides security services to local enterprises such as banks, schools, as well as the local community. As a major state-owned local enterprise, CJAM's human resources services and road maintenance services are mainly for the local public institutions and local state-owned enterprises. In addition, the Company also provides tunnel and bridge inspection,

engineering quality inspection and road-testing inspection services for local engineering companies. The Company is also responsible for the management of state-owned assets in Beibei District, including cinemas, water plants and commercial properties. Although these asset operations have brought stable income to the Company, the small operating scales limit their contributions to the Company's overall revenue.

Moreover, the Company planned to construct self-operated projects, such as logistic parks, parking lots and property development projects. Given the Company's plan to develop its market-driven businesses, we believe the Company will expand the scale of its commercial activities in the future. We believe that the large investment in the construction of these self-operated projects will cause certain investment pressure and operating risks to the Company.

Solid track record of receiving government payments

As the largest state-owned enterprise controlled by the Beibei SASAC, CJAM has a solid track record of receiving payments from the Beibei District government. These payments take various forms, such as government subsidies, capital injections and equity transfers. The Company also regularly receives repurchase payments for its infrastructure construction projects, resettlement housing projects under the agency construction model and land consolidation projects. The Company has relatively good repurchase payment collection. Its receivables/total asset ratio decreased from 8.2% in 2019 to 4.2% as of 30 June 2022. Moreover, Beibei SASAC transferred 9 state-owned enterprises to the Company in 2021, increasing the Company's capital reserve by RMB737.0 million. Given CJAM's important strategic role, we expect the Company will continue to receive support from the Beibei District Government in the future.

Exhibit 5. Government Support from 2019 to 2021

(RMB million)	2019FY	2020FY	2021FY
Government Subsidies	164	139	221
Capital Injections	-	-	124
Equity Transfer	-	-	737
Repurchase Payments			
-Land Consolidation	928	916	862
-Infrastructure Construction	495	552	452
-Resettlement Housing	379	312	410
Total	1,966	1,919	2,806

Source: CCXAP research

Moderate debt growth and asset liquidity

The Company's total debt had increased from RMB24.6 billion at end-2019 to RMB31.2 billion at mid-2022. The increase in debt was mainly attributable to the expansion of construction of infrastructure projects and resettlement housing projects. As of 30 June 2022, the Company had 29 projects under construction or planning. These projects were mainly self-funded by the Company, with an expected investment of RMB10.8 billion and an outstanding amount of RMB7.7 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

Exhibit 6. Projects under Construction or Planning as of 30 June 2022

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Infrastructure Construction	12	4,046	2,565	1,481
Resettlement Housing	7	2,353	520	1,833
Projects Under Planning				
Infrastructure Construction	8	2,726	-	2,726
Resettlement Housing	2	1,663	-	1,663
Total	29	10,788	3,085	7,703

Source: CCXAP research

Furthermore, CJAM has moderate asset liquidity. The Company's total asset mainly consists of inventories and construction in progress, which accounted for 80.2% of its total asset as of 30 June 2022. Inventories were mainly investment costs for infrastructure construction and land consolidation projects, while construction in progress was mainly uncompleted infrastructure construction and land consolidation projects, all of which are considered low liquidity.

Good access to funding

CJAM has good access to the onshore debt capital market and maintains good relationships with large domestic banks. In fact, around 54.4% of the Company's debt financing was provided by domestic banks. As of the end of June 2022, it held a total credit facility of RMB34.0 billion and available credit facilities of RMB9.8 billion. The onshore debt capital market provides around 40.7% of the Company's debt financing. Finally, the Company had a low reliance on non-standard financing, including financial leasing, which accounted for about 5% of its total debt.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CJAM assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CJAM is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Beibei District. Demographic changes, public awareness and social priorities shape the government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CJAM believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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