

## Credit Opinion

12 May 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

### Analyst Contacts

Kelly Liang +852-2860 7127  
Credit Analyst  
[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Christy Liu +852-2860 7130  
Credit Analyst  
[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Elle Hu +852-2860 7120  
Executive Director of Credit Ratings  
[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Jiangsu Haisheng Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first time long-term credit rating of BBB<sub>g</sub> to Jiangsu Haisheng Holding Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Jiangsu Haisheng Holding Group Co., Ltd (“JHHG” or the “Company”) reflects (1) Haimen District Government’s strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Haimen District Government’s capacity to provide support reflects Haimen District’s status as the third largest district by gross regional product (“GRP”) in Nantong City for years. It has good economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the core entity of transportation projects in Haimen District; (2) track record of receiving government payments; and (3) good access to diversified funding.

However, the Company’s rating is constrained by its (1) medium exposure to commercial activities; (2) high debt leverage with an increasing short-term debt burden; and (3) high level of external guarantees.

The stable outlook on JHHG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its position as the key entity in transportation infrastructure construction in Haimen District over the next 12-18 months.

## Rating Drivers

- Essential role in transportation infrastructure construction in Haimen District
- Track record of receiving government payments
- Good access to diversified funding
- Medium exposure to commercial activities
- High debt leverage with an increasing short-term debt burden
- High level of external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Haimen District Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management or material reduction in the exposure to external guarantees.

### What could downgrade the rating?

The rating could be downgraded if (1) Haimen District Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional importance or higher exposure to risky commercial activities.

## Key Indicators

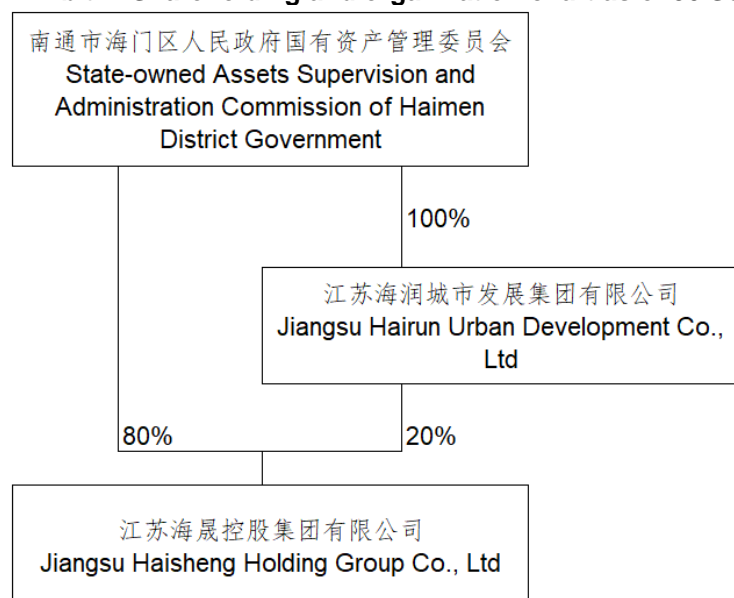
	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	34.8	38.9	44.1	42.8
Total Equity (RMB billion)	14.8	14.9	16.2	16.5
Total Revenue (RMB billion)	3.3	3.8	3.9	2.7
Total Debt/Total Capital (%)	54.6	60.5	62.4	60.8

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

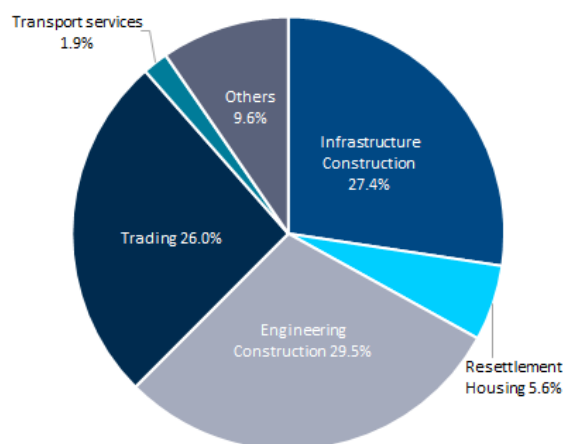
Source: CCXAP research

## Corporate Profile

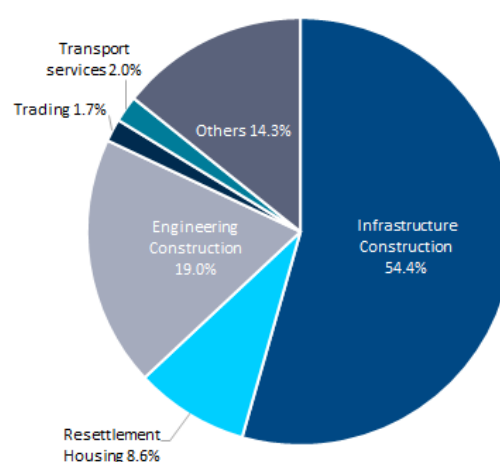
Founded in 2003, JHHG is one of the key local infrastructure investment and financing companies ("LIIFCs") in Haimen District and has a dominant position in transportation infrastructure construction in Haimen District and the infrastructure construction in Haimen Port New Area. In addition, the Company has diversified commercial activities such as engineering construction, trading, station leasing, and travel service business. As of 30 September 2022, the Company was controlled by the State-owned Assets Supervision and Administration Commission of Haimen District Government ("Haimen SASAC"), which directly held 80% of the Company's share and indirectly held 20% of the share through Jiangsu Hairun Urban Development Group Co., Ltd ("JHUD").

**Exhibit 1. Shareholding and organization chart as of 30 September 2022**

Source: Company information, CCXAP research

**Exhibit 2. Revenue Structure in 2021**

Source: Company information, CCXAP research

**Exhibit 3. Gross Profit Structure in 2021****Rating Considerations****Government's Capacity to Provide Support**

We believe that the Haimen District Government has a strong capacity to provide support for the Company, given Haimen District's status as the third largest district by GRP in Nantong City for years. Haimen District also achieved the highest GRP growth rate among all the districts and counties in Nantong City in 2022.

Nantong City is a prefecture-level city administrated under Jiangsu Province and is located in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north bank of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. Nantong's GRP reached over RMB1.1 trillion in

2022, a year-on-year (“YoY”) increase of 2.1%, ranking fourth in Jiangsu Province. Affected by the government policy of tax rebates to promote the development of the local economy, in 2022, Nantong City reported that the general budgetary revenue and tax revenue decreased to RMB61.3 billion and RMB41.2 billion, respectively. Fiscal stability remained at a moderate level of 67.3% in 2022. Due to the recent fluctuations in the real estate market, Nantong City’s government fund revenue decreased to RMB113.0 billion in 2022 from RMB144.2 billion in 2021, which may affect the local government’s fiscal stability as government funds accounted for most of its fiscal revenue and came from land sales. The high linkage between the government’s fiscal revenue and the property market would increase fiscal pressure on the government when the property market underperforms.

#### Exhibit 4. Key Economic and Fiscal Indicators of Nantong City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,003.6	1,102.7	1,138.0
GRP Growth (%)	4.7	8.9	2.1
General Budgetary Revenue (RMB billion)	63.9	71.0	61.3
General Budgetary Expenditure (RMB billion)	108.1	112.2	114.7
Local Government Debt (RMB billion)	168.4	186.3	197.9

Source: Statistics Bureau of Nantong City, CCXAP research

Haimen District is a district under the jurisdiction of Nantong City, located in the southeast of Jiangsu Province. The total area of the Haimen District is 1,148.8 square kilometers. Haimen District has developed core industries, including construction, home textile, intelligent equipment manufacturing, agriculture, and real estate. Haimen District's GRP reached over RMB163.5 billion in 2022, a YoY increase of 3.1%, ranking third in Nantong City. Despite the impact of the COVID-19 pandemic, Haimen District was still able to maintain economic growth rates of 9.4% and 3.1%, respectively, in 2021 and 2022, which were above the national average growth rate, ranking first in Nantong City. In 2022, Haimen District Government reported a general public budgetary revenue of RMB5.6 billion, of which tax revenue, a relatively stable source, represented 59.0%. After removing the impact of tax rebates, Haimen District’s general public budgetary revenue would be RMB8.6 billion, a YoY increase of 5.0%. However, Haimen District Government’s fiscal balance rate remained relatively weak, recorded at 47.7% in 2022. As of end-2022, Haimen District Government’s outstanding debt amounted to RMB15.6 billion, accounting for about 9.5% of GRP.

#### Exhibit 5. Key Economic and Fiscal Indicators of Haimen District

	2020FY	2021FY	2022FY
GRP (RMB billion)	144.3	156.9	163.5
GRP Growth (%)	5.5	9.4	3.1
General Budgetary Revenue (RMB billion)	7.4	7.9	5.6
General Budgetary Expenditure (RMB billion)	13.3	13.4	11.8
Local Government Debt (RMB billion)	15.1	15.3	15.6

Source: Statistics Bureau of Haimen District, CCXAP research

### Government’s Willingness to Provide Support Clear and strong strategic position in Haimen District

Haimen District Government consolidated its state-owned assets in 2017 and formed three major LIIFCs, namely, JHUD, Jiangsu Haihong Investment Holding Group Co., Ltd (“JHIH”), and JHHG. JHUD is positioned as a comprehensive operation service provider of urban infrastructure and public utilities in Haimen District. JHIH is the core entity of affordable housing construction in Haimen District. JHHG is mainly responsible for

investment, financing, construction, and management of the transportation infrastructure projects in Haimen District and undertakes infrastructure and resettlement housing projects in Haimen Port New Area. Located in the northeast of Haimen District, Haimen Port New Area is positioned as an important economic growth pole for Haimen District, focusing on the integrated development of the port industry and the city. JHHG has a clear functional positioning among the state-owned enterprises in Haimen District and the local government has injected assets related to transportation into the Company, such as parking lots, commercial vehicles, and port-related resources. We believe that the strategic role of JHHG in Haimen District's economic development and public welfare is irreplaceable in the short-to-medium time period.

### **Essential role in transportation infrastructure construction in Haimen District**

JHHG plays an essential role in the development of the local transportation system and has undertaken a lot of transportation infrastructure construction projects in Haimen District, and infrastructure construction projects in Haimen Port New Area. Haimen Port New Area is positioned as a modern harbor new city on the back of its port resources, according to the government's planning.

JHHG itself and its subsidiary, Jiangsu Nantong Haimen Construction Engineering Group Co., Ltd., are responsible for transportation infrastructure construction in Haimen District under agency construction mode. After the project is completed, they will receive payments year by year based on the actual cost plus a markup in return, generally 15%. They have undertaken a number of transportation infrastructure construction projects over the past years in Haimen District, mainly in road construction and renovation. As of 30 September 2022, they have several projects under construction and planning with a total planned investment of RMB1.9 billion and RMB318 million, respectively, such as the Gangxi Road Project and Revetment of Tonglu Canal Project.

Jiangsu Haiyi Holding Group Co., Ltd. ("Haiyi Holding"), the subsidiary of JHHG, is responsible for infrastructure construction and resettlement housing in Haimen Port New Area in accordance with the Management Committee of Haimen Port New Area. As of 30 September 2022, Haiyi Holding has invested RMB4.5 billion in infrastructure construction projects under construction, such as Zhongtian Green Fine Steel Industry Project. Haiyi Holding has also undertaken a number of resettlement housing projects over the past years. As of 30 September 2022, the Company has completed 10 resettlement housing construction projects, with a total investment of RMB 2.3 billion. At the same time, it also had a resettlement housing project under construction with a total investment of RMB1.0 billion and an outstanding amount of RMB722 million. Haiyi Holding is responsible for raising initial funds for resettlement housing projects and selling houses at prices under the guidance of the government. It is allowed to sell surplus houses at market prices to gain profit for fund balance after the completion of resettlement.

Holding rich engineering qualifications, JHHG undertakes various engineering and construction works which are mainly road and bridge construction, and landscaping. The Company acquires engineering projects by participating in open market tenders and receives full payments after the acceptance is completed. Customers are mainly state-owned enterprises in Haimen District and Nantong District. The Company has good project reserves to ensure sustainable development of the engineering construction business. As of 30 September 2022, the contract value of its engineering construction in hand was RMB976 million.

### **Medium exposure to commercial activities**

Apart from infrastructure construction, JHHG engaged in diversified commercial activities including engineering construction, trading business, and transport station leasing. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction

businesses. The Company's exposure to commercial businesses is considered medium, which accounted for 15%-20% of its total assets, based on our assessment.

JHHG develops a transportation-relevant business sector mainly including logistics terminals leasing and transport services. Logistic terminal leasing provides additional recurring income from its high-quality leasing assets. For example, Dieshiqiao Logistics Park is one of the key logistics bases in Jiangsu Province and one of the National 4A Logistics Enterprises. There were more than 20 logistics companies and units moved into the Dieshiqiao Logistics Park as of end-2021. The Company also provides transport services with its team of drivers and cars. The Company's income from this sector increased from RMB46.5 million in 2020 to RMB75.3 million in 2021. We expect the Company will generate a relatively stable operating cash flow from this segment.

JHHG's trading business contributed a considerable amount of income to the Company but earned a relatively small profit. It mainly includes steel, concrete, ethylene glycol, p-xylene, and new energy vehicles. The trading business adopts a back-to-back model, and the Company makes the confirmation on volume and prices with downstream customers before organizing procurement from upstream suppliers. The Company earns the rebate difference between upstream suppliers and downstream customers. Its trading business occupied some capital because of a trading cycle of around 60 to 90 days. Moreover, the customer concentration risks were high as the sales from the top 5 customers accounted for around 69.7% of its total sales in 2021.

#### High debt leverage with an increasing short-term debt burden

JHHG reported fast debt growth owing to its infrastructure construction over the past few years. As of 30 September 2022, the Company's total debt increased to RMB25.6 billion from RMB17.8 billion at end-2019, and its capitalization ratio, as measured by total debt to total capital, was reported at 60.8%. At the same time, the Company had a high short-term debt burden with the short-term debt accounting for 47.6% of the total debt. In addition, the cash to short-term debt ratio decreased to 0.3x from 0.6x in 2019. Considering delayed payments from the local government and its ongoing investment, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

#### Exhibit 6. Key projects under construction and planning as of 30 September 2022

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<b>Project under construction</b>				
Infrastructure construction	14	6.4	6.0	0.4
Resettlement housing	1	1.0	0.3	0.7
<b>Project under planning</b>				
Infrastructure construction	3	0.3	-	0.3
<b>Total</b>	<b>18</b>	<b>7.7</b>	<b>6.3</b>	<b>1.4</b>

Source: Company information, CCXAP Research

#### Good access to diversified funding

JHHG's good refinancing ability could partially release the pressure on debt repayment and capital expenditure. It has maintained a good relationship with policy banks, joint-stock commercial banks, and large state-owned commercial banks. As of 30 September 2022, the Company had unutilized credit facilities of RMB5.2 billion, which were provided by various banks. The Company also has a good track record of fund-raising activities in the capital market which is an important financing channel for the Company. In 2022, the Company issued 2

tranches of onshore bonds to raise RMB1.3 billion. As of 30 September 2022, bond borrowing accounted for around 38.7% of the total debt. At the same time, the Company had manageable exposure to non-standard financing of less than 10% of the total debt.

### **Track record of receiving government payments**

JHHG serves as an important entity in the transportation area for the local government and has a high linkage with the local government. The Company has a track record of receiving ongoing support from the Haimen District Government and Management Committee of Haimen Port New Area, including capital injections, project payments, and operating subsidies. The local government injected capital of RMB1.5 billion and RMB600 million in cash into the Company in 2019 and 2021 respectively, which substantially enhanced the capital strength of the Company. Moreover, the Company received assets of stormwater plumbing equipment in 2021, with a total value of RMB250 million. Apart from that, the Company has continuously received stable operating subsidies including subsidies for public activities and infrastructure construction over the past few years. We expect JHHG to receive ongoing government support from the government given its strong position in transportation infrastructure construction.

### **High level of external guarantees**

The credit profile of JHHG is constrained by its large number of external guarantees, which could potentially increase its repayment obligations. As of 30 September 2022, the Company had outstanding external guarantees of RMB12.2 billion, accounting for 74.0% of its net assets. The guarantees are provided to other state-owned enterprises within Haimen District, which expose the Company to substantial contingent liabilities. If a credit event occurs in the Haimen District, it may lead to large-scale cross-default. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering that these local state-owned enterprises will receive support from the local government in a timely manner given their important position in respective regions.

## **ESG Considerations**

JHHG faces environmental risks because it has undertaken infrastructure construction and resettlement housing projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

JHHG bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Haimen District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the company.

JHHG's governance considerations are also material as the Company is subject to oversight by the Haimen District Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

### **Structural Consideration**

JHHG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in transportation infrastructure construction in Haimen District, thereby mitigating any differences in an expected loss that could result from structural subordination.

## Appendix

### Exhibit 7. Peer Comparison

	Jiangsu Haisheng Holding Group Co., Ltd.	Jiangsu Haihong Investment Holding Group Co., Ltd.
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>
Shareholder	Haimen SASAC (80%) and JHUD (20%)	Haimen SASAC (80%) and JHUD (20%)
Positioning	Key entity in transportation infrastructure construction in Haimen District	Key entity in affordable housing and infrastructure construction in Haimen District
Total Asset (RMB billion)	42.8	57.0
Total Equity (RMB billion)	16.5	18.0
Total Revenue (RMB billion)	2.7	2.0
Total Debt/Total Capital (%)	60.8	66.8

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 30 September 2022.  
Source: CCXAP research

### Rating Methodology

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656