

## Credit Opinion

8 August 2024

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

### Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

[christy\\_liu@ccxap.com](mailto:christy_liu@ccxap.com)

Jessica Cao +852-2860 7131

Credit Analyst

[jessica\\_cao@ccxap.com](mailto:jessica_cao@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

## Qingdao Jimo District Urban Development Investment Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms the long-term credit rating of Qingdao Jimo District Urban Development Investment Co., Ltd. at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Qingdao Jimo District Urban Development Investment Co., Ltd. (“JMUI” or the “Company”) reflects Jimo District Government’s (1) very strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Jimo District Government’s capacity to support reflects Jimo District’s status as one of the top three largest districts by gross regional product (“GRP”) in Qingdao City, with growing economic and fiscal strengths.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic importance in affordable housing and infrastructure construction in Jimo District; (2) solid track record of receiving government support; and (3) good access to diversified fundings.

However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; (2) high debt leverage; and (3) contingent risks associated with large amounts of external guarantees.

The stable outlook on JMUI’s rating reflects our expectation that the Jimo District Government’s capacity to provide support will be stable, and the Company’s characteristics such as its strategic importance in the affordable housing and infrastructure construction will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Strategic importance in affordable housing and infrastructure construction in Jimo District
- Solid track record of receiving government support
- Increasing exposure to commercial activities
- High debt leverage arising from business expansion
- Good access to diversified funding
- Contingent risks associated with large amounts of external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Jimo District Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as materially reduced exposure to risky commercial activities and improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Jimo District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced regional significance or deteriorated assess to fundings.

## Key Indicators

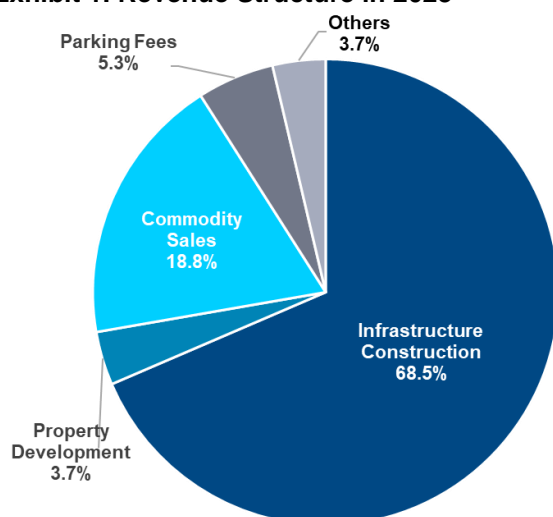
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	48.4	53.3	62.3	61.1
Total Equity (RMB billion)	18.5	18.7	19.6	19.8
Total Revenue (RMB billion)	1.5	1.8	2.3	0.2
Total Debt/Total Capital (%)	57.4	61.2	65.7	65.0

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

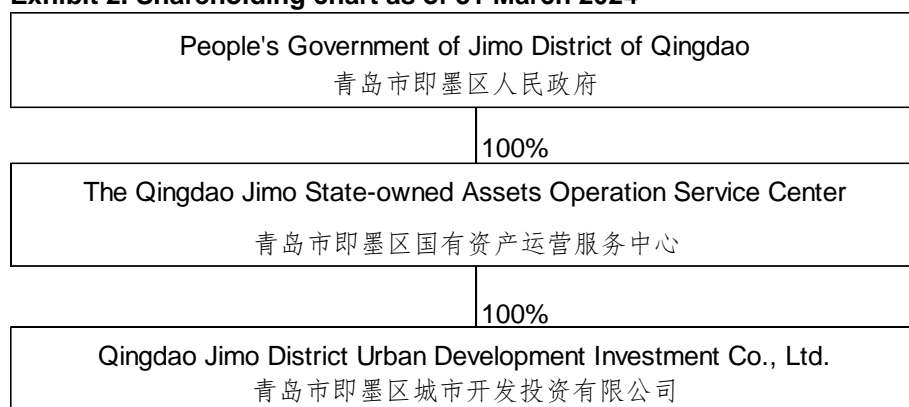
Source: Company data, CCXAP research

## Corporate Profile

Established in September 2003, JMUI is a key local infrastructure investment and financing company ("LIIFC") in Jimo District, Qingdao City. The Company is designated by the government for infrastructure construction and affordable housing projects. It also undertakes diversified commercial activities, such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as the provision of external guarantees. As of 31 March 2024, the Company has been wholly owned by the Qingdao Jimo State-owned Assets Operation Service Centre, which is under the direct administration of the Jimo District Government.

**Exhibit 1. Revenue Structure in 2023**

Source: Company information, CCXAP research

**Exhibit 2. Shareholding chart as of 31 March 2024**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Jimo District Government has very strong capacity to provide support, reflects Jimo District's status as one of the top three largest districts by GRP in Qingdao City, with growing economic and fiscal strengths.

Shandong Province is the third largest province in China by gross regional products, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Qingdao City is one of the five cities in China that are under separate state planning and is the strongest city in Shandong in terms of economic size and average income level. It reported GRP of RMB1,576.0 billion in 2023, ranking first in Shandong Province and 13<sup>th</sup> among China's municipalities. Qingdao City also has strong fiscal strength and good fiscal metrics. In the past three years, its general budgetary revenue covered over 70% of its general budgetary expenditure, and tax incomes accounted for more than 70% of its general budgetary revenue on average. As of end-2023, the local government's debt/GRP ratio was 23.0%.

**Exhibit 3. Key economic and fiscal indicators of Qingdao City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,413.6	1,492.1	1,576.0
GRP Growth (%)	8.3	3.9	5.9
General Budgetary Revenue (RMB billion)	136.8	127.3	133.8
General Budgetary Expenditure (RMB billion)	170.7	169.6	171.9
Local Government Debt (RMB billion)	255.9	308.0	362.0

Source: Qingdao Municipal Government, CCXAP research

Jimo District is located in the southwest region of the Shandong peninsula, on the west coast of the Yellow Sea and the north of the Lao Mountain, with abundant supply of natural resources, such as land, sea and mineral resources. Jimo District comprises seven towns, one provincial-level economic development zone, one high-tech industrial development zone and one provincial-level tourism and resorts zone. It has formed six pillar industries, including traditional industries such as automobiles, textiles and clothing, as well as trade and logistic; emerging industries such as marine, new-generation information technology, as well as biomedicine.

Jimo District is a developing district and has shown continuous economic growth over the past three years. It recorded GRP of RMB145.3 billion, RMB151.3 billion, and RMB159.5 billion in 2021, 2022, and 2023, with growth rates of 6.9%, 2.6%, and 6.6% respectively. Jimo District's GRP ranked the third among all the districts or counties in Qingdao City for years. Also, Jimo District had a relatively strong fiscal balance as its general budgetary revenue covered around 80% of its general budgetary expenditure on average over the past three years. It also has good fiscal stability with tax income contributing around 70% of the general budgetary revenue over the past three years. As of 31 December 2023, the outstanding amount of local government debt amounted to RMB20.9 billion, increasing from RMB16.3 billion at end-2022 and accounting for 13.1% of its GRP.

**Exhibit 4. Key economic and fiscal indicators of Jimo District**

	2021FY	2022FY	2023FY
GRP (RMB billion)	145.3	151.3	159.5
GRP Growth (%)	6.9	2.6	6.6
General Budgetary Revenue (RMB billion)	11.6	10.0	10.6
General Budgetary Expenditure (RMB billion)	12.8	13.3	13.3
Local Government Debt (RMB billion)	12.8	16.3	20.9

Source: Jimo District Government, CCXAP research

**Government's Willingness to Provide Support****Strategic importance in affordable housing and infrastructure construction in Jimo District**

JMUI is one of the core LIIFCs in Jimo District. It is the main entity delegated by Jimo District Government to carry out affordable housing and infrastructure construction projects, with high strategic importance.

JMUI is mainly responsible for building affordable housing projects by BT model. The Company is required to use its own funds or funds raised for project construction, and the local government will purchase the project from the Company after completion, generally with 20% mark-up. Redevelopment of Shantytowns Project Phase I is the representative project completed by the Company, which encourages the improvement of living conditions and living standards of residents of shantytowns. As of 31 December 2023, the project's total investment amount and government repayments were RMB4.6 billion and RMB5.0 billion, respectively.

However, the Company's business model in affordable housing construction is changing to self-operated model, fund balancing will be partly achieved from market sales.

JMUI also conducts infrastructure construction through agent construction model. The Company has undertaken a number of infrastructure construction projects including public supporting facilities and landscaping works. Under the agent construction model, the Company signs a construction agreement with the government or related parties before each project is developed and the government will pay the total cost plus a few percentage markups after examining the projects. As of 31 December 2023, the Company had completed the construction of Comprehensive Improvement Project of Moshuihe Model Section, with total investment of RMB800 million and government repayments of RMB347 million. From the perspective of project reserves, the Company also participated in the Blue Valley to Jiaodong International Airport Expressway Project. There are 2 major infrastructure construction sub-projects which were under construction, with an estimated total investment of RMB6.9 billion and uninvested amount of RMB5.2 billion as of the end of 2023. The total estimated investment amount of the whole Airport Expressway project is RMB16.7 billion, indicating a high capital expenditure pressure. This Airport Expressway project is expected to be supported by project loans, special government bonds and government funds, which could partially alleviate the financing pressure on the Company.

Overall, JMUI has a large development scope in Jimo District and a strong capability for business sustainability. The Company maintains its responsibility in important projects' investment and construction in the region, although the business model is changing from agent construction to self-operate.

#### **Solid track record of receiving government support**

JMUI has a good track record of receiving support from the local government in the form of project payments, asset injections, and operating subsidies to support its investments and the operation of its businesses. In 2021, the local government injected assets with a total of RMB4.5 billion into the Company, including 40-year parking lot operation right, 30-year sewage treatment operation right, as well as sewage treatment facilities. Meanwhile, in 2023, the government injected sea operation right to the Company, valued at RMB1.2 billion. This injection of assets has broadened the scope of the Company's operations and further strengthened its capital base. Moreover, the Company's project constructions are usually supported by the government special funds. For example, the local government will provide special funds to support the future construction of Airport Expressway Project. In addition, the Company continued to receive operating subsidies from the local government. In 2023, JMUI received government subsidies of RMB399.8 million. We expect that the Company will maintain its strategically important position in affordable housing and infrastructure construction in Jimo District, and the local government will continue to support its development when necessary.

#### **Increasing exposure to commercial activities**

JMUI is also engaged in commercial activities such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as provision of external guarantees. We consider the business risk in these commercial activities is increasing due to the uncertainty of the profitability of the Company's commercial activities.

JMUI conducts its property development business through the sale of residual properties after relocating the original residents under a property relocation and resettlement project. The Company's shantytown renovation projects contain part of commercial houses, shops, and parking spaces, which are sold at the market price after the resettlement ones are sold to resettled households under the coordination of the government. As of end-2023, the Company had completed 3 resettlement housing projects, with a total saleable area of 384.6 thousand

square meters and around 80% of the housing had been sold or leased out. Meanwhile, there was one key self-operated property projects under construction, with estimated investment amount of around RMB1.9 billion. However, the property development business is highly dependent on the housing market sentiment and prices, driving higher volatility in revenue and profitability, especially during the downturn of the real estate market. The revenue from this business sector started to decrease from 2022 due to decline in selling price and transaction volume. In 2023, the property development business generated revenue of RMB85.3 million, and the gross profit of this business sector turned negative.

JMUI also participates in property leasing including several commercial buildings, land parcels such as salt fields, and outdoor billboards providing income of approximately RMB23.9 million in 2023. Additionally, with the completion and operation of newly developed investment properties in the future, it is expected that JMUI's rental income will continue to increase. The leasable assets under construction include some self-operated projects engaged by JMUI, such as the development of industrial parks, vocational education zone, and sports center, which will achieve fund balancing through leasing when completed. As of 31 December 2023, the Company had 4 key self-operated projects under construction, with an estimated total investment amount of more than RMB4.0 billion and an uninvested amount of more than RMB200.0 million. The Company is expected to rely on external financing for these self-operated projects, which would increase its capital expenditure burden. Nevertheless, the construction of the industrial parks is for attracting high-tech companies to settle in Jimo District and supporting the development of the traditional industry of automobile. Moreover, the Company obtained the franchise of some parking spaces and roadside parking spaces in Jimo District with long concession of 40 years, demonstrating strong sustainability.

Furthermore, JMUI is also involved in commodity sales, such as rubber, steel bars, zinc ingots, and aluminum. The Company's commodity sales business generated revenue of RMB429.2 million and accounted for 18.7% of the total revenue in 2023. The Company's concentration risk of upstream suppliers and downstream customers in 2023 is moderate and has decreased compared with the previous year. However, the trading business represents a large proportion of the Company's revenue stream, but generates a minimal profit margin, with a gross margin of only 1.4% in 2023.

We expect that JMUI's commercial activities will contribute to its overall revenue along with the completion of the projects. However, considering the large capital expenditure needs of its commercial projects, we expect that the Company's debt level will continue to grow to over the next 12-18 months.

### **High debt leverage arising from business expansion**

JMUI's total debt increased to RMB36.8 billion as of 31 March 2024 from RMB29.5 billion as of end-2022, as a result of large demands for the construction projects. Meanwhile, the total capitalization ratio increased from 61.2% to 65.0% over the same period. The Company's short-term debt was around RMB9.0 billion, accounting for 24.5% of total debt, indicating relatively high refinancing requirement as of 31 March 2024. Meanwhile, the cash to short-term debt ratio was 0.3x, which could not fully cover the short-term debt. We estimate the Company would continue to rely on external financing such as bank loans and bonds issuance to support its further development, while its total capitalization ratio would remain relatively high over the next 12-18 months.

Moreover, the Company's asset liquidity was relatively weak. As of 31 March 2024, investment properties, construction in progress, inventories, and intangible assets that we considered low liquidity totally represented over 60% of total assets, which mainly consist of land and investment costs for construction projects and sea operation right. Meanwhile, the total restricted assets were RMB15.2 billion which accounted for 24.4% of the

total assets as of end-2023. The relatively large amount of restricted assets may bring certain risks to subsequent financing and asset utilization.

### **Good access to diversified funding**

JMUI has good access to diversified funding such as bank loans, domestic and offshore bond financing. The Company maintains long-term close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks, such as China Development Bank, Bank of China, and China Everbright Bank Co., Ltd., providing sufficient standby liquidity. As of 31 March 2024, the Company had total bank facilities of RMB31.4 billion, with the available portion being RMB11.1 billion.

The Company actively participates in debt capital markets and shows relatively high acceptance. However, bond issuance accounted for a relatively high proportion of the Company's total debt and its refinancing is easily affected by the changes in capital market conditions. In the first half of 2024, the Company issued several tranches of domestic bonds raising around RMB6.7 billion, with coupon rates ranging between 2.25% and 3.98%. In 2023, the Company also issued one tranche of offshore bond, raising RMB560 million. As of 31 March 2024, the Company had a manageable exposure to non-standard financing, which accounted for around 10% of total debt.

### **Contingent risks associated with large amounts of external guarantees**

JMUI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 31 March 2024, the Company had outstanding external guarantees of RMB10.3 billion, representing 51.9% of its net assets. Most of them were provided to local state-owned enterprises. The Company's contingent liabilities are subject to regional risks due to the mutual guarantee situation in Jimo District. The Company provided external guarantees to a LIIFC in Jimo District, namely Qingdao Jimo District Dingziwan Investment Development Co. Ltd. ("JMDI"), with a total amount of RMB5.2 billion. Apart from that, JMUI has provided debt investment in JMDI to support its business operation and refinancing. Moreover, the Company takes part in the provision of guarantee businesses which increase its contingent risk exposure to private-owned enterprises. As of 31 December 2023, the outstanding balance of the guarantee business was RMB1.9 million, with cumulative compensation amount of RMB38 million and cumulative recovery amount of RMB33 million. In case of credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. We consider JMUI's contingent liabilities risks to be medium as there is no clear mechanism for the Company to be adequately compensated if these entities fail to repay.

## **ESG Considerations**

JMUI bears environmental risks through its affordable housing and infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

JMUI bears social risks as it implements public policy initiatives by building public infrastructure in Jimo 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.

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

## Rating Methodology

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

## Appendix

### Exhibit 5. Peer comparison

	<b>Qingdao Jimo District Urban Development Investment Co., Ltd.</b>	<b>Qingdao Jimo District Urban Tourism Development and Investment Co., Ltd.</b>	<b>Shandong Hesheng Investment Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub> +	BBB <sub>g</sub> +	BBB <sub>g</sub> +
Shareholder	Qingdao Jimo State-owned Assets Operation Service Centre (100%)	Qingdao Jimo State-owned Assets Operation Service Centre (100%)	Qingdao Jimo State-owned Assets Operation Service Centre (100%)
Positioning	Key entity to carry out affordable housing and infrastructure construction projects within Jimo District	Key entity to focus on the provision of public utility services and infrastructure construction in Jimo District	Key entity in infrastructure construction and state-owned assets operation in Jimo EDZ
Total Asset (RMB billion)	62.3	46.2	40.9
Total Equity (RMB billion)	19.6	18.0	31.8
Total Revenue (RMB billion)	2.3	0.7	2.2
Total Debt/Total Capital (%)	65.7	57.2	11.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2023.

Source: Company data, CCXAP research

Copyright © 2024 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