

Credit Opinion

23 August 2024

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

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Jiangsu Fuxuan Industrial Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangsu Fuxuan Industrial Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Fuxuan Industrial Co., Ltd. ("JSFX" or the "Company") reflects the Binhai County Government's strong capacity to provide support, and the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Binhai County's ongoing economic and fiscal growth. However, its fiscal balance ratio is moderate.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) full ownership by the Binhai County Government; (2) essential role in infrastructure and industrial development in Jiangsu Binhai Economic Development Zone ("Binhai EDZ"); and (3) track record of receiving support from the local government in terms of financial subsidies and asset injections.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) increased debt leverage driven by construction investments; and (3) moderate financing ability.

The stable outlook on JSFX's rating reflects our expectation that the Binhai County Government's capacity to provide support will remain stable, and the Company will maintain its important position in Binhai County and Binhai EDZ over the next 12-18 months.

Rating Drivers

- Essential role in infrastructure and industrial development in Binhai EDZ
- Moderate exposure to commercial activities
- Track record of receiving government support
- Increased debt leverage due to investments in construction projects
- Moderate access to funding channels with modest financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local 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 strengthened policy importance or improved financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 materially increased exposure to risky commercial activities or a deterioration in its debt management or asset liquidity.

Key Indicators

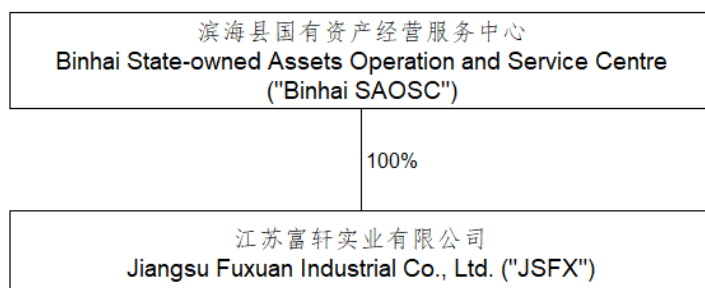
	2021FY	2022FY	2023FY
Total Assets (RMB billion)	10.7	12.9	14.6
Total Equity (RMB billion)	7.2	6.8	7.1
Total Revenue (RMB billion)	1.0	1.0	1.2
Total Debt/Total Capital (%)	24.6	42.0	46.5

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

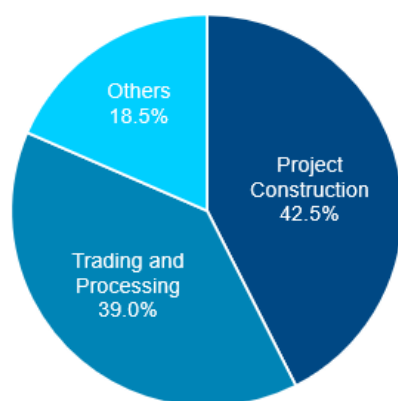
Source: Company data, CCXAP research

Corporate Profile

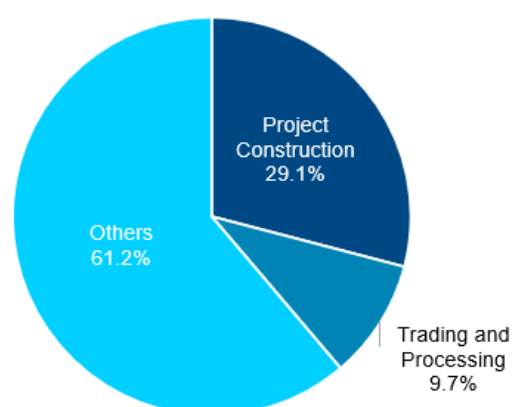
Established in 2013, JSFX is the primary local infrastructure investment and financing company ("LIIFC") in Binhai EDZ, a provincial-level EDZ in Binhai County, Yancheng City. It is mainly responsible for infrastructure construction and industrial property development in the Industrial Park Area of Binhai EDZ, and also undertakes the asset liquidation and revitalization in the area in alignment with the local government's development strategy. Meanwhile, the Company has developed a range of commercial activities, including property leasing, trading and processing. In October 2020, the Company's shareholder was transferred from the Jiangsu Binhai Economic Development Zone Industrial Park Investment Service Centre to the Binhai State-owned Assets Operation and Service Centre ("Binhai SAOSC"). As of 31 December 2023, Binhai SAOSC was the sole shareholder and the Binhai County Government was the actual controller of the Company.

Exhibit 1. Shareholding chart as of 31 December 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Binhai County Government has a strong capacity to provide support, given Binhai County's ongoing economic and fiscal growth. However, its fiscal balance ratio is moderate.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, Yancheng City achieved a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9th among 13 municipals in Jiangsu Province. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, as the influence of the large-scale value-added tax credit refund faded, the Yancheng Municipal Government achieved a general budgetary and tax revenue of RMB48.2 billion and RMB34.1 billion, increasing by 6.5% and 14.8% YoY, respectively. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained

moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government's outstanding debt increased to RMB165.5 billion, accounting for around 22.4% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Yancheng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	109.4	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Yancheng Municipal Government, CCXAP research

Binhai County is a county under the jurisdiction of Yancheng City and is located in the northeast of Jiangsu Province. The economic and financial strength of Binhai County was weaker than most districts and counties of Yancheng City but the economic status has been increasing steadily. The industrial structure of Binhai County has been transformed and upgraded in recent years, forming leading industries such as electronic information, auto parts and new pharmaceutical industry. Binhai County's GRP increased steadily to RMB64.0 billion in 2023 from RMB56.5 billion in 2021. During the same period, its general budgetary revenue increased to RMB3.2 billion from RMB2.7 billion. Tax income accounted for around 75.8% on average of the general budgetary revenue over the past three years, representing a relatively stable revenue generating ability, while its fiscal self-sufficiency ability was relatively weak with an average fiscal balance ratio of 26.8% over the past three years. At the end of 2023, the local government's outstanding debt was RMB13.5 billion, accounting for 21.1% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Binhai County

	2021FY	2022FY	2023FY
GRP (RMB billion)	56.5	60.6	64.0
GRP Growth (%)	8.4	4.3	6.6
General Budgetary Revenue (RMB billion)	2.7	2.9	3.2
General Budgetary Expenditure (RMB billion)	10.0	11.1	11.5
Local Government Debt (RMB billion)	9.9	11.8	13.5

Source: Binhai County Government, CCXAP research

Binhai EDZ was founded in 2001 and was approved to be a provincial-level EDZ in 2006. It is mainly composed of two areas, the Industrial Park Area and the Coastal Industrial Park Area. The continuous transformation and upgrading of the industrial structure have led to the formation of key industries in Binhai EDZ, including electronic information, auto parts, advanced machinery manufacturing, and modern service, and has attracted several large enterprises such as Jiangsu Suyan Valve Machinery Co., Ltd., Shanghai Lvxiang Auto Parts Co., Ltd. and Jiangsu Chaowei Power Supply Co., Ltd.

Government's Willingness to Provide Support

Essential role in infrastructure and industrial development of Binhai EDZ

JSFX is one of the important LIIFCs wholly owned by the Binhai County Government, having an important and clear strategic position. Designated by the Management Committee of Binhai EDZ, the Company has undertaken a series of infrastructure construction projects within the Industrial Park Area. Apart from that, it also promotes regional investment attraction and industrial upgrades. For example, under the guidance of the local

government, JSFX promotes the liquidation of distressed enterprises and asset revitalization, which is fundamental to the improvement of the investment environment of Binhai EDZ. The Company acquires factories, lands or underperforming enterprises through asset acquisition or equity acquisition. It is responsible for repairing or reconstructing the original factory buildings, and obtains rental revenue from the newly settled enterprises. As the major developer and operator in Binhai EDZ, the default of the Company would impair the project construction and disrupt the regional industry and economic development.

JSFX serves as the agency construction platform entrusted by the Management Committee of Binhai EDZ. According to the construction agency agreement, JSFX is responsible for the financing and construction of the projects, and the Management Committee of Binhai EDZ will pay the actual costs plus a markup to the Company after the audit. As of the end of 2023, JSFX had 4 major agent projects under construction including talent apartments, roads, and standard factories, with a total investment of RMB4.0 billion and an uninvested amount of RMB284.0 million. There were no projects under planning as of end-2023. The Company's agent construction project reserves and future investment needs were relatively small, nevertheless, we anticipate a continued demand for its services due to the sustained growth and expanding development prospects of Binhai EDZ.

Moderate exposure to commercial activities

JSFX's commercial activities include property leasing, trading and processing. Based on our assessment, the Company has moderate exposure to commercial activities, which accounted for approximately 20% to 25% of its total assets. The commercial activities have become a significant source of revenue for the Company, and the associated commercial risks are manageable given that most of them are conducted for the development strategies of Binhai EDZ.

JSFX's rental assets are primarily comprised of industrial factories from acquisition or self-construction in the Industrial Park Area. From 2021 to 2023, JSFX has invested around RMB798.2 million in the acquisition. During the past three years, with the expansion of investment properties, the Company's rental income increased from RMB35.5 million to RMB144.0 million in 2023, accounting for around 12.0% of the total revenue. As of end-2023, the Company had one standard factory project under construction with a total investment of RMB840.0 million and an outstanding investment of RMB422.0 million, and one project under planning with a total investment amount of RMB680.0 million. In addition, as the liquidation of underperforming assets progresses, the Company's leasable assets will continue to increase. However, the leasing business highly depends on the local industrial development planning and investment attraction process, which generates uncertainty about the actual income and investment payback period.

JSFX has invested in the Green Island Intelligent Manufacturing Service Center Project ("Green Island") with a total investment of RMB1.0 billion, including factories and equipment. Relying on Green Island and technical support from local industry leaders, JSFX can provide processing manufacturing services to local enterprises, on the other hand, local enterprises can share the processing technology. JSFX charges processing fees from the customers, but the revenue is small at the current stage. Given that the business is partially geared towards fostering regional industrial growth and attracting investment, the profit is relatively narrow. At end-2023, the Company had two supporting projects for the Green Island under construction with a total investment of RMB850.0 million and an outstanding investment of RMB407.0 million.

JSFX is engaged in trading business conducted by its subsidiaries. Its products include industrial products such as oil well accessories, ball valves and gate valves. The majority of the Company's customers are enterprises in Binhai EDZ. There is a concentration risk from the downstream, with the sale amount from the top five customers accounting for more than 60.0% of the total sale amount in 2023. Together with processing, the

trading business has been a significant contributor to JSFX's revenue, but the gross profit margin has remained relatively low, at less than 5.0% over the past three years. Additionally, the Company provided account periods to the customers, which could potentially increase its exposure to recovery risk.

Track record of receiving government support

JSFX has a track record of receiving government support in the form of asset injections and financial subsidies. From 2021 to 2023, the Company received stable government subsidies totaling RMB336.1 million. Furthermore, in 2020, the local government transferred property assets worth RMB54.6 million to the Company. As the Company has signed an agency agreement, the Management Committee of Binhai EDZ would allocate the funds to the Company after the audit of projects. It is expected that the Company will receive government project repayments, given the large scale of receivables from the government and agency construction costs recorded in inventories, but there is a certain time lag. We believe that the local government will continue to provide support to JSFX over the next 12 to 18 months, underpinned by its important position in Binhai EDZ.

Increased debt leverage due to investments in construction projects

JSFX's debt burden increased fast, primarily due to large investments in both asset acquisition and construction projects. As of 31 December 2023, the Company's total debt grew to RMB6.2 billion from RMB2.4 billion at the end of 2021. The Company's total equity decreased slightly from RMB7.2 billion to RMB7.1 billion owing to the equity transfer of subsidiaries during the same period. Its total capitalization ratio, as measured by total debt to total capital, has shown a rapid increase trend, increasing to 46.5% from 24.6% during the same period. At the end of 2023, the Company has a relatively large short-term debt burden with the short-term debt accounting for 41.8% of total debt. Its cash to short-term debt ratio was 0.4x at the same time. Considering the continuous investment in project construction including infrastructure agency projects, standard factories, talent apartments and Green Island, we anticipate the Company will rely on external financing and its debt level and the leverage ratio will heighten in the near future.

Moderate access to funding channels with modest financial flexibility

JSFX has moderate access to funding and has a relatively high reliance on non-standard products. Bank loans are the main source of funding and they accounted for around 58.4% of the total debt as of end-2023. The Company's total bank credit facilities amounted to RMB4.2 billion and the available portion was RMB430.9 million, most of which were provided by large state-owned joint-stock commercial banks and urban commercial banks such as Bank of China and Bank of Jiangsu. JSFX's exposure to non-standard financing was relatively large, accounting for 34.6% of the total debt. The Company's non-standard products were mainly financial leasing and trust loans with relatively high costs and short tenors. JSFX's direct financing comprised the 3-year EUR bond issued supported by standby letters of credit in 2023, with a coupon rate of 4.6%. This accounted for approximately 7.0% of the total debt at end-2023.

In addition, the relatively weak asset liquidity will constrain JSFX's financial flexibility. As of the end of 2023, JSFX's assets were primarily comprised of receivables, inventories, and investment properties. The Company's account receivables were mainly from the trade business and agency construction projects. Inventories were mainly construction costs for agency projects and lands to be developed, accounting for 48.4% of the total assets. Investment properties were leasing properties from acquisition or construction, of which around 70.7% were mortgaged for loans. Overall, the Company's restricted assets amounted to RMB2.6 billion, accounting for 17.7% of the total assets.

ESG Considerations

JSFX faces environmental risks because it has undertaken construction business. 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.

JSFX bears social risks as it implements public policy initiatives by building public infrastructure in Binhai EDZ. 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.

JSFX's governance considerations are also material as the Company is subject to oversight by the Binhai County Government and must 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 \(July 2022\)](#).

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