

Credit Opinion

29 November 2024

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

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Zhejiang Jiangshan City Jiangneng Holdings Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Zhejiang Jiangshan City Jiangneng Holdings Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Zhejiang Jiangshan City Jiangneng Holdings Co., Ltd. ("ZJJH" or the "Company") is underpinned by the Company's (1) strategic position as the urban operation and utility service provider of Jiangshan City; (2) strong regional competitiveness in utility business; and (3) supplementary income from other commercial activities.

However, the rating is also constrained by the Company's (1) relatively weak profitability; (2) fast growing debt burden; and (3) short-term debt repayment pressure with limited financial flexibility.

The rating also reflects our expectation of a high likelihood of strong support from the Jiangshan City Government and its parent, Jiangshan Urban Construction Investment Group Co., Ltd. ("JUCI"), when necessary, given the Company's (1) status as the core subsidiary of JUCI involved in market-driven businesses; and (2) strategic importance in urban operation and utility services provider in Jiangshan City. We believe that JUCI has a strong capacity to support the Company by dint of its (1) ultimate ownership and control by the Jiangshan City Government; (2) important position in local social and economic development; and (3) good track record of receiving government supports.

The stable outlook on ZJJH's rating reflects our expectation that the Company will maintain its strong regional competitiveness, serving as the urban operation and utility service entity in Jiangshan City over the next 12-18 months.

Rating Drivers

- High likelihood of strong support from the Jiangshan City Government and its parent company
- Strategic position as the urban operation and utility service provider of Jiangshan City
- Strong regional competitiveness in utility business
- Relatively weak profitability
- Fast-growing debt burden with increasing debt leverage
- Short-term debt repayment pressure with limited financial flexibility

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the parent company's capacity or willingness to provide support strengthens; and (2) the Company's stand-alone credit profile improves significantly, such as stronger market position and improvement in profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of JUCI deteriorates or the likelihood of parental support is expected to be weakened; or (2) the Company's standalone credit quality worsens significantly, including a material drop in credit metrics and poor debt management.

Key Indicators

	2022FY	2023FY	2024H1
Total Assets (RMB billion)	5.1	7.8	9.0
Total Equity (RMB billion)	2.6	3.5	3.6
Total Revenue (RMB billion)	0.4	0.5	0.2
Net Profits (RMB million)	30.6	10.1	-8.1
EBIT Margin (%)	19.5	21.9	0.9
Return on Assets (%)	1.5	1.6	-
Total Debt/Total Capital (%)	33.8	49.7	56.1
Total Debt/EBITDA (x)	13.5	21.4	-
EBITDA/Interest (x)	2.7	1.9	-
FFO/Total debt (%)	0.2	0.6	-

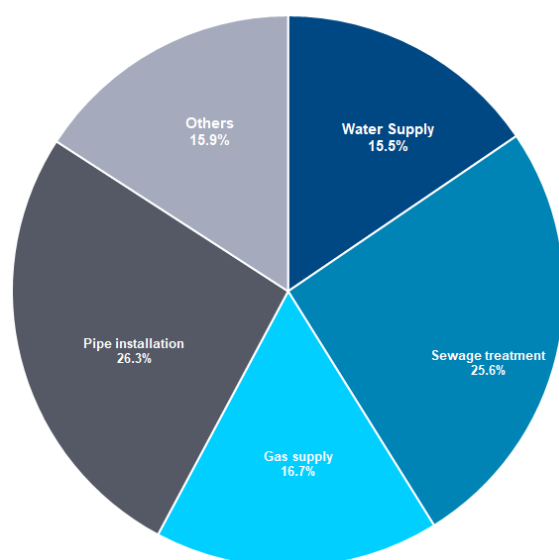
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

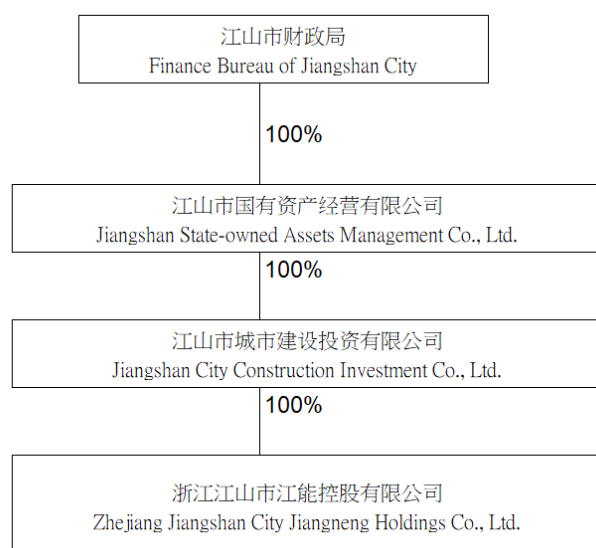
After the consolidation of several subsidiaries of JUCI, ZJJH is positioned as an urban operation service provider by carrying out diversified businesses such as water supply, sewage treatment, gas supply, photovoltaic, pipe installation, and property leasing in Jiangshan City, to support urban development. As of 31 December 2023, the Company was wholly owned by JUCI, which in turn was ultimately controlled by the Finance Bureau of Jiangshan City. JUCI is the main operator and developer in Jiangshan City, mainly responsible for the infrastructure construction, land consolidation, and utility services in Jiangshan City.

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart as of 30 June 2024



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Strategic position as the urban operation and utility service provider of Jiangshan City

As a core urban operation service provider in Jiangshan City, ZJJH mainly conducts utility services businesses such as water supply, sewage treatment, gas supply, photovoltaic, and pipe installation. These businesses are essential to the economic and social development of the region. On the back of the local government and its parent company, the Company has strong regional competitiveness and stable market shares in these business sectors. We believe the Company possesses significant strategic importance for the urban operation of Jiangshan City with an aim to integrate urban resources and increase their values.

In addition to utility services businesses, the Company has also diversified into other commercial businesses, mainly including engineering construction, resettlement housing sales, and property leasing, forming a relatively diversified business portfolio. We believe that the Company can diversify its business risks and mitigate revenue volatility through the synergistic operation of its multiple business segments, which is credit-positive.

Strong regional competitiveness in utility business

Benefited by its strong shareholder background, ZJJH has strong regional competitiveness in providing market-oriented utility services in Jiangshan City, including water supply, sewage treatment, gas supply, and photovoltaic power generation, providing the Company with stable revenue and cash flow. We believe that the Company has strong competitiveness in the region underpinned by its high replacement cost as these services are vital to local residents and industrial development.

The Company mainly conducts water supply and sewage treatment in Jiangshan City and surrounding towns. As of 30 June 2024, the Company had 2 water supply plants and entrusted to operate 2 water plants with a daily water supply capacity of 157.6 thousand tons. Furthermore, the Company is promoting 2 major water projects, namely the integrated urban and rural water supply project, and farmer's drinking water pipe network extension and renovation project in Jiangshan City. As of 30 June 2024, the aforementioned projects had a total investment amount of RMB766 million, with an outstanding amount of RMB263 million. In addition, the Company runs a sewage treatment business in Jiangshan City through 2 sewage treatment plants with a daily sewage treatment capacity of 110 thousand tons. In 2023, the water supply and sewage treatment businesses generated revenues of RMB192.8 million, accounting for around 41.1% of the Company's total revenue. However, due to its public welfare nature, the water supply and sewage business has low profitability and needs to rely on government subsidies.

The Company's gas supply business has a monopoly position as the sole gas supply entity in the region, demonstrating a very strong regional competitiveness. As of 30 June 2024, the Company carries out a gas supply business with a total annual gas supply of about 13.5 million cubic meters, most of which are supplied to industrial and commercial users. The Company signed a contract with Zhejiang Zheneng Natural Gas Pipeline Network Co., Ltd., who would sell and deliver natural gas to the Company. In terms of pricing mechanism, the price for residential users were fixed, while the price for industrial and commercial users were set by the government. Given the business nature of gas supply, the business has a low profit margin of 0.7% in 2023.

Moreover, the Company is engaged in photovoltaic power generation business, focusing on installation of photovoltaic system on the rooftop of schools and government buildings. Despite its small scale, the exposure to photovoltaic power generation business continues to increase as the Company plans to invest in photovoltaic projects. As of 30 June 2024, the Company had 2 major photovoltaic projects under construction with an invested amount of RMB35.9 million. The revenue of photovoltaic power generation business increased from RMB3.7 million in 2022 to RMB8.0 million in 2023.

Supplementary income from other commercial activities

The Company is responsible for the construction of resettlement housing through government special bonds and self-raised funds. The Company will first sell the resettlement housing to resettlement households under government guidance, then sell the rest of resettlement housing to the public at market prices. As of 30 June 2024, the Company had 2 key resettlement housing projects under construction, with a planned investment of RMB455 million and an uninvested amount of RMB214 million. Such resettlement housing projects conducted

by the Company are mainly related to urban renewal plans, with the purpose of urban upgrading and improvement of people's livelihood.

In addition, the Company is responsible for the pipe installation of water supply and drainage networks, as well as the gas pipeline installation and maintenance. In 2023, the revenue from pipe installation amounted to RMB123.4 million, with a high gross profit margin of 32.2%. The Company is also responsible for the engineering construction in Jiangshan City, and the business scope is mainly concentrated in the urban area of Jiangshan City. As of 30 June 2024, the Company had 1 major engineering construction project under construction, with a total invested amount of RMB200 million. In addition, the Company rents out its self-owned properties such as rental housing, stores, and offices, providing stable income. In 2023, the revenue from property leasing increased to RMB25.0 million, with a gross profit margin of 54.6%.

Financial Profile

Relatively weak profitability

Benefited from the expansion of sewage treatment business, ZJJH's total revenue increased from RMB400.1 million in 2022 to RMB468.7 million in 2023. The water affair business (including water supply and sewage treatment business) is the main contributor, accounting for 41.1% of total revenue in 2023, followed by pipe installation (26.3%), gas supply (16.7%), and others (15.9%). ZJJH's profitability remains relatively weak, as reflected by the weak return on assets and EBIT margin. The Company's EBIT margin slightly increased from 19.5% in 2022 to 21.9% in 2023; while the return on assets also slightly increased from 1.5% to 1.6% over the same period. In 2024H1, the Company's total revenue amounted to RMB204.1 million.

Due to the business nature of utility services, the water supply segment maintained a net loss in 2023, while gas supply business recorded a low profit margin of 0.7%. In addition, the gross profit margin of sewage treatment business decreased from 11.8% in 2022 to 6.9% in 2023. On the bright side, the profit margin of pipe installation significantly increased from 13.5% to 21.2% over the same period. Although photovoltaic power generation business recorded a high profit margin of 70.4%, its small operating scale limits the Company's overall profitability.

Overall, ZJJH's diversified business portfolio could partially support its income over the next 12 to 18 months. However, given the business nature of utility services, the Company's profitability is expected to remain relatively weak.

Fast-growing debt with increasing debt leverage

Due to the expansion of its business scope and relatively large capital expenditure on its construction development projects, ZJJH's total debt has been growing rapidly since its establishment in 2022. As of 30 June 2024, the Company's total debt increased to RMB4.5 billion from RMB1.3 billion at end-2022 while its total capitalization ratio increased from 33.8% to 56.1% over the same period. Considering the further development of its diversified businesses and the relatively large capital expenditure on its construction projects, such as agricultural product logistics base, and water pipeline network, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

Short-term debt repayment pressure with limited financial flexibility

The Company is exposed to certain short-term debt repayment pressure as its short-term debt accounted for 36.0% of its total debt as of 30 June 2024. Meanwhile, the cash to short-term debt ratio was merely 0.1x, indicating that its cash reserve could not fully cover the short-term debt, indicating short-term debt repayment

pressure. Due to the fast growing debt, ZJJH's debt servicing capability decreased as its total debt/EBITDA ratio increased from 13.5x in 2022 to 21.4x in 2023 while the EBITDA/total interest ratio declined from 2.7x to 1.9x over the same period.

In addition, ZJJH's financing channels are mainly bank loans and non-standard financing. As of 30 June 2024, the Company had obtained total bank credit facilities of RMB1.1 billion, with an unutilized amount of RMB490 million, indicating limited financial flexibility. However, its parent company with stronger funding capacity can provide funding support to ZJJH when necessary, alleviating the Company's refinancing pressure. Around 15% of the Company's debt was provided by non-standard financing, mainly financial leasing. The Company has a relatively low financing cost with an average financing cost of 4.12%. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities and issuing offshore bonds and onshore bonds.

External Support

High likelihood of strong support from the Jiangshan City Government and its parent company

We anticipate the Company has a high likelihood of support from the Jiangshan City Government and its parent company when necessary, given its (1) status as the core subsidiary of JUCI in the market-driven businesses; and (2) strategic importance in urban operation and utility services provision in Jiangshan City. We believe that JUCI has a strong capacity to support the Company by dint of its (1) ultimately owned by the Jiangshan City Government; (2) important position in local social and economic development; and (3) good track record of government supports.

The Company has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections. From 2022 to 2024H1, the Company received financial subsidies from the local government of RMB17.4 million. In addition, the Company received capital injection from the local government of RMB9.0 million. In addition, the Company has also received government special bonds for the project construction. Given the Company's important position in Jiangshan City, we expect the Company to receive ongoing support from the local government in the foreseeable future.

ZJJH has an important position in JUCI's operations as the primary operating subsidiary in urban operation and utility service businesses. The Company accounted for nearly half of JUCI's total asset, and contributed more than one third of total revenue in 2023. In 2024, JUCI transferred shares of several state-owned companies to ZJJH, significantly enhancing the Company's capital strength and broadening its business scope. JUCI has also provided guarantee for some of the Company's debt. We expect the Company will continuously receive comprehensive support from its parent company.

JUCI is one of the key local infrastructure investment and financing companies in Jiangshan City, mainly responsible for the local public businesses such as infrastructure construction, land consolidation, resettlement housing, and utilities businesses. In addition, the Jiangshan City Government maintains a high degree of control over JUCI's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. Furthermore, JUCI has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections.

Rating Methodology

The methodology used in this rating is the [Rating Methodology for General Corporate \(April 2019\)](#).

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