

Credit Opinion

5 December 2024

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

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Jinan Zhangqiu District Construction Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g to Jinan Zhangqiu District Construction Investment Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jinan Zhangqiu District Construction Investment Co., Ltd. ("JZCI" or the "Company") reflects Zhangqiu District 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 Zhangqiu District Government's capacity to provide support reflects Zhangqiu District's gross regional production ("GRP") ranking upper-middle among the counties or districts in Jinan City, and its relatively strong economic and financial strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) clear and important position in infrastructure construction in Zhangqiu District; and (2) solid record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities with operational uncertainty; (2) moderate funding capacity; and (3) medium exposure to contingent liabilities.

The stable outlook on JZCI's rating reflects our expectation that Zhangqiu District Government's capacity to provide support will be stable, and the Company's important role in local infrastructure construction will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Clear and important position in infrastructure construction in Zhangqiu District
- Medium exposure to commercial activities with operational uncertainty
- Solid record of receiving support from the local government and its parent company
- Increasing debt level driven by infrastructure construction projects
- Moderate funding capacity
- Medium exposure to contingent liabilities

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) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduced exposure to risk commercial activities or improved funding capabilities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide 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 strategic significance, increased exposure to risk commercial activities, or weakened debt management.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	11.7	13.5	15.6	16.5
Total Equity (RMB billion)	10.0	10.2	10.5	10.5
Total Revenue (RMB billion)	1.0	0.9	1.1	0.7
Total Debt/Total Capital (%)	9.0	19.6	24.4	24.4

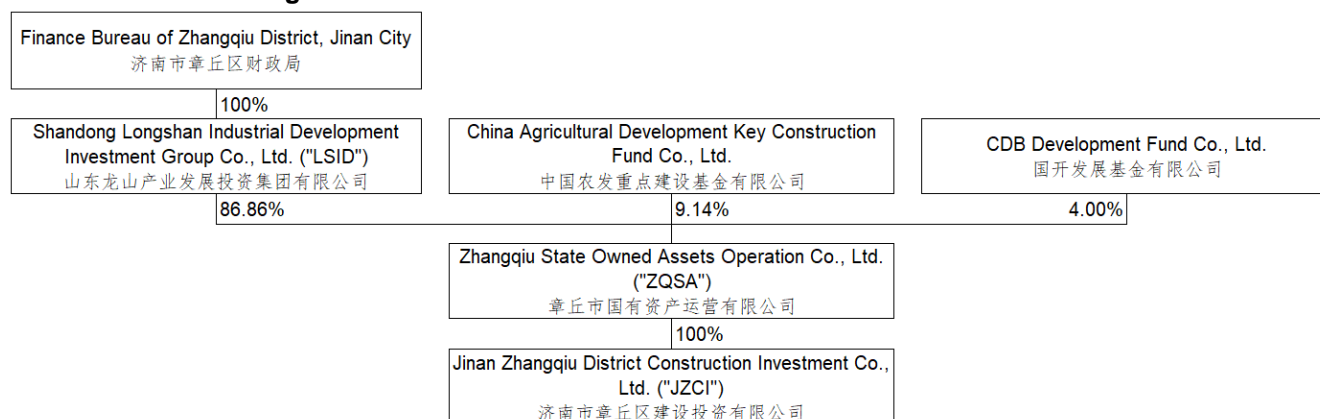
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Founded in 2010, JZCI is one of the major resettlement housing and infrastructure construction entities in Zhangqiu District, Jinan City. The Company is mainly engaged in the construction of resettlement housing and other infrastructure projects. It also undertakes some commercial activities such as self-operated projects, real estate property development, leasing and trading. As of 30 September 2024, JZCI was wholly owned by Zhangqiu State Owned Assets Operation Co., Ltd. ("ZQSA"), which is the principal subsidiary of Shandong Longshan Industrial Development Investment Group Co., Ltd. ("LSID"). LSID is the most significant urban construction and development entity, as well as the main driver of industrial development in Zhangqiu District. The Finance Bureau of Zhangqiu District was the ultimate controlling shareholder of the Company.

Exhibit 1. Shareholding chart as of 30 June 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

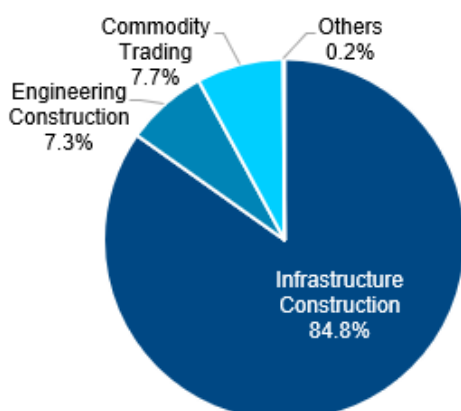
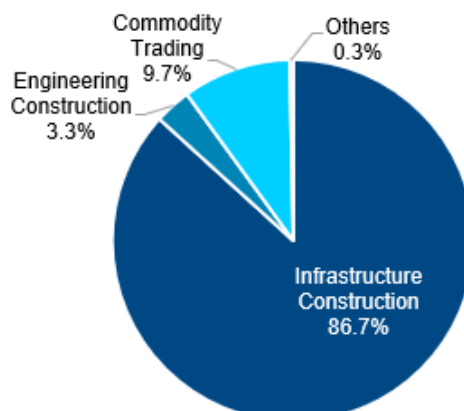


Exhibit 3. Gross profit structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government of Zhangqiu District has a strong capacity to provide support given Zhangqiu District's GRP ranking upper-middle among the counties or districts in Jinan City, and its relatively strong economic and financial strength.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital city of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1.0 trillion over the past three years. Over the same period, Jinan City ranked 9th by GRP among 15 sub-provincial cities in China and ranked 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2021 to 2023, its general budgetary revenue increased from RMB100.8 billion to RMB106.1 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of 79.1%. As of 31 December 2023, the local government's outstanding debt amounted to RMB318.0 billion, accounting for 24.9% of GRP. In the first three quarters of 2024, Jinan City's GRP amounted to RMB967.5 billion, representing a year-on-year("YoY") growth rate of 5.4%.

Exhibit 4. Key economic and fiscal indicators of Jinan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,143.2	1,202.8	1,275.7
GRP Growth (%)	7.2	3.1	6.1
General Budgetary Revenue (RMB billion)	100.8	100.1	106.1
General Budgetary Expenditure (RMB billion)	129.3	122.6	136.5
Local Government Debt (RMB billion)	212.0	266.1	318.0

Source: Jinan Municipal Government, CCXAP research

Zhangqiu District is in the east part of Jinan City and is Jinan's sub-centre city. Zhangqiu District has a strong industrial foundation and a complete industrial system. Zhangqiu District has formed pillar industries such as energy and power, machinery and electronics, construction and building materials, light and chemical industry, textile and garment, and biopharmaceutical, which has attracted well-known enterprises such as China National Heavy Duty Truck Group Jinan Truck Co., Ltd. In recent years, with the optimization of Zhangqiu District's industrial structure, its economy has developed well. Meanwhile, it has set up a national-level Mingshui Economic and Technological Development Zone in the region. In 2023, the GRP of Zhangqiu District increased by 6.1% YoY to RMB116.5 billion, ranking 5th among all the districts and counties of Jinan City. In the first three quarters of 2024, Zhangqiu District's GRP was RMB87.8 billion, an increase of 5.6% YoY. Meanwhile, Zhangqiu District's fiscal metrics and debt profile remained moderate. In 2023, the local government's general budgetary revenue increased to RMB6.0 billion. Its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) averaged at 76.7% over the past three years. As of 31 December 2023, Zhangqiu District's outstanding governmental debt amounted to RMB17.1 billion, accounting for 14.7% of its GRP.

Exhibit 5. Key economic and fiscal indicators of the Zhangqiu District

	2021FY	2022FY	2023FY
GRP (RMB billion)	112.0	112.1	116.5
GRP Growth (%)	4.6	0.1	6.1
General Budgetary Revenue (RMB billion)	7.7	5.4	6.0
General Budgetary Expenditure (RMB billion)	8.2	8.3	8.5
Local Government Debt (RMB billion)	14.2	16.1	17.1

Source: Zhangqiu District Government, CCXAP research

Government's Willingness to Provide Support**Clear and important position in infrastructure construction in Zhangqiu District**

There are two main LIIFCs in Zhangqiu District, Jinan Zhangqiu Holding Group Co., Ltd. ("ZQHG") and LSID respectively. Among them, LSID is the most significant urban construction and development entity, as well as the main driver of industrial development in Zhangqiu District. ZQSA is a major subsidiary of LSID and a key player in the construction and maintenance of resettlement housing and infrastructure projects in Zhangqiu District. JZCI is LSID's sub-subsidiary and has taken on the majority of the resettlement housing construction role within ZQSA. Given JZCI's pivotal role, we expect it to maintain its position for the foreseeable future.

JZCI is engaged in resettlement housing and infrastructure construction in Zhangqiu District commissioned by ZQSA through the construction agreements with ZQSA. The Company assumes the majority of project funding responsibilities. In accordance with the terms of the agreements, ZQSA is obliged to pay the total cost plus 20% to 25% to the Company upon examination of the projects. The Company's primary focus is on the construction

of resettlement housing, school renovation and expansion, and supporting infrastructures in Zhangqiu District. As of 30 September 2024, the Company's projects under construction had a total investment of over RMB5.4 billion and an uninvested amount of RMB1.3 billion. There was no infrastructure construction project under planning, and the Company's future construction projects will depend on the local government's strategic planning for regional development. The Company is also active in the infrastructure construction business through involving engineering construction projects, with class II qualification for general contracting of municipal utility engineering. Completed engineering construction projects include environmental improvement, comprehensive river management and farmland transformation. In recent years, the number of newly signed contracts of the Company gradually increased, while the volume of engineering construction business remained limited. As of 30 September 2024, the amount of contracts on hand was RMB147.0 million.

Medium exposure to commercial activities with operational uncertainty

Apart from infrastructure construction, JZCI also engages in several commercial activities, mainly including self-operated projects, real estate property development, leasing, and trading. We consider JZCI's commercial activities exposure to be medium, as the commercial assets accounted for around 25% of total assets.

JZCI participates in self-operated projects mainly through a collaborative model, including education, tourism, and port construction projects. The Company invests in project construction in proportion to its equity and achieves financial equilibrium through operating income. As of 30 September 2024, the Company had 1 completed project, namely Maple Leaf International School Phase One, for which it was responsible for the initial land funding with the investment of RMB149.0 million. During the project operation, the partner enterprise encountered financial difficulties, and the Company subsequently purchased the entire project in 2023 for an acquisition consideration of RMB47.2 million. Meanwhile, JZCI had several projects under construction, with a total estimated investment RMB2.6 billion and the uninvested amount was approximately RMB1.3 billion; and 3 projects under planning with a planned investment of RMB380 million. The Company has collaborated with both state-owned and private-owned enterprises, and the operational risks faced by private-owned enterprises may affect the project's progress and stability. Moreover, the future investment pressure is high for the Company and the operation of these self-operated projects bears uncertainties in project return.

JZCI's property development business is primarily focused on the construction and sale of residential properties in Zhangqiu District. As of 30 September 2024, it had one cooperation property project completed, with a total invested amount of RMB308.0 million and sold ratio of over 85%. Additionally, the Company is currently planning another project with an estimated total investment of RMB500 million. However, the fund balance of this business may suffer as the Chinese property market has been experiencing a downturn. The Company's proposed project benefits from favorable locations which may help to mitigate certain operational risks amid the current property market downturn.

JZCI has primarily acquired its leasing properties mainly through transfer or purchase from the local government, including commercial buildings, office buildings, hospitals, and roadside shops. The Company's rental income is primarily from the Zhangqiu Mansion in Beijing, which was purchased by the Company from the local government for approximately RMB700 million. The lease term for the Zhangqiu Mansion is 20 years at an annual rent of RMB8.8 million, and the rent will increase every five years. The rental revenue from the Zhangqiu Mansion for the first three quarters of 2024 was RMB 6.6 million. However, the Company still has some assets that have not yet been granted certificates of property ownership and yet to generate rental income.

JZCI also has sand and concrete sales business, which represents a significant source of revenue. However, the revenue from the sale of sand and concrete has been adversely affected by the expiry of sand mining

concessions in 2022 and the slowdown in the real estate market, declining from RMB150.1 million in 2021 to RMB82.7 million in 2023. Furthermore, there are delayed payments in some of the Company's downstream projects. This has a negative impact on the Company's ability to utilize its funds and maintain good liquidity.

Solid record of receiving support from the local government and its parent company

JZCI has a good track record of receiving support from the local government, including capital injections, asset injections, equity transfers and subsidies. In 2021, the local government injected capital of RMB311.7 million into the Company through ZQSA. Furthermore, the local government has injected state-owned enterprise equities and operating assets into JZCI, thereby expanding the Company's business scope and operating capabilities. For example, in 2021, the government transferred the equity of some state-owned enterprises to the Company without compensation, increasing the capital reserve by RMB4.9 billion. In addition, the Company has received government subsidies of more than RMB70.1 million from 2021 to 2023. We anticipate that JZCI will continue to receive support from the local government and its parent company, given its important position and close relationship with the local government.

Increasing debt level driven by infrastructure construction projects

Due to the ongoing investment for the infrastructure construction projects, JZCI's total debt has continued to increase over the past three years. As of 30 September 2024, the Company's total debt increased from RMB991.4 million at the end of 2021 to RMB3.4 billion. The total capitalization ratio, calculated as total debt to total capital, increased from 9.0% to 24.4% over the same period, which remained at a reasonable level. The Company reported a relatively high proportion of short-term debt at around 67.9% of total debt as of 30 September 2024, mainly due to the maturity of the two branches of the private placement corporate bonds in 2025. The Company plans to issue corporate bonds for the repayment. However, given the Company's large capital expenditure needs, we still need to pay attention to the Company's debt growth over the next 12 to 18 months.

In general, JZCI's asset liquidity is moderate. JZCI's assets are primarily comprised of receivables and inventories from its resettlement housing and infrastructure construction business, as well as long-term equity investments and fixed assets transferred from the parent company and the local government. As of 30 September 2024, JZCI's restricted assets accounted for 9.2% of the total assets, mainly due to the financing activities.

Moderate funding capacity

JZCI has access to multiple funding channels such as bank loans, domestic bond financing, and other financing products. As of 30 September 2024, approximately 42.4% of JZCI's debts were bank loans. Its standby liquidity was relatively limited, with an available portion of RMB304.7 million. This was insufficient to meet its investment needs for the projects currently under construction and planning. JZCI also has the funding source in the domestic bond market. In 2022 and 2023, the Company issued two private placements, both in the amount of RMB600 million, with coupon rates of 5.47% and 6.1%, respectively. These two tranches of bonds will mature in 2025 and represent approximately 35.1% of the total debt as of end-September 2024, presenting relatively high refinancing pressure to the Company. JZCI's other financing channels are mainly financial leasing and trusts with relatively high costs. As of 30 September 2024, the proportion of other financing channels to total debt was 17.4%.

Medium exposure to contingent liabilities

JZCI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the Company had outstanding external guarantees of RMB3.6 billion, representing 34.6% of its net assets. All of them were provided to local state-owned enterprises, and were mainly mutual guarantees between local state-owned enterprises in Zhangqiu District. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality.

ESG Considerations

JZCI assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social concerns, JZCI plays a crucial role in the social well-being of the residents in Zhangqiu District by undertaking resettlement housing and infrastructure construction projects in the area.

JZCI's governance considerations are also material as the Company is subject to oversight by the Zhangqiu District 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Jinan Zhangqiu District Construction Investment Co., Ltd. ("JZCI")	Jinan Zhangqiu Cultural Tourism Development Co., Ltd. ("JZCT")	Shandong Quanhui Industrial Development Co., Ltd. ("QHID")
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g
Shareholder	Zhangqiu State Owned Assets Operation Co., Ltd. (100%)	Shandong Longshan Industrial Development Investment Group Co., Ltd. (100%)	Jinan Zhangqiu Holding Group Co., Ltd. (100%)
Positioning	One of the major resettlement housing and infrastructure construction entities in Zhangqiu District	Important entity in construction of major projects and industrial development in Zhangqiu District	Important entity in investment, development, construction and operation of cultural tourism projects in Zhangqiu District
Total Asset (RMB billion)	16.5	13.1	17.7
Total Equity (RMB billion)	10.5	6.1	10.7
Total Revenue (RMB billion)	0.7	0.2	1.6
Total Debt/Total Capital (%)	24.4	44.3	18.0

All ratios and figures of JZCI are calculated using CCXAP's adjustments based on financial data as of 30 September 2024, those of JZCT and QHID are based on financial data as of 30 September 2023.

Source: Company information, CCXAP research

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