

Credit Opinion

10 July 2023

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

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Jiangsu Hairun City Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g to Jiangsu Hairun City Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jiangsu Hairun City Development Group Co., Ltd. (“JHCD” or the “Company”) reflects Haimen District Government’s (1) 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 the 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) essential role as a comprehensive urban operator in Haimen District with sufficient project reserves; (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 and moderate asset liquidity; and (3) high level of external guarantees.

The stable outlook on JHCD’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Haimen District over the next 12-18 months.

Rating Drivers

- Essential role as a comprehensive urban operator in Haimen District with sufficient project reserves
- Track record of receiving government payments
- Good access to diversified funding
- Medium exposure to commercial activities
- High debt leverage and moderate asset liquidity
- High level of contingent risks

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the 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 contingent risks.

What could downgrade the rating?

The rating could be downgraded if (1) the 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

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	53.6	58.6	58.6
Total Equity (RMB billion)	23.1	24.4	24.7
Total Revenue (RMB billion)	2.3	2.3	2.5
Total Debt/Total Capital (%)	54.2	55.5	55.3

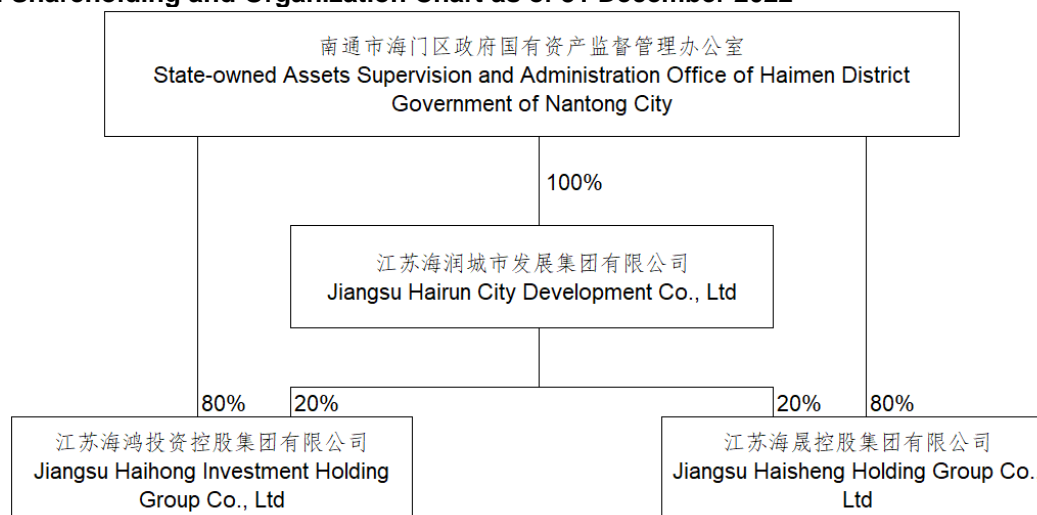
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

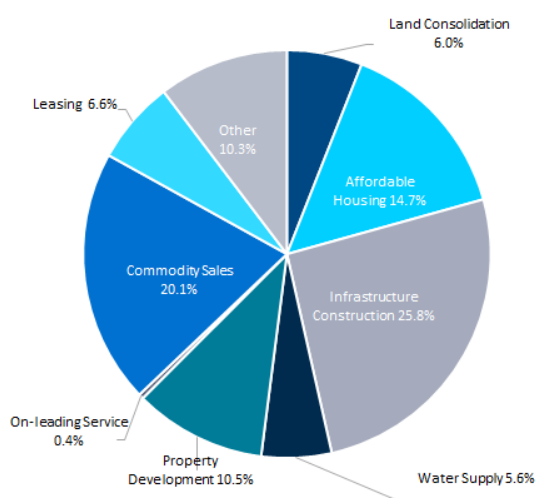
Founded in 2002, JHCD is one of the key local infrastructure investment and financing companies ("LIIFCs") in Haimen District. It is positioned as a comprehensive urban operator, undertaking projects in infrastructure construction, land consolidation, affordable housing and providing water supply and sewage treatment services in Haimen District. The Company also develops other commercial activities such as property development, on-lending service, commodity sales, and leasing. As of 31 December 2022, the Company was wholly owned by the State-owned Assets Supervision and Administration Office of Haimen District Government of Nantong City ("Haimen SASAO").

Exhibit 1. Shareholding and Organization Chart as of 31 December 2022



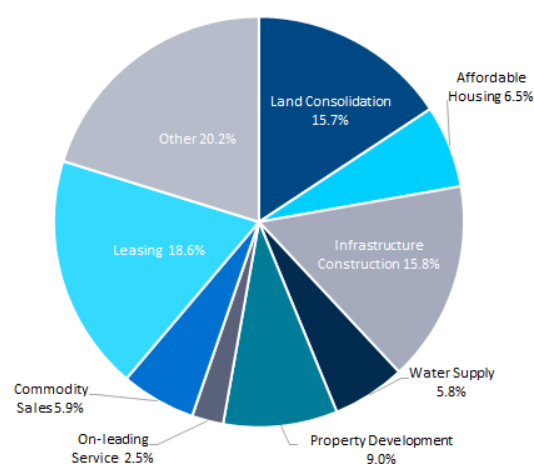
Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross Profit Structure in 2022



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% in 2021 and 2022 respectively, which were above the national average growth rate, ranking first in Nantong City. In 2022, Haimen District Government recorded a general public budgetary revenue of RMB5.6 billion, of which tax revenue, a relatively stable income 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, JHCD, Jiangsu Haihong Investment Holding Group Co., Ltd ("JHIH"), and Jiangsu Haisheng Holding Group Co., Ltd. ("JHHG"). 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. JHCD is positioned as a comprehensive urban operator, mainly responsible for construction of urban infrastructure and operation of public utilities in Haimen District, with the largest total

assets among all LIIFCs in Haimen District. Supported by the local government, in 2021, the government transferred the funeral business in Haimen District to JHCD. We believe that the strategic role of JHCD in Haimen District's economic development and public welfare is irreplaceable in the short-to-medium time period.

Essential role as a comprehensive urban operator in Haimen District with sufficient project reserves

JHCD plays an essential role in construction of urban infrastructure and operation of public utilities in Haimen District. It has developed several businesses, including land consolidation, affordable housing construction, infrastructure construction, water supply and sewage treatment in Haimen District. Considering its large project reserves and public-related assets, the possibility of JHCD being replaced is low and the Company is expected to maintain its importance for Haimen District Government.

JHCD is the main entity to undertake land consolidation in Haimen District. Generally, the Company signs land consolidation agreements with the Land Asset Reserve Center of Haimen District and carries out land demolition, compensation, development, and consolidation within the planned area. The local government would make payments to the Company based on the actual cost plus a markup during or after the completion. The settlement periods of completed projects are long that the unsettled amount of completed projects is large. Over the past three years, the Company has completed 10 key land consolidation projects with an outstanding uncollected amount of RMB598.4 million. In addition, the Company has large projects under construction and under planning, which include land consolidation projects in urban and township areas. As of 31 December 2022, the Company had 20 land consolidation projects under construction, with a total investment of RMB3.3 billion and an uninvested amount of RMB129.7 million.

JHCD has undertaken a relatively large number of affordable housing constructions over the years in Haimen District. The Company carries out the construction in accordance with relevant plans issued by Haimen District Government. As such housing will be sold to households affected by demolition at government guidance prices that are below market prices, the Finance Bureau of Haimen District will compensate for the shortfall between the sales income and 115% of the total construction cost. As of 31 December 2022, the Company had 7 projects under construction with a total investment of RMB3.7 billion and an outstanding amount of RMB3.5 billion. According to the government's planning, JHIH has been positioned as the main entity for affordable housing projects in Haimen District since 2017. The Company's affordable housing business in the central area of Haimen District is expected to gradually scale down after the completion of projects in hand, and it will mainly focus on affordable housing constructions in Development Zone and township area of Haimen District in the future.

The Company is also responsible for infrastructure construction in Haimen District that is essential to the daily lives of residents and the local government development blueprint, including roads, schools, and water conservancy facilities. The Company undertakes infrastructure construction under the agency construction model and receives project repayments based on the actual cost plus a markup in return upon completion, generally 15%. As of 31 December 2022, the Company has completed several projects with a total investment of RMB3.3 billion. At the same time, the Company also had sufficient project reserves that ensure the sustainability of the infrastructure construction business. There was an outstanding amount of RMB1.7 billion for the projects under construction and planning with a total investment of RMB2.2 billion, which included Traditional Chinese Medicine Hospital and Juxian Campus of Primary School Affiliated to Haimen Experimental School.

JHCD also provides water supply and sewage treatment services in Haimen District. The Company had one Yangtze Water Plant, with a maximum daily water supply capacity of around 100,000 tons as of end-2022,

covering the urban area of Haimen District and most surrounding towns. For sewage treatment, the Company had 572 kilometers of sewage treatment pipeline and the designed yearly sewage treatment capacity was 58.4 million tons per year as of end-2022. The Company has received stable operating subsidies from the local government as the water and sewage charges are guided by the government. JHCD is also responsible for the construction of sewage facilities in Haimen District and the operation and management of sewage collection and treatment.

Medium exposure to commercial activities

Apart from public activities, JHCD engaged in diversified commercial activities including on-lending service, property development, trading, property leasing and self-operated construction. 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 activities is considered medium, which accounted for less than 30% of its total assets, based on our assessment.

The Company started to recognize income from commercial property development in 2022, which comes from the sales of Xiuze Garden. As of end-2022, Xiuze Garden project was completed and most of the commercial housing has been sold. The Company will gradually recognize the relative revenue accordingly. As of end-2022, JHCD had no property development projects under construction or planning, and development plans for three reserve land were under deliberation. During the period of downturn in the recent real estate market, it may bring more uncertainties to the Company if there are further investments in the commercial property development business.

JHCD's commodity sale business contributed a considerable amount of income to the Company but earned a relatively small profit. It mainly includes steel, wood, sand, gravel and food. The customers are mainly construction companies that undertake construction projects for JHCD, and government institutions and schools in Haimen District. The Company adopts a demand-on-purchase model for building materials and makes the confirmation on volume and prices with downstream customers before organizing procurement from upstream suppliers. The customer and supplier concentration risks were high as the Top 5 customers and the Top 5 suppliers accounted for around 64.6% of its total sales and 52.0% of the total procurements in 2022, respectively. Furthermore, the income from this business sector is decreasing from 2020 to 2022 mainly due to reduced customer demand for building materials affected by epidemic situation and the Company's strategy to focus on selling commodities with relatively higher gross profit margin.

Property leasing business also generates stable income for the Company. As of end-2022, the Company had a total leasable area of around 449,500 square meters including office buildings, supermarkets and shops, and occupancy rates were over 80%. In order to further improve urban functions and speed up the cultural development in Haimen District, JHCD also engages in self-operated constructions, such as cultural tourism project along the Yangtze river, with a total investment of RMB1.5 billion, and is expected to be balanced through future leasing and ticket income. However, as the future investments of the construction projects are relatively large, and the construction periods are long, there exists uncertainty on the profitability of these projects.

JHCD engages in on-lending business through its subsidiary and its customers are private-owned enterprises in Haimen District, most of whom have business cooperations with the Company or are large enterprises within Haimen District. The Company requires its customers to provide counter-guarantee measures such as commitment letters issued by banks or assets as collaterals. The on-lending amount increased year by year but revenue in 2022 decreased as the Company terminated the on-lending business with some construction companies. As construction companies were the main customers at the early stage of JHCD's on-lending

business, the revenue in the future may be kept at a low level if the prospect of the construction industry is still sluggish and the Company insists on its decision of to reduce the business with construction companies. As of end-2022, all the on-lending funds in 2022 have been fully recovered.

Track record of receiving government payments

JHCD serves an important role as the urban developer and operator in Haimen District and has a track record of receiving ongoing support from the Haimen District Government, including capital injections, equity transfer, project payments, and operating subsidies. The local government transferred 20% of JHIH and JHHG's shares to JHCD after the consolidation in 2017, enhancing the capital strength of the Company. In addition, the Company totally received RMB5.1 billion project payments for the completed land consolidation, affordable housing and infrastructure construction projects. Apart from that, the Company has continuously received stable operating subsidies for public activities and infrastructure construction from 2020 to 2022, with a total amount of RMB418 million. We expect JHCD to receive ongoing support from the government given its strong position in urban development of Haimen District.

High debt leverage and moderate asset liquidity

JHCD shows a rising debt burden owing to its expansion in the construction of public-policy projects over the past few years. As of end-2022, the Company's total debt increased to RMB30.5 billion from RMB27.3 billion at end-2020. The total capitalization ratio, as measured by total debt to total capital, remained at a high level of 55.3% as of end-2022. At the same time, the Company had a high short-term debt burden with the short-term debt accounting for 38.0% of the total debt. The cash to short-term debt ratio was around 0.3x as of end-2022, indicating that its cash balance was insufficient to cover its short-term debt. In addition, as of end-2022, the Company has planned to invest around RMB7.3 billion in key projects including land consolidation, infrastructure construction, affordable housing and self-operated construction projects. We expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Exhibit 6. Key Projects under Construction and Planning as of 31 December 2022

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
Project under construction				
Land consolidation	20	3.3	3.1	0.2
Infrastructure construction	10	1.9	0.5	1.4
Affordable housing	7	3.7	0.2	3.5
Self-operated construction	3	2.7	1.0	1.7
Project under planning				
Land consolidation	2	0.2	-	0.2
Infrastructure construction	2	0.3	-	0.3
Total	44	12.1	4.8	7.3

Source: Company information, CCXAP Research

Besides, JHCD's asset liquidity was moderate. As of end-2022, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB5.9 billion, accounting for 24.0% of net assets. On top of that, as of end-2022, the Company's inventories and other receivables account for 59% of the total asset. The Company's inventories mainly include costs of land

consolidation, affordable housing and infrastructure constructions, which are considered low liquidity.

Good access to diversified funding

JHCD has good refinancing ability which may partially release its large investment needs and short-term debt pressure. JHCD has good access to various sources of funding, including banks and bond market. It has maintained good relationships with large domestic banks such as policy banks, national joint-stock commercial banks and state-owned large commercial banks. As of end-2022, it had total credit facilities of approximately RMB22.1 billion with an unused portion of around RMB5.0 billion, which were provided by diversified banks. JHCD also has access to the onshore debt capital market and issued different financial products in the onshore bond market such as SCPs, corporate bonds, MTNs and PPNs. It issued 6 tranches of bonds with yearly coupon rates from 2.6% to 3.2%, raising RMB2.6 billion in 2022, and issued onshore bonds to raise RMB4.9 billion from January to May 2023. In addition, JHCD had manageable exposure to nonstandard financing, accounting for less than 10% as of end-2022.

High level of contingent risk

The credit profile of JHCD is constrained by its large number of external guarantees, which could potentially increase its repayment obligations. As of end-2022, the Company had outstanding external guarantees of RMB7.3 billion, accounting for 29.5% of its net assets. Most guarantees are provided to other state-owned enterprises within Haimen District. However, external guarantee balance of RMB296 million were provided to Jiangsu Nantong Sanjian Construction Group Co. Ltd. (“NTSJ”), a private-owned enterprise that is listed as a dishonest judgment debtor, which exposes the Company to higher contingent risks. NTSJ has provided full counter-guarantees, such as land, housing and factory buildings as collateral, and shares of a listed company as pledges, such as Guangdong Jingyi Metal Co., Ltd. The counter-guarantees fully cover the scale of external guarantees provided for this private-owned enterprise, and the risk of expected compensation is relatively controllable.

ESG Considerations

JHCD faces environmental risks because it has undertaken land consolidation, infrastructure construction and affordable 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.

JHCD bears social risks as it implements public policy initiatives by undertaking public 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.

JHCD'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

JHCD'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 urban infrastructure and operation of public utilities in Haimen District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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 7. Peer Comparison

	Jiangsu Hairun City Development Group Co., Ltd.	Jiangsu Haihong Investment Holding Group Co., Ltd.	Jiangsu Haisheng Holding Group Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g
Shareholder	Haimen SASAO (100%)	Haimen SASAO (80%) and JHCD (20%)	Haimen SASAO (80%) and JHCD (20%)
Positioning	Key entity in urban infrastructure and operation of public utilities in Haimen District	Key entity in affordable housing and infrastructure construction in Haimen District	Key entity in transportation infrastructure construction in Haimen District
Total Asset (RMB billion)	58.6	53.3	43.8
Total Equity (RMB billion)	24.7	18.4	16.6
Total Revenue (RMB billion)	2.5	2.5	3.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: CCXAP research

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