

Credit Opinion

20 February 2024

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

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Fujian Jinjiang Construction Investment Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Fujian Jinjiang Construction Investment Holding Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Fujian Jinjiang Construction Investment Holding Group Co., Ltd. ("FJCI" or the "Company") reflects Jinjiang City Government's (1) very strong capacity to provide support; and (2) high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Jinjiang City Government's capacity to provide support reflects the Jinjiang City's strong comprehensive strength, ranked 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, with ongoing growth in economic and fiscal strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant strategic role as the largest state-owned enterprise in Jinjiang City; (2) high sustainability of public policy projects; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) relatively high debt leverage; (2) moderate asset liquidity; and (3) relatively high reliance on non-standard financing.

The stable outlook on FJCI's rating reflects our expectation that Jinjiang City Government's capacity to provide support will remain stable, and the Company will maintain its important position in infrastructure construction in Jinjiang City over the next 12 to 18 months.

Rating Drivers

- Dominant strategic role as the largest state-owned enterprise in Jinjiang City
- High sustainability of public policy projects
- Moderate exposure to commercial activities
- Good track record of receiving government support
- Relatively high debt leverage and moderate asset liquidity
- Relatively high reliance on non-standard financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jinjiang City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as decrease in exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Jinjiang City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in market position, or material decrease in government payments.

Key Indicators

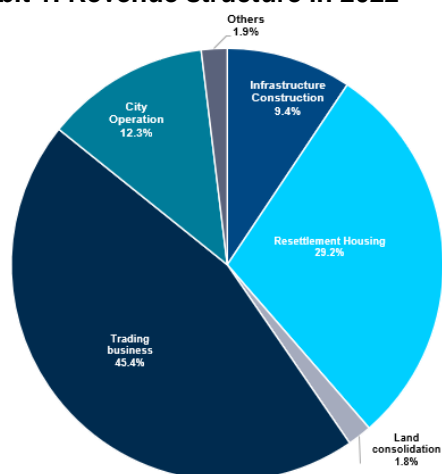
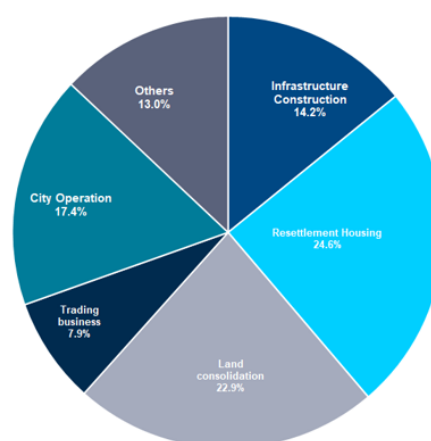
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	98.9	109.4	126.5	136.5
Total Equity (RMB billion)	37.8	40.8	46.5	46.9
Total Revenue (RMB billion)	5.7	6.0	6.5	4.8
Total Debt/Total Capital (%)	56.5	56.8	57.8	60.8

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2018, after the consolidation of other state-owned enterprises in Jinjiang City, FJCI has become the largest local infrastructure investment and financing companies ("LIIFCs") by total asset in Jinjiang City. The Company is the most important infrastructure construction and urban operation services entity in Jinjiang City. It primarily engages in infrastructure construction, public transport operation, land development and consolidation, and affordable housing construction. The Company also engages in commercial business such as property development, material trading, security services, and property leasing. As of the end of June 2023, the Company was wholly owned and ultimately controlled by Jinjiang State-owned Assets Operation and Guarantee Center.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Jinjiang City Government has a strong capacity to provide support given its economic importance in Quanzhou City, with strong comprehensive strength and ongoing growth in economic and fiscal strength.

Fujian Province is located in the southeastern coast of China and is recognized as one of the provinces with the fastest economic development in China. In 2023, Fujian recorded a gross regional product ("GRP") of RMB5.4 trillion, with a GRP growth rate of 4.5% year-on-year ("YoY"), ranking 8th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB333.9 billion in 2022.

Located in the southeast of Fujian Province, Quanzhou City connects Putian and Fuzhou in the north and Xiamen in the south. It is one of the "reforms and opening-up" area in China. The pillar industries in Quanzhou City include textiles, petrochemicals, machinery and equipment, building materials and home furnishing. With the ongoing industrial development, the economic strength of Quanzhou City has continuously grown. The GRP of Quanzhou City increased from RMB1,015.9 billion in 2020 to RMB1,210.3 billion in 2022, ranking 2nd among 9 prefecture-level cities in Fujian Province. Quanzhou Municipal Government recorded a public budgetary revenue of RMB52.7 billion, of which tax revenue accounted for 64.5%. However, its fiscal balance is moderate with general budgetary revenue/general budgetary expenditure ratio of 65.4%. Its debt burden is also moderate. In 2022, the local government's outstanding debt grew to RMB211.2 billion, accounting for 17.5% of GRP and 194.3% of its total fiscal income. In the first nine months of 2023, the GRP of Quanzhou City increased 4.1% YoY to RMB903.1 billion; while its general budgetary revenue amounted to RMB46.7 billion.

Exhibit 3. Key economic and fiscal indicators of Quanzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,015.9	1,130.4	1,210.3
GRP Growth (%)	2.9	8.1	3.5
General Budgetary Revenue (RMB billion)	45.4	50.5	52.7
General Budgetary Expenditure (RMB billion)	71.5	67.2	80.6
Local Government Debt (RMB billion)	154.8	186.6	211.3

Source: Statistic Bureau of Quanzhou City, CCXAP research

Jinjiang City is a county-level under Quanzhou City, with a total area of 649 square kilometers. In 2023, Jinjiang City ranked 8th by comprehensive strength among the top 100 counties (including county-level cities) in China, according to China Small and Medium Cities Development Index Research Group. Jinjiang City is an important manufacturing base in China, with developed shoe-making and textile and garment industries. With the ongoing industrial development, the economic strength of Jinjiang City has continuously grown. The GRP of Jinjiang City increased from RMB261.6 billion in 2020 to RMB320.7 billion in 2022, with a GRP growth rate of 4.0%, accounting of around 26.5% of the GRP of Quanzhou City. Jinjiang City Government's public budgetary revenue also increased from RMB13.9 billion in 2020 to RMB15.1 billion in 2022. Both its GRP and general budgetary revenue rank 1st among 11 districts/counties in Quanzhou City. It has a good fiscal self-sufficiency, with an average fiscal balance ratio of 98.4% over the past three years. In 2022, the local government's outstanding debt grew to RMB36.9 billion, accounting for 11.5% of GRP. In the first nine months of 2023, the GRP of Jinjiang City increased by 6.2% YoY to RMB236.4 billion.

Exhibit 4. Key economic and fiscal indicators of Jinjiang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	261.6	298.6	320.7
GRP Growth (%)	4.2	10.5	4.0
General Budgetary Revenue (RMB billion)	13.9	14.6	15.1
General Budgetary Expenditure (RMB billion)	15.1	12.5	17.6
Local Government Debt (RMB billion)	30.8	31.6	36.9

Source: Statistic Bureau of Jinjiang City, CCXAP research

Government's Willingness to Provide Support

Dominant strategic role as the largest state-owned enterprise in Jinjiang City

There are 3 main LIIFCs in Jinjiang City, including FJCI, Fujian Jinyuan Development Group Co., Ltd. ("FJDG"), and Jinjiang State-owned Capital Investment and Operation Co., Ltd. ("JSCI"). FJCI is mainly responsible for urban development and operation in Jinjiang City, FJDG is responsible for the infrastructure construction of Jinjiang Economic and Technological Development Zone ("Jinjiang ETDZ"), while JSCI undertakes the industrial development, public utilities services, and property development in Jinjiang City. The responsibilities of 3 major LIIFCs are well-defined with little overlap.

In 2022, after the consolidation of several local state-owned enterprises, such as Fujian Jinjiang Urban Construction Investment Development Group Co. Ltd. ("FJUC") and Jinjiang Public Transport Co., Ltd., the Company has significantly enhanced its capital strength and broadened its business scope. It is the largest LIIFC in Jinjiang City with dominant position in various public policy projects, including infrastructure construction, affordable housing construction, and land consolidation. Considering its strategic significance to the development of Jinjiang City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High sustainability for public policy projects

Positioned as an urban construction and operation service provider, FJCI's public activities mainly include infrastructure construction, affordable housing construction, land consolidation, and public transportation service. The business scope of the public projects covers the whole Jinjiang City (except Jinjiang ETDZ). The Company has considerable projects in the pipeline, which can ensure the sustainability of the business, but exert large capital expenditure pressure.

The Company's infrastructure construction business includes urban infrastructure construction (mainly municipal construction and street lighting projects), and transportation infrastructure construction (mainly road and bridge construction). FJCI mainly adopts agency construction model to conduct infrastructure construction projects. The Company signs agency construction agreements with the Jinjiang Municipal Finance Bureau and construct the projects with self-raised fund. The Company may receive the cost-plus repayment (8% to 15% of the construction cost) upon project completion or based on the project progress. As of 30 June 2023, the Company had 6 major infrastructure projects under construction and planning, with a total investment amount of RMB10.8 billion and an outstanding amount of RMB6.0 billion.

The Company also engages in affordable housing construction in Jinjiang City. The business model of affordable housing construction business is similar to infrastructure construction business. As of 30 June 2023, the Company had 2 major affordable housing under construction, with a total investment amount of RMB3.0 billion and an outstanding amount of RMB1.3 billion. In recent years, its affordable housing business has faced certain capital expenditure pressures and the overall settlement progress of projects has been slow.

The Company focuses on the development of land consolidation business in Jinjiang City. The Company also adopts agency construction model under this segment. The repayments are calculated based on a cost mark-up of 8% to 15% of the construction cost. As of 30 June 2023, the Company had 2 major land development projects under construction, with a total investment amount of RMB7.8 billion and an outstanding amount of RMB1.7 billion. However, the project construction period is long and capital occupation problem has arisen. As of 30 June 2023, the Company completed 7 major land development projects, with a total invested amount of RMB18.9 billion and unreceived repurchase payment of RMB10.9 billion.

Moderate exposure to commercial activities

In addition to public activities, FJCI is also involved in commercial activities such as material trading, property development, security services, property management and operation, and security services. We consider FJCI's commercial business exposure to be moderate, as its market-driven businesses accounted for less than 30% of its total assets as of 30 September 2023.

Material trading business is one of the Company's major sources of income, which accounted for 45.4% of the total revenue. It has experienced rapid growth and has subsequently maintained a stable scale. The main products of its trading business include strip steel, radiata pine logs, zirconium concentrate, zircon sand, and other products. However, the business is subject to certain concentration risk. As of 30 June 2023, the top 5 suppliers and customers accounted for 81.8% and 94.0% of the total procurement and total sales, respectively. It is noteworthy that the gross profit of trading business has been maintained at relatively low level. As of 2023H1, the gross margin of trading business was 1.21%.

The Company also conducts property development business. Since the segment is at initial stage, revenue has not been recognized. As of 30 June 2023, the Company has 4 major property projects under construction or planning, with total investment amount of RMB3.2 billion and outstanding amount of RMB1.4 billion. Besides, the Company also has one self-operated affordable housing project in Technology and Innovation New Area, with a planned total investment amount of RMB2.3 billion, for which the Company plans to utilize the property sales, and car park sales to achieve breakeven.

As a major urban operation service provider in Jinjiang City, the Company also engages in property management and operation business, including property management, property operation, and property leasing. Most of the revenue comes from property operation, which involves the purchases of properties and then

auctioning in public market. In 2022, the revenue of property management and operation business achieved to RMB376.8 million, with a high gross profit margin of 40.3%, provide good supplemental income and profit to the Company.

The Company is the only state-owned security company and the largest security company in Jinjiang City, which provided security service to different sectors, including government institutions, schools, as well as tourism spots. As of 2022, income under this segment was RMB231 million. However, the gross profit margins of the security service business decreased from 10.7% in 2020 to 3.3% in 2022 mainly due to the fluctuation of labor costs. Other business such as property leasing, parking lot operation, vehicle inspection and maintenance provide supplementary income to the Company. However, the small operating scale of these businesses limits its contribution to the Company's overall cash flow and profit.

Good track record of receiving government support

FJCI has a track record of receiving payments from the Jinjiang City Government. These payments take various forms, such as government subsidies, government special funds, asset transfer, cash injection, and equity transfers. Up to end of 2022, the Company has received a total cash injection of RMB8.0 billion (including RMB986 million interest subsidy) from Jinjiang Finance Bureau. From 2020 to 2023Q3, FJUC also received asset injection of around RMB4.4 billion. The local government has provided total subsidies of RMB568.4 million to the Company over the same period. In 2022, the local government injected the shares of various local state-owned enterprises to the Company, increasing the Company's capital reserve of RMB40.6 billion. In addition, the Company also received repurchase payment for its public project. Overall, given its important position and contribution to regional economic development, we believe that FJCI will receive ongoing government support to support its business operations.

Relatively high debt leverage

Due to the expansion of the construction projects, FJCI demonstrated a fast debt growth over the past three years. The Company's total debt increased from RMB49.0 billion at end-2020 to RMB72.7 billion as of 30 September 2023, with relatively high total capitalization ratio of 60.8%. In addition, the Company had a certain short-term debt repayment pressure. As of 30 September 2023, its short-term debt accounted for 37.9% of total debt, and its cash to short term debt ratio was 0.1x. We expect that, given its large future capital needs, the Company's debt burden will continue to grow in the next 12 to 18 months.

Moderate asset liquidity

Furthermore, FJCI has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories and contract assets, which accounted for 81.7% of its total asset as of 30 September 2023. Inventories and contract assets are mainly construction costs for its public projects, which are considered low liquidity. Meanwhile, the Company's restricted asset accounted for 1.0% of total asset, which are mainly amounts held in designated accounts required by regulators as well as pledge.

In terms of contingent liability, the Company bears low contingent risks. As of 30 September 2023, the Company's external guarantee amount was RMB6.1 billion, accounted for 13.0% of its net assets. All of external guarantee was provided to local state-owned enterprises.

Relatively high reliance on non-standard financing

The Company maintains a good relationship with large domestic banks. Around 25.3% of the Company's debt was provided by bank loans. As of 30 June 2023, the Company obtained total credit facilities of RMB51.9 billion from domestic banks, with available credit facilities of RMB15.3 billion. The Company has a track record of fund-raising activities in both offshore and onshore debt capital market. Bond financing accounted for 44.7% of the Company's debt. Meanwhile, the Company's most important subsidiary, FJUC, has issued offshore bonds with total issued amount of USD317 million in 2023. However, the Company has a relatively high exposure to non-standard financing, such as financial leasing, and trustee financing. As of 30 September 2023, non-standard financing accounted for 30.0% of its total debt. As the government repayment progress is prolonged, the Company is reliant on external financing.

ESG Considerations

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

The Company is also exposed to social risks as a public services provider in Jinjiang City. Demographic changes, public awareness and social priorities shape government's target for FJCI, or affect the government's propensity to support the Company.

FJCI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

FJCI'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 essential roles in infrastructure construction in Jinjiang City, 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 \(July 2022\)](#).

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