

## Credit Opinion

24 December 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Jiangsu Ruihai Investment Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Jiangsu Ruihai Investment Holding Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Jiangsu Ruihai Investment Holding Group Co., Ltd. (“JRIH” or the “Company”) reflects Hai’an City Government’s very strong capacity to provide support and its high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Hai’an City Government’s capacity to support reflects Hai’an City’s good economic strength as one of the largest county-level cities in Jiangsu Province, with a gross regional product (“GRP”) over RMB100 billion, while it has moderate fiscal metrics and debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) direct and full ownership by the Hai’an City Government; (2) high strategic role in land development and affordable housing in Hai’an City; and (3) track record of receiving government support.

However, the rating is constrained by the Company’s (1) increased risk exposure to commercial activities; (2) moderate debt management with debt maturities in the short term; (3) large capital expenditure pressure with long repayment period; and (4) medium exposure to external guarantees provided to local state-owned enterprises.

The stable outlook on JRIH’s rating reflects our expectation that the Hai’an City Government’s capacity to provide support will be stable, and the Company’s characteristics, such as its important role in the provision of affordable housing and the development of Hai’an Logistics Development Zone (“Logistics Zone”), are expected to remain stable over the next 12 to 18 months.

## Rating Drivers

- High strategic role in land development and affordable housing in Hai'an City
- Increased risk exposure to commercial activities
- Moderate debt management with large investment needs in public projects
- Track record of receiving government payments but subject to long repayment period
- Diversified and stable sources of funding
- Medium exposure to external guarantees provided to local state-owned enterprises

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Hai'an City Government's capacity to support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as a material improvement in debt management or financing ability.

### What could downgrade the rating?

The rating could be downgraded if (1) Hai'an 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 a material increase in commercial business risk, or deteriorated debt management.

## Key Indicators

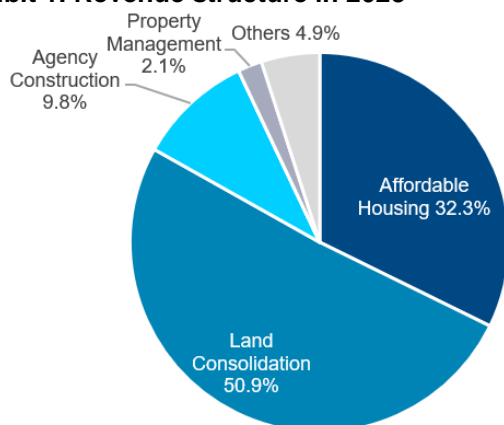
	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	46.0	52.6	55.4	59.4
Total Equity (RMB billion)	14.6	16.7	16.9	16.0
Total Revenue (RMB billion)	2.6	3.6	1.5	0.9
Total Debt/Total Capital (%)	62.1	63.7	66.5	67.6

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

Source: Company information, CCXAP research

## Corporate Profile

Established in 2013, JRIH is one of the key local infrastructure investment and financing companies ("LIIFCs") in Hai'an City, a county-level city under the administration of Nantong City. JRIH is an important provider of affordable housing in Hai'an City and the main developer in the Logistics Zone. It undertakes the affordable housing and land consolidation business primarily through its fully-owned subsidiaries, Hai'an City Relocation and Reconstruction Co., Ltd. ("Hai'an Reconstruction") and undertakes the land development and infrastructure construction in the Logistics Zone primarily through Jiangsu Hai'an Trade Logistics Group Co., Ltd. ("Hai'an Trade Logistics"). JRIH also takes some commercial businesses such as property management and trading. As of 30 September 2024, JRIH was wholly-owned and controlled by the Hai'an City State-owned Asset Management Center ("Hai'an SAMC").

**Exhibit 1. Revenue structure in 2023**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe that Hai'an City Government has a very strong capacity to provide support as one of the largest county-level cities in terms of GRP in Jiangsu Province, with strong geographic advantages and industrial development, while it has moderate fiscal metrics and debt profile.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. 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. In the first three quarters of 2024, Jiangsu Province's GRP reached RMB9.7 trillion, a YoY increase of 5.7%.

Nantong City is a prefecture-level city in Jiangsu Province, 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. In 2023, Nantong City recorded a GRP of RMB1.2 trillion, ranking 4<sup>th</sup> in Jiangsu Province, with a year-on-year ("YoY") increase of 5.8%. In the first nine months of 2024, Nantong City realized a GRP of RMB941.4 billion, up 6.3% YoY. With the continuous development of the regional economy, Nantong City reported general budgetary revenue of RMB68.0 billion in 2023, a YoY increase of 11.0%. Tax revenue is the main contributor to general budgetary revenue, averaging accounting for around 76.0% over the past three years. However, the recent turndown in the real estate market affects its fiscal stability as government funds accounted for over 50% of the fiscal revenue in the past, which mainly came from the sales of land. The high linkage between its fiscal revenue and the property market would increase fiscal pressure on the government when the real estate market underperforms. As of the end of 2023, the direct debt outstanding of Nantong Municipal Government increased to RMB213.0 billion, accounting for 18.1% of its GRP.

**Exhibit 2. Key economic and fiscal indicators of Nantong City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,102.7	1,138.0	1,180.0
GRP Growth (%)	8.9	2.1	5.8

General Budgetary Revenue (RMB billion)	71.0	61.3	68.0
General Budgetary Expenditure (RMB billion)	112.2	114.7	118.1
Local Government Debt (RMB billion)	186.3	197.9	213.0

Source: Statistic Bureau of Nantong City, CCXAP research

Hai'an City is adjacent to the Yellow Sea to the east and facing the Yangtze River to the south. Hai'an City is one of the county-level cities under the administration of Nantong City with a good industrial base and economic development conditions. It has developed textile and garment, electrical machinery, general equipment and chemical fiber industry as its pillar industries. The number of industrial-scale enterprises and the number of enterprises with a scale over RMB100 billion in Hai'an City were both at the forefront in Jiangsu Province. In 2023, Hai'an City's economic growth rate rebounded to 6.0% and achieved a GRP of RMB143.6 billion. From January to September 2024, Hai'an City achieved a GRP of RMB115.4 billion, representing a YoY increase of 5.8%. In addition, the general budgetary revenue increased to RMB7.2 billion from RMB6.6 billion in 2022 with tax revenue rising to RMB5.8 billion from RMB4.5 billion. Tax contribution recovered to 81.1% in 2023 so the 3-year average fiscal stability (tax/general budget revenue) increased to 77.1%, indicating a strong revenue-generating ability. Hai'an City Government's fiscal metrics and debt profile remained moderate. The average fiscal balance ratio (general budgetary revenue/ general budgetary expenditure) was 49.2% over the past three years, indicating high reliance on support from high-tier governments. In addition, the local government's direct debt kept increasing and reached around RMB24.7 billion as of the end of 2023, accounting for about 17.2% of GRP.

### Exhibit 3. Key economic and fiscal indicators of Hai'an City

	2021FY	2022FY	2023FY
GRP (RMB billion)	134.3	138.0	143.6
GRP Growth (%)	9.1	1.8	6.0
General Budgetary Revenue (RMB billion)	7.0	6.6	7.1
General Budgetary Expenditure (RMB billion)	13.9	14.0	14.0
Local Government Debt (RMB billion)	21.7	22.9	24.7

Source: Statistic Bureau of Hai'an City, CCXAP research

Established in 2013, Logistics Zone is a provincial logistics park located in the north of Hai'an City, where the "road, railway and water" transportation facilities are concentrated. It is one of the two provincial-level comprehensive transportation hubs located in the county-level city approved by Jiangsu Province, positioning to serve the development of Yangtze River Delta integration and coastal area. The Logistics Zone is planned to lay out the industry pattern including four major functional platforms (multimodal transport, bonded logistics, futures delivery and spot trade) and six major material distribution centers (non-ferrous metals, plastic raw materials, textile raw materials, grain, wood and cold chain logistics). Major large enterprises in the Logistics Zone include Hai'an Tielian Logistics Co., Ltd., Hai'an Bonded Logistics Center Co., Ltd. and Jiangsu Hai'an Fengshan Port Co., Ltd.

### Government's Willingness to Provide Support

#### High strategic role in land development and affordable housing in Hai'an City

JRIH is one of the key LIIFCs in Hai'an City under the supervision of the Hai'an City Government. It has a strong role in the construction and sales of local affordable housing in the urban area of Hai'an City and the development of the Logistics Zone. It mainly undertakes the affordable housing and land consolidation business

primarily through its fully-owned subsidiaries, Hai'an Reconstruction undertakes the land development and infrastructure construction in the Logistics Zone primarily through Hai'an Trade Logistics.

Hai'an Reconstruction is mandated by the local government to undertake urban housing demolition and relocation of residents, which is aligned with China's national housing policy in offering more affordable housing and promoting common prosperity. As of 31 December 2023, Hai'an Reconstruction has completed 15 key affordable housing projects, with a total investment of RMB15.9 billion and realized income of RMB10.2 billion. The completed affordable housing units are mainly sold to residents who are affected by urban renewals. At the same, Hai'an Reconstruction has completed a number of land clearance projects with an investment of RMB9.5 billion, most of which were not yet settled and received repayment. Meanwhile, Hai'an Reconstruction had 3 affordable housing projects under construction, with a total investment of RMB2.6 billion and an outstanding amount of RMB1.9 billion; and a processing land consolidation project which was nearly finished. However, four recent completed projects are affected by the slowdown of the local property market, leading to a relatively low sales rate averaging at 35.7%, exerting destocking pressure on the Company.

JRIH is also responsible for the land development and infrastructure construction of the Logistics Zone through Hai'an Trade Logistics. The Logistics Zone is one of the key provincial-level industrial parks in Jiangsu Province to promote the development of the local logistics industry. As of 31 December 2023, Hai'an Trade Logistics had a land consolidation project under progress with a total investment of RMB1.3 billion and an uninvested amount of RMB1.1 billion. Meanwhile, Hai'an Trade Logistics had 3 key infrastructure construction projects under construction with a total investment amount of RMB1.6 billion and an uninvested amount of RMB1.3 billion.

Over years of development, JRIH has developed competitive advantages in the affordable housing business and became the sole entity under the supervision of Hai'an City Government to conduct such business in the urban areas of Hai'an City. In addition, JRIH is also responsible for the development of the Logistics Zone. Given the important policy role in affordable housing and public function, we expect that the Company's strategic position in Hai'an City is unlikely to change in the near future.

### **Increased risk exposure to commercial activities**

JRIH is also engaged in some commercial activities such as commercial housing development, property management and trading that expose the Company to certain business risks. The risk exposure increased as the business developed that asset size accounting for more than 15% of its total assets, mainly because of its commercial housing development business.

Apart from the affordable housing business, the Company engaged in the commercial housing business in the form of equity participation and self-developed. As of 31 December 2023, the Company had a commercial housing project under construction with an estimated total investment of RMB1.8 billion and an outstanding amount of RMB1.2 billion. In addition, JRIH is allowed to sell some affordable housing in the public market after meeting the needs of relocated residents affected by the removal and resettlement projects, which helps partly compensate for the cost of urban renewal projects. However, the property sales are easily affected by the local market conditions, bringing more operating uncertainties and financial risks to the Company.

In addition, JRIH engages in the property management business by providing property management services to the owner of affordable housing. However, the scale of this business is relatively small and the operating costs are relatively high, resulting in losses in 2023. In addition, Hai'an Trade Logistics is engaging in service business in the Logistics Zone, such as warehousing service. As of 31 December 2023, the Company had 2 warehousing projects with an estimated total investment of RMB1.0 billion. These projects have been

constructed. Following these projects are put into operation, it is expected to bring supplementary income to the Company. However, it is subject to the macro-economy and the fluctuation of market demand, bringing uncertainty to the Company.

### Moderate debt management with large investment needs in public projects

JRIH maintained moderate debt management because of ongoing investment in public activities. Its total debt decreased slightly from RMB33.5 billion at end-2023 to RMB33.3 billion as of 30 September 2024, mainly due to the equity transfer without compensation. Over the same period, the Company's capital surplus decreased by 9.2% thus the total capitalization ratio, measured by total debt over total capital, increased by 1.1 percentage points to 67.6%. The debt structure remained stable with short-term debt accounting for 23.8% of the total debt. At the same time, the cash to short-term debt ratio was 0.4x, indicating that its cash balance was insufficient to cover its short-term debt. The Company has a considerable ongoing investment in its public activities including land consolidation, affordable housing and infrastructure construction. As of 31 December 2023, there was an uninvested amount of around RMB4.7 billion in key public projects under construction. We expect that JRIH will maintain an increasing trend in debt level due to its sizable future investment in public activities.

#### Exhibit 4. Key public projects under construction as of 31 December 2023

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB million)	(RMB million)	(RMB million)
<b>Projects Under Construction</b>				
Land Consolidation	3	7,283	6,920	667
Affordable Housing	3	2,615	714	1,901
Infrastructure Construction	3	1,614	313	1,301
Commercial Housing	1	1,768	555	1,213
<b>Total</b>	<b>10</b>	<b>13,280</b>	<b>8,502</b>	<b>5,082</b>

Source: Company information, CCXAP Research

### Moderate asset liquidity

JRIH's asset liquidity is moderate as a large number of current assets with less liquidity. As of 30 September 2024, the Company's other receivables accounts receivables and development costs accounted for more than 60% of the total assets, which are considered to be less liquid. In addition, most of these amounts include current accounts, advances and deposits with local governments and state-owned enterprises, and the schedule of repayment depends largely on financial strength and land market conditions. Moreover, as of same date, the value of the Company's restricted assets was RMB6.4 billion, accounting for 10.8% of the total assets, mainly including restricted intangible assets, inventories, investment real estate and other current assets. The investment real estate is composed of large transferable land but most of them are restricted, which may reduce the Company's financial flexibility.

### Track record of receiving government support

JRIH has a track record of receiving support from the government in various forms such as capital injection, financial subsidies, proceeds of project management and asset injections. From 2023 to 2024Q3, the local government injected capital of RMB880.0 million into the Company, further enhancing its capital strength. In order to support the Company's operation and provision of public services such as land consolidation and



affordable housing, the local government also continued to provide financial subsidies of RMB408.6 million in total over the same period.

#### **Exhibit 5. Track record of government support from 2021 to 2024Q3**

(RMB million)	2021	2022	2023	2024Q3
Asset Injections	212	2,080	600	280
Financial Subsidies	228	821	369	393
<b>Total</b>	<b>440</b>	<b>2,901</b>	<b>969</b>	<b>673</b>

Source: Company information, CCXAP Research

JRIH has a record of receiving government repayments, while it depends on the progress of settlement and there is an obvious lag in payment collection. The government repayments for JRIH's land consolidation business and infrastructure construction business depend on the local government's arrangement and fiscal revenue of the year. The payment period for most of its public projects is long and project payments may be negatively affected by the moderating local land sales activities and the pressure of economic downturn. As of the end of 2023, the Company still had large projects mainly the land consolidation projects unsettled and received payments from the local government. Nevertheless, given the Company's strong strategic role and expanding public activities in Hai'an City, we expect the Company will continue to receive government payments in the future.

#### **Diversified and stable sources of funding**

JRIH has access to various sources of funding including bank loans, bond issuances and non-standard financing. The Company maintains good relationships with large domestic banks such as policy banks and national joint-stock commercial banks. Two policy banks, the Agricultural Development Bank of China and China Development Bank, have provided long-term bank loans to the Company, accounting for the majority of its bank borrowing. As of 30 September 2024, the Company increased its total credit facilities to RMB20.2 billion, of which the unutilized amount was RMB1.5 billion. The Company had limited standby liquidity buffer from its credit facilities while facing a relatively large capital expenditure pressure. The Company and its subsidiaries had a track record of accessing to both onshore and offshore debt markets. For instance, the Company issued a tranche of 3-year PPN, raising RMB750.0 million in June 2024. In addition, the Company received borrowing from other local state-owned enterprises and had exposure to non-standard financing. As of 30 September 2024, the Company increased its exposure to non-standard financing, mainly trust and financial leases, accounting for less than 10% of its total debts.

#### **Medium exposure to external guarantees provided to local state-owned enterprises**

The Company has a medium exposure to contingent liabilities from its external guarantees provided to external parties. As of 30 September 2024, its external guarantees increased to RMB7.8 billion, accounting for 48.8% of its net assets. Vast majority of these external guarantees were provided to other local state-owned enterprises. The Company had provided guarantees to a local private-owned enterprise with an amount of RMB200.0 million, representing 2.6% of the total guarantees. In addition, the Company provided guarantees for personal mortgage loans of affordable housing owners, amounted to RMB15.6 million, representing 0.2% of the total guarantees. In case a credit event occurs, the Company may face certain contingent liability risks, which are negative to its credit quality.

The Company subsidiary, Hai'an Yangrui Real Estate Co., Ltd., is involved in a dispute case in 2024, with an executed amount of RMB108.0 million. The case is currently being processed and waiting for a judgment.

## ESG Considerations

JRIH 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 construction.

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

JRIH'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.

## 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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