

CCXAP affirms Qingdao Jimo District Urban Development Investment Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 8 August, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Qingdao Jimo District Urban Development Investment Co., Ltd.’s (“JMUI” or the “Company”) long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of JMUI reflects Jimo District Government’s (1) very 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 Jimo District Government’s capacity to support reflects Jimo District’s status as one of the top three largest districts by gross regional product (“GRP”) in Qingdao City, with growing economic and fiscal strengths.

The rating also reflects the local government’s very high willingness to provide support, based on the Company’s (1) strategic importance in affordable housing and infrastructure construction in Jimo District; (2) solid track record of receiving government support; and (3) good access to diversified fundings. However, the rating is constrained by the Company’s (1) increasing exposure to commercial activities; (2) high debt leverage; and (3) contingent risks associated with large amounts of external guarantees.

Corporate Profile

Established in September 2003, JMUI is a key local infrastructure investment and financing company (“LIIFC”) in Jimo District, Qingdao City. The Company is designated by the government for infrastructure construction and affordable housing projects. It also undertakes diversified commercial activities, such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as the provision of external guarantees. As of 31 March 2024, the Company has been wholly owned by the Qingdao Jimo State-owned Assets Operation Service Centre, which is under the direct administration of the Jimo District Government.

Rating Rationale

Credit Strengths

Strategic importance in affordable housing and infrastructure construction in Jimo District. JMUI is one of the core LIIFCs in Jimo District. It is the main entity delegated by Jimo District Government to carry out affordable housing and infrastructure construction projects, with high strategic importance. Overall, JMUI has a large development scope in Jimo District and a strong capability for business sustainability. The Company maintains its responsibility in important projects’ investment and construction in the region, although the business model is changing from agent construction to self-operate.

Solid track record of receiving government support. JMUI has a good track record of receiving support from the local government in the form of project payments, asset injections, and operating subsidies to support its investments and the operation of its businesses.

Moreover, the Company's project constructions are usually supported by the government special funds. We expect that the Company will maintain its strategically important position in affordable housing and infrastructure construction in Jimo District, and the local government will continue to support its development when necessary.

Good access to diversified funding. JMUI has good access to diversified funding such as bank loans, domestic and offshore bond financing. The Company maintains long-term close relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks, providing sufficient standby liquidity. The Company actively participates in debt capital markets and shows relatively high acceptance.

Credit Challenges

Increasing exposure to commercial activities. JMUI is also engaged in commercial activities such as property development, industrial parks development, property renting, hot spring water supply, commodity sales, as well as provision of external guarantees. We consider the business risk in these commercial activities is increasing due to the uncertainty of the profitability of the Company's commercial activities.

High debt leverage. JMUI's total debt increased from end-2022 to March 2024, as a result of large demands for the construction projects. Meanwhile, the total capitalization ratio increased over the same period. We estimate the Company would continue to rely on external financing such as bank loans and bonds issuance to support its further development, while its total capitalization ratio would remain relatively high over the next 12-18 months. Moreover, the Company's asset liquidity was relatively weak.

Contingent risks associated with large amounts of external guarantees. JMUI's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. Most of them were provided to local state-owned enterprises. The Company's contingent liabilities are subject to regional risks due to the mutual guarantee situation in Jimo District. We consider JMUI's contingent liabilities risks to be medium as there is no clear mechanism for the Company to be adequately compensated if these entities fail to repay.

Rating Outlook

The stable outlook on JMUI's rating reflects our expectation that the Jimo District Government's capacity to provide support will be stable, and the Company's characteristics such as its strategic importance in the affordable housing and infrastructure construction will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Jimo District Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Jimo District Government's capacity to 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 regional significance or deteriorated assess to fundings.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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