

CCXAP assigns first-time long-term credit rating of BBB_g+ to Changzhou Jiangrun Environmental Protection Technology Co., Ltd., with stable outlook.

Hong Kong, 13 September 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Changzhou Jiangrun Environmental Protection Technology Co., Ltd. (“CZJR” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of CZJR reflects the Company’s (1) strong regional competitiveness in water and environmental protection businesses in Jintan District supported by its clear position; and (2) stable revenue and profitability with relatively low business risk. However, the rating is constrained by the Company’s (1) small business scale with geographic concentration; (2) large initial investment leads to a high debt leverage; and (3) weak debt servicing capability.

The rating also reflects a high likelihood of support from the Jintan District Government, which is based on the Company’s (1) full and direct ownership by the Jintan District Government; (2) important role in operating and providing essential public utility services in Jintan District; and (3) good track record of receiving support from the local government.

Corporate Profile

Established in 2019, CZJR is a dominant local state-owned public utility provider in Jintan District, a municipal district in Changzhou City, Jiangsu Province. In 2024, the Company received several equity shares related to environmental protection and water free of charge from the local government, further identifying its position as an industrial operation entity in Jintan District for the local government. CZJR is mainly engaged in garbage treatment and power generation, water supply, sewage treatment, inspection and testing and greening in Jintan District. As of 30 June 2024, the Company is directly owned and ultimately controlled by Jintan District Government.

Rating Rationale

Credit Strengths

Strong regional competitiveness in water and environmental protection businesses.

CZJR is mainly engaged in water supply, sewage treatment, garbage treatment and power generation businesses in Jintan District. There are high entry barriers for CZJR’s business sectors with relatively strong public and regional characteristics. On the back of the local government, the Company has a strong regional competitiveness and stable market shares in those sectors despite its small scale and high business geographical concentration.

Stable revenue and profitability with relatively low business risk. CZJR’s revenue grew fast over the past three years. From 2021 to 2023, its revenue increased from RMB212.0 million to RMB337.9 million, representing a compound annual growth rate of 26.2%. The Company’s

core businesses are essential public services for urbanization development and social welfare, which have lower cyclical risks. We expect that the revenue structure will remain stable, and that revenue volume will increase owing to the capacity increase resulting from the completion of projects under construction.

High likelihood of support from the Jintan District Government. Given its regional importance in environmental protection and utility services in Jintan District, CZJR receives a good track record of support from the local government, including capital injection, asset transfers, and financial subsidies. In addition, the water supply and sewage treatment projects are all included in the Jintan District Government's 14th Five-Year Plan. The success of the Company is highly related to building a better environment and increasing the attractiveness of Jintan District.

Credit Challenges

Large initial investment leads to a high debt leverage. CZJR's standalone credit profile is constrained by its high debt leverage. From 2021 to 2024H1, the total capitalization ratio, calculated by total debt to total capital, increased from 49.6% to 60.0%, reaching a high level that may negatively affect its funding flexibility. Considering the Company's funding needs for its ongoing or planned construction projects such as industrial parks, water plants, and sewage treatment plants, we expect that the debt leverage level will remain relatively high in the next 12-18 months.

Weak debt servicing capability. CZJR's stand-alone debt-serving metrics are weak given its large debt burden. Although EBITDA increased yearly as projects were completed and put into operation, the debt-serving metrics still weakened. The short-term debt-serving metrics are relatively better due to efficient cash and cash equivalent reserves on hand. Benefiting from its background and good relationship with banks, the Company had sufficient facilities with an unutilized amount of RMB1.6 billion as of 30 June 2024.

Rating Outlook

The stable outlook on CZJR's rating reflects our expectation that the Company will maintain its strong regional competitiveness in water-related services and environmental protection business in Jintan District over the next 12-18 months, and the support from Jintan District Government is unlikely to change during the period.

What could upgrade the rating?

The rating could be upgraded if (1) Jintan District Government's willingness and capacity to provide support increases; and (2) the Company's stand-alone credit profile improves significantly, such as having a more diversified business profile or improved financial profile including an increase in capital strength and profitability.

What could downgrade the rating?



The rating could be downgraded if (1) Jintan District Government's willingness and capacity to provide support decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in credit metrics or weakened liquidity position.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

Regulatory Disclosures

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