

CCXAP affirms Jiangsu Pingling Construction Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Hong Kong, 8 November 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Jiangsu Pingling Construction Investment Group Co., Ltd.’s (“JPCI” or the “Company”) long-term credit rating at BBB_g, with stable outlook.

The BBB_g long-term credit rating of JPCI reflects (1) Liyang City Government’s very strong capacity to provide support; and (2) the local government’s high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Liyang City’s status as one of the CCID Top 100 Counties in China and its relatively good economic position among counties/districts in Changzhou City.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the main entity for urban-rural integration development operations, financial services and equity investment in Liyang City; (2) function in infrastructure construction in Liyang City, especially in Lianghu Innovation Zone; and (3) good track record of receiving ongoing government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities such as equity investments and finance services; (2) moderate debt management and high investment needs; and (3) medium level of contingent risk.

Corporate Profile

Established in 2015, JPCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Liyang City. After the consolidation of the regional stated-owned assets in 2022, the Company is positioned as the core entity for urban-rural integration development operations, financial services and equity investment business in Liyang City, and is responsible for infrastructure construction and resettlement housing in the Liyang Area of Lianghu Innovation Zone.

JPCI also engages in a number of business segments with the objective of supporting local economic and industrial development, which include equity investments, commercial security services and financial services such as micro-lending, financing guarantee and fund custody. As of 31 March 2024, Liyang City Government was the ultimate controller of JPCI with direct and full ownership of the Company.

Rating Rationale

Credit Strengths

Position as the main entity for urban-rural integration development operations, financial services and equity investment in Liyang City. There are five major LIIFCs under the control of the local government in Liyang City. Among them, the Company is primarily responsible for providing financial-related services, undertaking industrial investment and conducting

investment and construction in the Lianghu Innovation Zone Liyang Area such as infrastructure construction, resettlement housing, and industrial parks. Apart from that, the Company undertakes some important roles on behalf of the local government, such as fund management of real estate regulatory accounts and fund investment in Liyang City.

Function in infrastructure construction in Liyang City, especially in Lianghu Innovation Zone. The Company bears the responsibility for the infrastructure construction, the construction of related supporting facilities as well as resettlement housing in the Liyang Area of the Lianghu Innovation Zone. Lianghu Innovation Zone is located between Ge Lake and Changdang Lake, with a total area of 1,485 square kilometers. It focuses on two main directions: science and technology curation and high-end business, and develops research institutes, experimental research and development, corporate headquarters, and finance trade.

Good track record of receiving ongoing government support. The Company has received comprehensive support from the local government, in terms of capital injections, equity transfer and operating subsidies. It is clarified by the local government to undertake photovoltaic and charging facilities businesses and operate relevant assets in Liyang City. We expect JPCI to receive ongoing government support given its position as the main entity for infrastructure construction and urban-rural integration development operations in Liyang City, especially in Lianghu Innovation Zone

Credit Challenges

Medium exposure to commercial activities such as equity investments and finance services. JPCI diversified into business segments such as investment, financial services and self-operated construction. Based on our assessment, the Company's risk exposure to commercial activities is considered medium, which accounted for less than 30% of its total assets. The Company's main risk exposure arises from the equity investment business which is at the initial investment stage and returns have not been fully reflected.

Moderate debt management and high investment needs. Over the past three years, JPCI's debt has grown rapidly due to the expansion of its business scope and the consequent increase in its investment needs. In 2023, the Company also reported fast debt growth owing to its infrastructure construction and self-operated projects. The Company planned to invest around RMB8.4 billion for the construction of infrastructure, resettlement housing and self-operated project and industrial parks in the future. We expect that the Company will keep reliance on external financing and its debt level will continue to increase over the next 12 to 18 months.

Medium level of contingent risk. The Company's credit profile is undermined by its growing scale of external guarantees, which could potentially increase its repayment obligations. As of 31 March 2024, the total amount of external guarantee (including the exposure to its guarantee business) was RMB2.8 billion. The majority of external guarantees from guarantee business were provided to private-owned enterprises within Liyang City. The related contingent risk exposure is still a key credit concern over JPCI's credit profile.

Rating Outlook

The stable outlook on JPCI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important position in the development of Liyang City over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Liyang City 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 reduced exposure to commercial activities, improved debt management and improved regional importance.

What could downgrade the rating?

The rating could be downgraded if (1) the Liyang City 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 policy significance, weakened financing ability or material deterioration in contingent risks.

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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