

Credit Opinion

28 April 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Jiangsu Hongye Holding Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g- long-term credit rating of Jiangsu Hongye Holding Group Co., Ltd. (“JSHY” or the “Company”) reflects the local government’s strong capacity to provide support, and the local government’s very 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 the Suqian Economic Technology Development Zone’s (“Suqian ETDZ”) important role in industrial development as a national-level ETDZ in Suqian City, combined with fast economic growth and good emerging industries foundations. However, it has a relatively small economic scale in Suqian City.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as a comprehensive service operator for industrial investment and development in Suqian ETDZ; and (2) track of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with large investment needs in industrial construction and uncertainty in project returns; and (2) moderate financing channels.

The stable outlook on JSHY’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 Suqian ETDZ over the next 12-18 months.

Rating Drivers

- Position as a comprehensive service operator for industrial investment and development in Suqian ETDZ
- Medium risk exposure to commercial activities, with large investment needs in industrial construction and uncertainty in project returns
- Track record of receiving government support
- Moderate access to funding channels

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 materially increased exposure to commercial activities or a deterioration in its debt management.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	6.4	7.3	13.2	16.8
Total Equity (RMB billion)	4.4	4.2	8.3	8.8
Total Revenue (RMB million)	109.2	243.4	373.5	207.6
Total Debt/Total Capital (%)	18.5	31.2	34.6	46.5

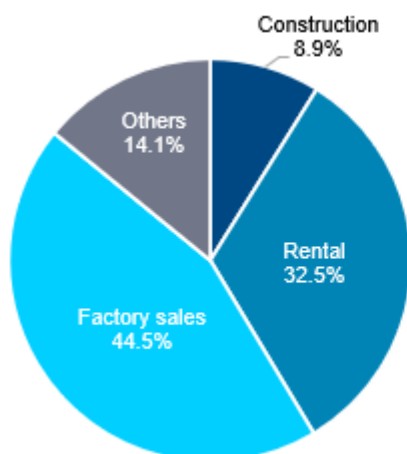
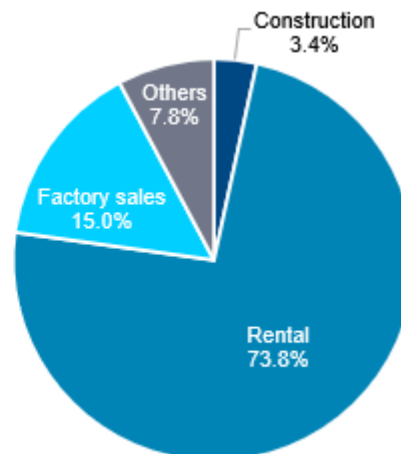
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2013, JSHY is one of the important local state-owned enterprises in Suqian ETDZ, Suqian City, and is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. In October 2023, JSHY experienced an ownership structure change promoted by the Management Committee of Suqian ETDZ. The shares of the Company were transferred to the Management Committee of Suqian ETDZ; and its former parent company, Suqian Economic Development Industry Investment Group Co., Ltd. ("SQII"), became a wholly-owned subsidiary of the Company. SQII has been mainly responsible for industrial estate development in the ETDZ since then. JSHY has four business segments which include industrial estate, industrial park supporting services, industrial supporting facilities and industrial investment, respectively. As of 30 September 2024, the Management Committee of Suqian ETDZ fully and directly owned the Company.

In June 2023, with the aim to support the development and growth of the Company, the Management Committee of Suqian ETDZ agreed to transfer 51% of the stakes of three state-owned companies holding industrial resources to the Company. The official alteration of registration has been completed as of 30 June 2024.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a relatively strong capacity to provide support, given Suqian ETDZ's important role in industrial development as a national-level ETDZ in Suqian City combined with fast economic growth and good emerging industries foundations, while has a relatively small-scale economy in Suqian City.

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, chemical, and textile. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2024, Jiangsu Province achieved a GRP of RMB13.7 trillion with a year-over-year ("YoY") increase of 5.8%. The per capita GRP also ranked top among all provinces in China for years.

Suqian City is located in the north of Jiangsu Province with good economic growth and it has two national-level economic technology development zone and one national-level high-tech zone. Suqian City has currently formed six leading industries, mainly including electromechanical equipment, green food, high-end textiles, photovoltaic new energy, green home furnishings and new materials. The optimization of the industrial structure has provided strong support for Suqian City's economic growth and financial strength. In 2024, the GRP of Suqian City increased by 6.9% YoY to RMB480.2 billion, and the growth rate ranked second among prefectural-level cities in Jiangsu Province. Suqian Municipal Government's general budgetary revenue has been increasing over the past three years, and the proportion of tax revenue has remained at a high level of an average of 80.1%. In 2024, Suqian Municipal Government's general budgetary revenue increased from RMB30.2 billion in 2023 to RMB31.0 billion, and tax revenue increased by 3.6% YoY to RMB24.9 billion. However, its fiscal balance ratio (calculated as general budget revenue over general budget expenditure) was at a moderate level, with an average ratio of around 45.8% over the past three years. At the end of 2024, the local government's outstanding debt amounted to RMB110.9 billion, accounting for around 23.1% of GRP.

Exhibit 3. Key economic and fiscal indicators of Suqian City

	2022FY	2023FY	2024FY
GRP (RMB billion)	411.2	439.8	480.2
GRP Growth (%)	3.6	7.8	6.9
General Budgetary Revenue (RMB billion)	27.2	30.2	31.0

General Budgetary Expenditure (RMB billion)	62.2	64.2	66.3
Local Government Debt (RMB billion)	90.2	96.9	110.9

Source: Suqian Municipal Government, CCXAP research

Suqian ETDZ was founded in November 1998, and was approved as a national-level economic technology development zone by State Council in January 2013. Suqian ETDZ is a manufacturing base for emerging industries in Jiangsu Province and the Yangtze River Delta region. It has developed “3+1” characteristic industries which are photovoltaic new energy, green food, smart home appliances, and new electronic information, gathering well-known brands such as Shuanglu Shangling, Geli Dasong and Haitian. From 2022 to 2024, the GRP of Suqian ETDZ has increased from RMB20.6 billion to RMB24.5 billion with a fast growth rate. In the first half of 2024, the industrial output value above the designated size of Suqian ETDZ increased by 4.3% YoY. Suqian ETDZ’s general budgetary revenue recorded a slight decline to RMB2.0 billion in 2024, mainly due to the decline in tax revenue, but the fiscal revenue stability (tax revenue/ general budgetary revenue) and self-sufficiency ratio remained relatively high. From 2022 to 2024, its tax revenue accounted for an average of 82.7% of the public budget revenue and the average fiscal balance ratio was around 67.4%. At the end of 2024, the outstanding direct local government debt was RMB6.5 billion, accounting for 27.9% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Suqian ETDZ

	2022FY	2023FY	2024FY
GRP (RMB billion)	20.6	23.4	24.5
GRP Growth (%)	13.3	13.2	6.0
General Budgetary Revenue (RMB billion)	2.0	2.3	2.0
General Budgetary Expenditure (RMB billion)	3.6	3.2	2.8
Local Government Debt (RMB billion)	3.0	3.7	6.5

Source: Suqian ETDZ Management Committee, Company information, CCXAP research

Government’s Willingness to Provide Support

Position as a comprehensive service operator for industrial investment and development in Suqian ETDZ

There are four main SOEs in Suqian ETDZ, which are JSHY, Suqian Guokai Investment Holding Group Co., Ltd. (“SQGK”), Suqian Huirong Holding Group Co., Ltd. (“SQHR”) and Suqian Guokai Kechuang Investment Group Co. Ltd. (“SQKI”). Each has a clear functional position under the planning of the Management Committee of Suqian ETDZ. JSHY is positioned as a comprehensive service operator for industrial investment and development in Suqian ETDZ. SQGK is positioned as comprehensive operator for urban infrastructures, mainly engaging in infrastructure construction, affordable housing construction, urban engineering and landscaping within Suqian ETDZ. SQHR is positioned as a comprehensive operator of industrial financial services in Suqian ETDZ, mainly covering financing guarantees, entrusted loans, financial leasing, fund management, equity investment, industrial investment, and non-performing asset disposal. SQKI is responsible for the development and operation of the Sci-Tech Park in Suqian ETDZ.

JSHY focuses on the construction and operation of industrial estate, building and supporting facilities in Suqian ETDZ according to the planning of the Management Committee of Suqian ETDZ, which is conducive to the investment promotion and industrial development of Suqian ETDZ. The success of the Suqian ETDZ is important to the industrial and economic development of the Suqian City as its industrial output is an important part of Suqian City. Most of JSHY’s assets have already been leased to enterprises located in Suqian EDTZ and there were several industrial park projects under construction. JSHY also provides professional services

for settled enterprises such as security services, financial and taxation services, and human resource services, which continuously optimize the regional business environment within Suqian ETDZ. Besides, the Company will develop supporting facilities such as photovoltaic power generation, water supply and sewage treatment which helps promote the low-carbon greening transformation of Suqian ETDZ.

JSHY has undertaken an urban construction project in Suqian ETDZ, the Sankeshu Urban Renewal Project. The Sankeshu Urban Renewal Project has not been completed with an actual investment of approximately RMB555.0 million as of 30 September 2024. The Company may receive payments based on cost with a markup of 20%. In 2022 and 2023, JSHY had recognized revenue of RMB55.2 million and RMB33.1 million respectively from urban construction project income, while had not yet received government repurchase funds as of 30 June 2024. In addition, there are no urban construction projects under construction or planning.

Medium risk exposure to commercial activities

JSHY is exposed to business risk from its commercial activities which are mainly industrial park construction and operation, professional services as well as industrial supporting facilities. Based on our assessment, such businesses contribute to around 30% of the Company's total assets. We consider the risk exposure to commercial activities is considered as medium reflecting the Company's prudent measures in engaging and managing such businesses.

The construction and operation of the industrial parks sector represents a large contribution to JSHY's revenue and profit. The Company is engaged in such business under the local government's overall planning, aiming to promote investment attraction. The Company's leasable assets include industrial plants, office buildings, apartments and supporting infrastructure such as hotels and supermarkets, all of which are located in Suqian ETDZ. Those assets are acquired through self-constructing, purchasing and transferring from the Management Committee of Suqian ETDZ. As of 30 June 2024, the leasable area of its operating assets was approximately 1.7 million square meters, of which 1.2 million square meters were transferred from the local government. The overall occupancy rate was around 60%. In addition, the Company has sold part of its operating assets to enterprises located in Suqian ETDZ in line with the need to attract investment. As of 30 June 2024, the carrying value of the Company's remaining plants in hand totaled around RMB880.0 million. The exposure to such business is expected to increase as there is large outstanding investment for industrial parks. The high occupancy rate of operated assets and the good operating environment of Suqian ETDZ could partially mitigate business risk. As of 30 June 2024, JSHY has 4 construction projects under construction, including 2 industrial park projects namely Technology Business Incubation Park and Photovoltaic New Energy Industrial Park. The total investment of these projects was RMB1.8 billion and the outstanding investment was RMB627.5 million. Specifically, the Technology Business Incubation Park is expected to achieve financial balance through a combination of leasing and selling. Photovoltaic New Energy Industrial Park will be leased to Canadian Solar Group Co., Ltd. and sold after meeting certain conditions. In addition, JSHY had 6 construction projects under planning with the total investment amount of RMB3.7 billion, which mainly included standard factories, apartments, talent markets and roads.

JSHY is engaged in self-operated projects such as industrial supporting facilities in Suqian ETDZ. As of 30 June 2024, the Company has three self-operated projects under construction with a total investment of RMB406.0 million and the remaining investment of RMB342.0 million, including a rooftop distributed photovoltaic power generation project, a recycled water plant and pipe network project, and a sewage treatment plant and pipe network project. The Company is expected to generate income from electricity sales, water supply and sewage treatment when they are in operation. All these services are provided to enterprises in the Suqian ETDZ.

However, influenced by factors such as the progress of investment attraction, external environment and policies, the capital recovery cycle for self-operated projects is typically long.

In addition, JSHY offers a range of industrial professional services, such as property management, security, taxation and human resources services, to continuously optimize the regional business environment. Concurrently, the scale of the Company's industrial professional services is relatively small and its profitability is limited. In 2023, the Company's property management and security service businesses both recorded losses, facing certain operating pressure.

Track record of receiving government support

JSHY has a track record in receiving government support mainly in terms of capital injection and equity transfer. During the first three quarters of 2024, the local government made a capital injection of RMB500.0 million in cash to the Company, significantly enhancing its capital strength. Meanwhile, as of 30 September 2024, JSHY's capital reserves increased to RMB4.6 billion from RMB2.4 billion at end-2022, mainly due to the continuous support received from the local government such as project capital injections and equity transfers. Positioned as the comprehensive service operator for industrial investment and development in Suqian ETDZ, the Management Committee of Suqian ETDZ transferred the majority of the leasing assets to the Company, through the equity transfer in 2023.

Apart from that, as most of the Company's construction projects are in line with the local government's development plan, it has received support from the government's special funds for project construction. In October 2024, the Management Committee of Suqian ETDZ issued a liquidity support letter to SQII, explicitly granting long-term support to ensure that SQII does not experience liquidity risk. However, the predictability of receiving direct government payments is moderate as the majority of its businesses, such as industrial parks leasing, operations and sales, rely on a market-oriented approach to balance the cost.

Exhibit 5. Government support from 2021 to 2024Q3

(RMB million)	2021FY	2022FY	2023FY	2024Q3
Government Subsidies	-	8.0	-	-
Cash Injections	826.9	-	285.0	500.0
Equity Injections	-	-	3,089.6	-
Total	826.9	8.0	3,374.6	500.0

Source: Company information, CCXAP research

JSHY plays an important role in promoting the infrastructure construction of Suqian ETDZ, and has a strong importance to investment attraction and industrial development. Therefore, we expect that the local government will continue to support its development when necessary.

Increasing debt level driven by construction projects financing

Due to the ongoing financing for its construction projects in recent years, JSHY demonstrates a rapid debt growth. JSHY's total debt increased to RMB7.6 billion at the end of September 2024, from RMB1.9 billion at end-2022. The capitalization ratio, as measured by total debt to total capital, increased to 46.5% from 31.2% during the same period. JSHY's debt structure is reasonable as short-term debt accounted for approximately 14.2% of the total debt. Given the financing activities in 2024, as of 30 September 2024, the Company's cash and cash equivalents increased to RMB1.2 billion and the cash to short-term debt ratio was 1.1x, which could provide an important source for the interest payments and debt repayments. Considering the ongoing

investment of the Company, we expect that it still needs to rely on external financings to meet its capital expenditure needs and the debt will continue to increase in the next 12-18 months.

Moderate access to funding channels

JSHY has moderate access to funding and relies highly on indirect financing and secured debt with a limited track record in accessing the domestic debt market at present. As of 30 September 2024, the Company's bank loans accounted for around 95.3% of the total debt and the remaining was non-standard financing products. Meanwhile, the Company had total bank facilities of approximately RMB6.4 billion, but the undrawn credit facilities was relatively limited. The exposure to non-standard financing products was manageable which are mainly financial leasing with costs of around 5.8%.

However, its relatively weak asset liquidity may limit its financial flexibility. The Company's total asset mainly consists of inventories, other receivables and investment properties, accounting for more than 80% of its total asset as of 30 September 2024. The inventories and other receivables are construction costs and receivables from other local state-owned enterprises, while investment properties are mainly industrial parks and plants to be leased or sold, all of which are considered low liquidity.

ESG Considerations

JSHY faces environmental risks because it has undertaken construction business. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

JSHY bears social risks as it implements public policy initiatives by building public infrastructure in Suqian EDTZ. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

JSHY's governance considerations are also material as the Company is subject to oversight by the Suqian EDTZ Government and must meet several reporting requirements, 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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