

Credit Opinion

8 November 2024

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

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Jiangsu Pingling Construction Investment Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g long-term credit rating of Jiangsu Pingling Construction Investment Group Co., Ltd. ("JPCI" or the "Company") 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.

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.

Rating Drivers

- High importance to the development of Liyang City
- Medium exposure to commercial activities such as equity investments and finance services
- Good track record of receiving government support
- Moderate debt management and high investment needs
- Medium level of contingent risk

Rating Sensitivities

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.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	14.4	23.0	25.5	27.8
Total Equity (RMB billion)	7.3	10.9	11.3	11.4
Total Revenue (RMB million)	115.5	603.8	356.9	24.0
Total Debt/Total Capital (%)	15.4	33.8	43.1	46.9

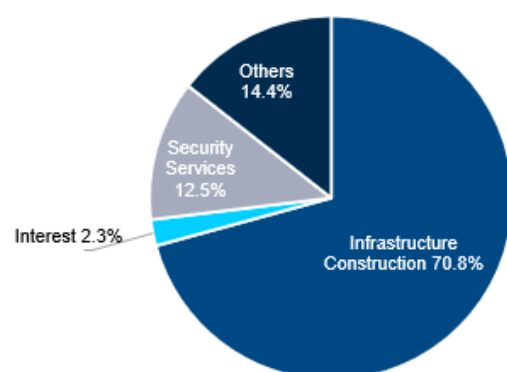
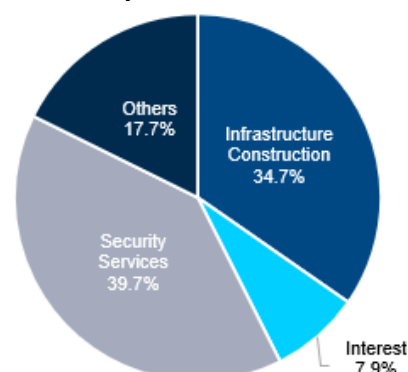
All ratios and figures are calculated using CCXAP's adjustments

Source: Company information, CCXAP research

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.

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 Liyang City Government has very strong capacity to provide support to the Company, given its status as one of the CCID Top 100 Counties in China. Liyang City's economic and fiscal strength has improved over years of development.

Located in the southern part of Jiangsu Province, Changzhou City is part of the Suzhou-Changzhou-Wuxi city cluster, which is one of the most developed city clusters in China. The gross regional product ("GRP") of Changzhou City ranked 5th in Jiangsu Province over the past five years, and reached RMB1,011.6 billion in 2023 with a year-on-year ("YoY") increase of 6.8%. In the first half of 2024, Changzhou City realized a GRP of RMB477.3 billion, up 5.6% YoY. Changzhou City reported general budgetary revenue of RMB68.0 billion while its average general budgetary fiscal balance over the past three years was 81.7%. We consider that Changzhou City has a relatively healthy fiscal profile, characterized by high contributions from tax incomes and relatively low debt leverage. Changzhou City's tax income accounted for over 80% of its general budgetary revenue over the past three years. As of 31 December 2023, the outstanding direct debt of Changzhou Municipal Government increased to RMB190.0 billion, equivalent to around 18.8% of its GRP.

Exhibit 3. Key economic and fiscal indicators of Changzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	880.7	955.0	1,011.6
GRP Growth (%)	9.1	3.5	6.8
General Budgetary Revenue (RMB billion)	68.8	63.2	68.0
General Budgetary Expenditure (RMB billion)	77.2	82.6	85.5
Local Government Debt (RMB billion)	141.5	160.8	190.0

Source: Changzhou Municipal Government, CCXAP research

Liyang City is a county-level city in Changzhou City, located at the junction of Jiangsu Province, Zhejiang Province and Anhui Province. Liyang City ranked 26th among the Top 100 counties in China released by CCID Consulting County Economic Research Center in 2024. Liyang City has developed several core industries, including the machinery manufacturing industry, metallurgy industry, building materials manufacturing industry, and textile industry. From 2021 to 2023, Liyang City's economic strength improved steadily with GRP increasing from RMB126.1 billion to RMB155.7 billion. In the first nine months of 2024, Liyang City achieved a GRP of RMB115.8 billion with a 6.5% YoY growth rate, ranking second among all districts and counties in Changzhou City. In 2023, Liyang City reported that the general budgetary revenue increased to RMB10.5 billion from

RMB8.1 billion in 2022. Tax revenue is a stable contribution to the general budgetary revenue, accounting for more than 80% over the past three years. The fiscal balance ratio has remained at a moderate level of above 60% over the past three years. Its outstanding government debt continuously increased to RMB41.3 billion at end-2023, accounting for about 26.5% of GRP.

Exhibit 4. Key economic and fiscal indicators of Liyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	126.1	141.6	155.7
GRP Growth (%)	10.1	6.2	9.7
General Budgetary Revenue (RMB billion)	8.7	8.1	10.5
General Budgetary Expenditure (RMB billion)	11.0	12.8	14.9
Local Government Debt (RMB billion)	29.0	36.0	41.3

Source: Statistics Bureau of Liyang City, CCXAP research

Lianghu Innovation Zone is located between Ge Lake and Changdang Lake, with a total area of 1,485 square kilometers, covering 4 districts (counties) in Changzhou City. Lianghu Innovation Zone 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. Some listed companies and large enterprises have settled in the Lianghu Innovation Zone, including Li Auto Inc., CALB Group Co., Ltd. and SVOLT Energy Technology Company Ltd.

Government's Willingness to Provide Support Clear and strong functional position in Liyang City

There are five major LIIFCs under the control of the local government in Liyang City. Each of these five enterprises is responsible for infrastructure construction in different areas in Liyang City. JPCI and Liyang State-owned Assets Investment Holding Group Co., Ltd. are directly controlled and managed by Liyang City Government, and the other three are responsible for construction and operation in different functional zones in Liyang City. 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.

High importance to the development of Liyang City

The Company bears the responsibility for the infrastructure construction in the Liyang Area of Lianghu Innovation Zone, as well as the construction of related supporting facilities through agency construction or self-operated model. Under the agency construction mode, the Company undertakes infrastructure construction business mainly by signing construction agreements with the Finance Bureau of Liyang City and carrying out the construction work accordingly. The local government would make payments to the Company based on the actual cost plus a markup in return upon completion. As of 31 March 2024, the Company completed some projects including the construction of residential areas. Furthermore, JPCI is also responsible for Liyang New Energy Industrial Park Infrastructure Construction Project, which is under planning with a total investment of RMB2.9 billion.

In addition, JPCI is responsible for resettlement housing construction in the Liyang Area of Lianghu Innovation Zone. The resettlement houses will be sold to resettlement households at government-regulated prices. The Company will offset its investment through the proceeds from the sale of resettlement housing and garages, as well as the government subsidies. As of 31 March 2024, the Company has completed 2 resettlement housing

projects with a total investment of RMB151 million. The completed resettlement housing projects has a total sellable area of 62.8 thousand square meters and a remaining area of 28.2 thousand square meters for sale. As of 31 March 2024, the Company had 2 projects under construction, with a total investment of RMB970 million and an outstanding amount of RMB751 million.

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.

Medium exposure to commercial activities

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. The Company is also exposed to certain credit contagion risks from financial services, particularly from legacy guarantee businesses from the past. In addition, the Company has started engaging in self-operated projects such as photovoltaic and charging facilities mandated by the local government, which may expose the Company to larger operational risks as compared with traditional infrastructure construction.

JPCI is entrusted by the government to conduct industrial investments and financial service operations in Liyang City, with a high policy role in local industrial support and upgrade. The Company conducts investment through fund investment and direct equity investment and focuses on the major and emerging industries of Liyang City including new energy, new materials and intelligence manufacturing. The funding for equity funds investment mainly comes from the local government capital injection and the investment of equity funds focuses on the start-up and growth stage projects. As of the end of 2023, JPCI held direct investment of 24 companies with an investment balance of RMB2.3 billion and achieved cumulative returns of RMB103.0 million mainly in dividends. It has participated in 12 funds as an LP and invested RMB1.7 billion in total. Most of JPCI's investments are at the initial investment stage, necessitating a protracted holding period, which may expose the Company to larger investment and execution risks.

JPCI has a certain credit contagion risk stemming from its financial guarantee, lending and on-lending businesses, which are mainly provided to small-to-medium enterprises in Liyang City. The exposure arising from financial services has shrunk as the Company's risk control and business model gradually improved. As of 31 March 2024, the guarantee subsidiary had 280 insured projects with an insured balance of RMB1.3 billion and had a leverage magnification ratio of 3.5x. In 2023, the income from the guarantee business amounted to RMB11.0 million and the compensation amount for guarantees was RMB10.0 million. As of the end of 2023, the outstanding value of receivable compensation amounted to RMB144 million, for which bad debt provision had been made in full. The historical compensation ratio of the guarantee business was high, which was 4.2% in 2021, mainly because of the poor quality of its guarantee portfolio in the past. In recent years, risk control gradually improved and its new guarantee products had the characteristic of risk sharing with government funds and banks. The amount of new loans issued by the Company has been decreasing in recent years. As of 31 March 2024, the Company's outstanding loan amount slightly decreased to RMB47 million. In addition, the Company has taken measures against overdue payments, including initiating judicial recovery procedures and auctioning their mortgaged properties. As of 31 March 2024, the non-performing loan amounted to RMB10 million, a significant decrease from RMB 95 million in 2022, mainly due to the recovery of some overdue payments.

JPCI also had some self-operated construction projects apart from government-mandated construction projects, mainly including the construction of industrial parks, photovoltaic facilities, and charging and swapping facilities, and is expected to balance the initial investment of the projects through rental and charging income. As of 31 March 2024, the Company had 2 self-operated projects under construction and 6 projects under planning, with a total investment of RMB5.0 billion and an outstanding amount of RMB4.8 billion. Considering its current and future investment in self-operated construction projects, the Company may face a relatively high capital expenditure burden and bear the risk of operating uncertainties.

The Company's trading business mainly involves silicon materials, which generated a considerable amount of income for the Company but earned a small profit margin. In 2023, the Company made the decision to cease its trading business, primarily due to the realignment of its overall development plan.

Good track record of receiving government support

In recognition of the strategic importance of JPCI's businesses to the development of Liyang City, the Company has received comprehensive support from the local government, in terms of capital injections, equity transfer and operating subsidies. The Company is clarified by the local government to undertake photovoltaic and charging facilities businesses and operate relevant assets in Liyang City. For the Company's guarantee business, Liyang City Government established a special group to assist with the recovery work of its guarantee business. In 2023, the Company received a total capital injection of RMB660 million in cash from the local government. In 2023, the local government transferred its holding of a state-owned enterprise into the Company, which further increased its capital base. Apart from that, the local government also provided continuous operating subsidies with a total amount of RMB628.8 million from 2021 to 2023. 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.

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. As of 31 March 2024, the Company's total debt increased to RMB10.0 billion from RMB5.6 billion at end-2022. At the same time, its capitalization ratio, as measured by total debt to total capital, also increased to 46.9% from 33.8% at end-2022. The short-term debt remained a relatively large portion of total debt with the proportion of short-term debt to total debt of 33.3% as of 31 March 2024. At the same time, the cash to short-term debt ratio was around 0.3x if excluding the restricted cash and real estate custody funds. The Company planned to invest around RMB8.4 billion for the construction of infrastructure, resettlement housing and self-operated projects 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.

JPCI mainly relies on bank borrowing to meet its capital expenditure needs. The Company has maintained a good relationship with large domestic banks, such as large state-owned banks and large joint-stock commercial banks. As of 31 March 2024, it obtained total credit facilities of RMB15.3 billion and available credit facilities of RMB4.7 billion. Besides, JPCI also has a record of offshore bond issuance and certain exposure to nonstandard financing. In September 2023, it issued one offshore green bond of RMB730 million for the construction of the low-carbon science and technology innovation industrial park project. The Company had moderate exposure to non-standard financing, which accounted for around 18% of its total debt as of 31 March 2024.

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. After excluding the exposure to its guarantee business, the Company still had an external guarantee of RMB1.5 billion, all of which was provided to state-owned companies in Liyang City, accounting for around 13.0% of its net assets. The majority of external guarantees from guarantee businesses were provided to private-owned enterprises within Liyang City, which accounted for 47.7% of its total amount of external guarantee. The related contingent risk exposure is still a key credit concern over JPCI's credit profile.

ESG Considerations

JPCI faces environmental risks because it has undertaken infrastructure construction projects. 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.

JPCI bears social risks as it implements public policy initiatives by building public infrastructure in Liyang City. 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.

JPCI's governance considerations are also material as the Company is subject to oversight by Liyang City 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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