

Credit Opinion

27 November 2024

Ratings

Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Christy Liu +852-2860 7127
Credit Analyst
christy_liu@ccxap.com

Amy Chen +852-2860 7140
Credit Analyst
amy_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Jining Huihang Investment Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jining Huihang Investment Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jining Huihang Investment Development Co., Ltd. ("JHID" or the "Company") reflects the Company's (1) competitiveness in packaging equipment manufacturing business; and (2) supplementary revenue from other businesses with good stability and growth prospective.

However, the rating is constrained by the Company's (1) small revenue scale at the early stage of business development; and (2) increasing capital expenditure with modest financing capability.

The rating also reflects the likelihood of support from the local government and its parent company when needed, which is based on the Company's (1) status as the core subsidiary of Jining Liyuan New Energy Development Co., Ltd. ("Liyuan Energy"); (2) ultimate control by the Jining Municipal Government; (3) strategic importance in industrial transformation and development in Jining City; and (4) good track record of receiving support from the local government, including capital injection, asset injection, equity transfers and financial subsidies.

The stable outlook on JHID's rating reflects our expectation that the Company will maintain its regional competitiveness and importance over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government and the parent company.

Rating Drivers

- Competitiveness in packaging equipment manufacturing business
- Supplementary revenue from other businesses with good stability and growth prospective
- Small revenue scale at the early stage of business development
- Increasing debt level, albeit decreasing leverage ratio benefited from capital expansion
- Increasing capital expenditure with modest financing capability
- Likely to receive support from the local government and the parent company

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of government or parental support for the Company increases; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government or parental support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	0.1	0.3	1.7	10.2
Total Equity (RMB billion)	0.1	0.1	1.3	8.9
Total Revenue (RMB million)	33.0	42.9	67.3	240.1
Net Profits (RMB million)	25.1	30.8	47.9	63.8
EBIT Margin (%)	83.2	84.6	84.1	33.3
Return on Assets (%)	-	16.2	5.5	-
Total Debt/Total Capital (%)	29.2	55.5	10.0	2.9
Total Debt/EBITDA (x)	1.3	4.8	2.6	-
EBITDA/Interest (x)	-	699.5	-	-
FFO/Total debt (%)	67.8	18.1	31.3	-

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2020, JHID is one of the key state-owned enterprises ("SOEs") in Jining City. To promote the regional industrial development and improve state-owned asset operation, the local government consolidated local state-owned assets and resources in 2024, and transferred large amount of assets and equities to JHID. After the consolidation, the Company is positioned as a key entity in industrial investment and operation in Jining City, currently engaging in different business activities covering manufacturing, hotel operation, leasing and services. The State-owned Assets Supervision and Administration Commission of Jining Municipal Government

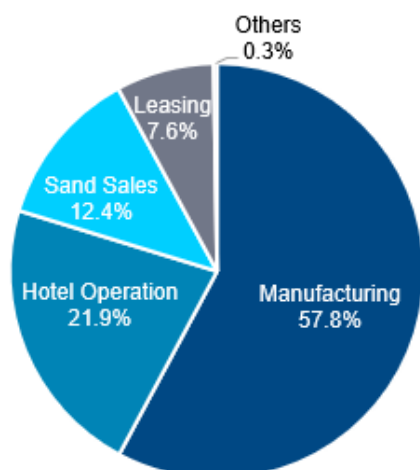
indirectly controlled the Company through Liyuan Energy. JHID reported total assets of RMB10.2 billion as of 30 September 2024.

Exhibit 1. Shareholding chart as of 30 September 2024



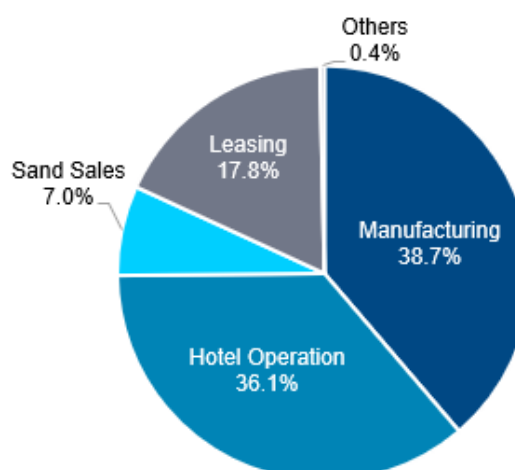
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2024Q3 (YTD)



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2024Q3 (YTD)



Rating Considerations

Business Profile

Competitiveness in packaging equipment manufacturing business

JHID's manufacturing business is conducted through its subsidiary, Jiangsu Tom Intelligent Equipment Co., Ltd. ("Jiangsu Tom"), which has a good market position in the field of intelligent packaging equipment manufacturing. JHID acquired 70% shares in Jiangsu Tom under government planning in September 2024, and started to record manufacturing revenue in August 2024, which has become the largest contributor to the Company's total revenue. Jiangsu Tom's business covers a range of business process including research, development, design and production of packaging equipment. Its products are used extensively across a range of industries, including agrochemicals, daily chemicals, petrochemicals, food, coatings, lubricants, medicines, and lithium battery materials. Jiangsu Tom customizes the products according to customer requirements. Jiangsu Tom's customer

base is nationwide, mainly central and local state-owned enterprises (“SOEs”) as well as large private-owned enterprises.

Over the past two years, Jiangsu Tom has achieved consistent growth in production and sales, with revenues exceeding RMB500 million annually. The net profit of Jiangsu Tom has increased over the past three years, reaching RMB79.3 million in 2023 with a net profit margin of around 14.0%. Relying on its excellent design and R&D capabilities, high market recognition and satisfactory after-sales service, Jiangsu Tom has a competitive advantage in the field of daily chemical intelligent manufacturing, ranking first in China in terms of market share in the daily chemical industry for three consecutive years according to China Cleaning Industry Association. However, the manufacturing business may face certain counterparty credit risks. Since Jiangsu Tom has wide range of downstream customers, the quality of the accounts receivable maybe affected by the operating conditions of the customers. As of 31 March 2024, Jiangsu Tom recorded bad debt provisions for accounts receivable of RMB22.5 million, accounting for 12.7% of total accounts receivable. Overall, we anticipate that Jiangsu Tom would maintain its good market position in mechanical manufacturing industry, which will benefit JHID through the sustained growth in business.

Meanwhile, we take the risk of potential volatility and fierce competition from the industries into account, which could impair the stability of the Company’s business. Specifically, the Company’s manufacturing business is sensitive to the changes in prices of upstream materials and market demands, posing greater challenges on the Company’s cost control.

Supplementary revenue from other businesses with stable growth prospectus

JHID has a relatively strong regional competitiveness in hotel operations, benefiting from the high recognition of franchised brands. Over the past three years, JHID has franchised and operated three well-known high-end hotel brands, including Magnolia, Hilton and Radisson. The Company made one-off franchise payment as well as annual management fees to the brand owners, and receives income from daily accommodation and banquets. The Company and the hotel staffs receive comprehensive operational training and regular assessments from the brand, thereby mitigating possible operating risks. JHID also had two self-branded hotels, mainly generating revenue from catering and banquet services. Over the past three years, JHID has achieved a growth in hotel operation business, with revenue reaching RMB67.3 million in 2023 and gross profit maintained stable at around 70.0%. Meanwhile, the Company is planning to franchise and settle more hotels in Jining City and other cities, which is expected to expand its business scope and revenue scale in the future. However, the relatively high degree of market competition in the hotel industry will also impose higher operating risks and operational requirements to the Company.

JHID obtained sand and gravel resources in Yanzhou District through government transfer and started sand sales business in August 2024. Downstream customers are required to make prepayment for the sand and gravel, and then settle the final payment based on the actual sand mining volume. As of the end of September 2024, the Company had completed one sale transaction and achieved sales revenue of RMB29.7 million. We anticipate that with the steady development of business, JHID’s sand and gravel sales revenue will grow, providing a stable source of supplementary revenue to the Company.

JHID’s leasing assets mainly include a 4-A Scenic Area in Jining City, namely Shandong Xinglong Cultural Park Scenic Area, and the surrounding bus parking lot, which were transferred from the local government in August 2024. The cultural park and the parking lot were leased out to a local scenic spot operating company and a bus company, with lease term of ten years. The two parties have agreed to make quarterly rent payments plus commission fees based on operating income. During the first three quarters of 2024, the Company achieved

rental income of RMB18.3 million. The scenic spot is currently open to public for free, it is expected that the Company's rental income may increase in the future when the scenic spot starts to charge ticket fees.

Financial Profile

Small revenue scale at the early stage of business development

Benefited from the newly engaged manufacturing, sand sales and leasing businesses, JHID recorded a significant increase in revenue in 2024, while the revenue scale remained relatively small. In the first three quarters of 2024, the Company recorded a total revenue of RMB240.1 million. Manufacturing is the largest contributor to the Company's revenue, representing more than half of the total revenue in the first three quarters of 2024. Hotel operations and sand sales represent 21.9% and 12.4% of the total revenue, respectively. Given the recent equity transfer and the early stage of business development, JHID's revenue scale is relatively small, which may pose some uncertainties on the Company's ability to withstand the market volatility.

Driven by the relatively high gross profit in its hotel operation business, JHID's profitability remained high over the past three years, with EBIT margin at over 80%. During the first three quarters of 2024, the Company's EBIT margin decreased to 33.3%, primarily due to the development of new businesses. Meanwhile, with the increase in the Company's total assets, JHID's return on assets declined from 16.2% in 2022 to 5.5% in 2023. Considering the development of different market-oriented businesses, we anticipate that the Company's revenue would gradually increase while the profitability of JHID is expected to remain moderate in the next 12 to 18 months.

Increasing debt level, albeit decreasing leverage ratio benefited from capital expansion

JHID's debt burden is manageable with a low leverage ratio. As of 30 September 2024, the Company's total debt had increased to RMB270.6 million from RMB35.5 million at end-2021, mainly used for the daily operation of the business. Meanwhile, as the local government has transferred equity shares and assets into the Company, JHID's total equity increased significantly. Its capitalization ratio (total debt to total capital), declined sharply from 29.3% as of end-2021 to 2.9% as of 30 September 2024.

With the rising debt level, JHID's debt servicing capability demonstrate a downward trend. The total debt to EBITDA ratio increased from 1.3x in 2021 to 2.6x in 2023. Meanwhile, the FFO's capability to cover total debt declined from 67.8% to 31.3%. Due to the comparably low level of total debt, the Company has experienced low interest expense over the past three years, resulting in high interest coverage. Apart from that, JHID also had one key self-constructed industrial park under planning, with a total investment of RMB518.2 million. Considering the increasing debt burden and investment needs for the business expansion, we expect the Company's debt level will continue to increase over the next 12-18 months.

Increasing capital expenditure with modest financing capability

Given the recent establishment of the Company while the development of the business takes time, JHID had limited funding channels. As of 30 September 2024, approximately 65.3% of the Company's debt was from bank loans, especially commercial banks in Shandong Province. The Company's funding flexibility may be affected by the fluctuations in the regional financing environment. Meanwhile, the Company's standby liquidity cushion was limited. As of 30 September 2024, JHID's total bank credit facilities amounted to RMB122.0 million, with the available portion being RMB4.1 million. In addition to bank loans, JHID also obtains fundings from non-standard financing products, primarily financial leasing. As of 30 September 2024, the Company's exposure to non-standard financing was RMB62.6 million, representing around 34.7% of the total debt. Underpinned by the

strong shareholder base and the development of market-oriented businesses, the Company is actively broadening its financing channels, including expanding cooperation with large domestic banks, as well as carrying out bond financing.

External Support

Likely to receive support from the local government and the parent company in times of needed

We expect that the Company is likely to receive the support from the local government and Liyuan Energy in times of need. Our expectation incorporates the considerations of the Company's (1) status as the core subsidiary of Liyuan Energy; (2) ultimate control by the Jining Municipal Government; (3) strategic importance in industrial transformation and development in Jining City; and (4) good track record of receiving support from the local government, including capital injection, asset injection, equity transfers and financial subsidies.

Located in the southern part of Shandong Province, Jining City is one of the central cities in the Huaihai Economic Zone approved by the Shandong Provincial Government. Jining City's diversified industrial structure has underpinned a steady improvement in the city's economic strength over the past three years. In 2023, Jining City reported a GRP of RMB551.6 billion, representing a 6.5% year-over-year ("YoY") growth, ranking sixth among all prefecture-level cities in Shandong province. In the first three quarters of 2024, Jining City's GRP amounted to RMB439.9 billion with a YoY increase of 5.8%.

JHID is the important industrial developer and state-owned assets operator in Yanzhou District and Jining City. The local government maintains a high degree of control over JHID's operations through Liyuan Energy, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to the local government and Liyuan Energy. Since its establishment, JHID has received good support from the local government. For example, in 2024, the local government transferred equities and assets to the Company, such as 70% of Jiangsu Tom's equity, buildings, sand use rights and Xinglong Cultural Park, which enhanced the Company's operating strength and capital strength. From 2021 to 2024Q3, the local government provided ongoing operating subsidies to the Company, amounting to RMB61.3 million. In addition, JHID is the major subsidiary of Liyuan Energy in industrial development. It accounted for more than 70% of Liyuan Energy's total assets as of 30 September 2024.

Structural Considerations

JHID's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important position in industrial development of Jining City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656