

Credit Opinion

13 September 2024

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

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Changzhou Jiangrun Environmental Protection Technology Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g long-term credit rating of Changzhou Jiangrun Environmental Protection Technology Co., Ltd. ("CZJR" or the "Company") 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.

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.

Rating Drivers

- Strong regional competitiveness in water and environmental protection businesses
- Stable revenue and profitability with relatively low business risk
- Large initial investment leads to a high debt leverage
- Weak debt servicing capability
- High likelihood of support from the Jintan District Government

Rating Sensitivities

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.

Key Indicators

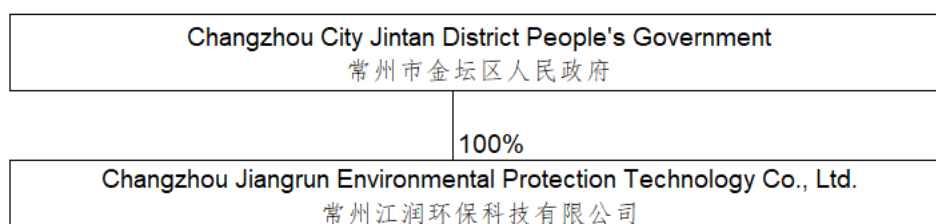
	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	7.9	8.8	12.5	15.5
Total Equity (RMB billion)	3.1	3.1	4.2	5.5
Total Revenue (RMB million)	212.0	318.5	337.9	190.3
Net Profit (RMB million)	15.2	28.3	27.4	15.3
EBIT Margin (%)	22.2	25.6	25.1	28.0
Return on Assets (%)	-	1.0	0.8	-
Total Debt/Total Capital (%)	49.6	56.4	61.3	-
Total Debt/EBITDA (x)	28.4	25.4	33.9	-
EBITDA/Interest (x)	1.7	1.8	1.7	-
FFO/Total debt (%)	3.4	3.7	2.8	-

All ratios and figures are calculated using CCXAP's adjustments. 2024H1 ratios are annualized for the last twelve months ended 30 June 2024. Some ratios are missing due to the lack of 2020FY and 2023H1 financial reports.

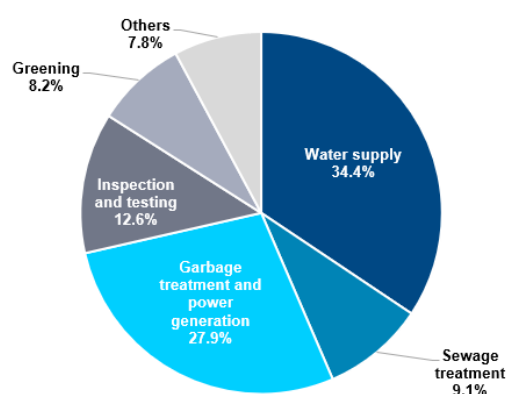
Source: Company data, CCXAP research

Corporate Profile

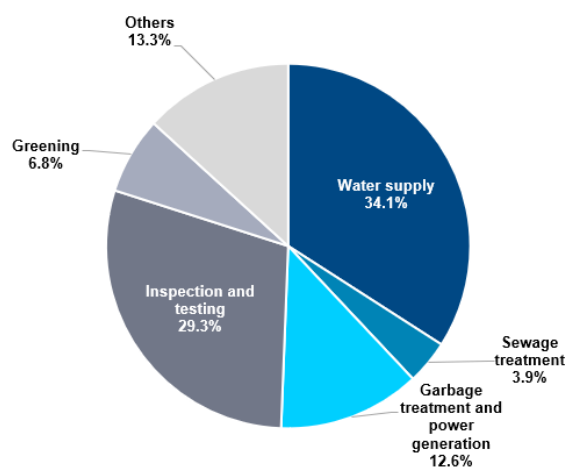
Established in 2019, CZJR is a dominant local state-owned public utility provider in Jintan District, a municipal district in Changzhou City, Jiangsu Province. In 2024, the Company received several equity shares related to environmental protection and water free of charge from the local government, further 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.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Business Profile****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. Jintan District is located in Changzhou City, Jiangsu Province, a well-developed city in China, with gross regional production of over RMB100 billion, and has achieved net population inflow in recent years, which provides a good operation environment for the Company.

For the water supply sector, its core sector, as of 30 June 2024, the Company owned and operated 1 water supply plant with a daily water supply capacity of 300.0 thousand tons, water pipeline of 1,702.9 kilometers, and 10 large-scale water supply transmission substations, covering the whole area of Jintan District. This water supply plant is transferred from the local government without compensation. The Company takes raw water from Changdang Lake, most of which is located in Jintan District, and sells tap water to Changzhou City Jintan Tap Water Co., Ltd., a local state-owned enterprise owned by Jintan District Government, after the processes of sedimentation, filtration and elimination. With the completion of a new water plant, the daily capacity of the Company's water supply capacity will expand by 100 thousand tons in the future.

For the garbage treatment and power generation businesses, the Company established SPV for the financing, construction and operation of the PPP project and obtained the project franchise for 30 years (from 2020 to 2050). The project is divided into two phases, of which the first phase was completed and put into operation in 2022 while the second phase of the project is still under planning. The service scope can cover the whole Jintan District, with a designed daily processing capacity of 1,000 tons and an installed capacity of 25,000 kilowatts. The Company achieves fund balancing by obtaining revenue from domestic waste treatment, power generation, and sales of coal slag residue. The Company signed a domestic waste treatment service agreement with the government units in Jintan District and other districts and counties in Changzhou City. The unit price of the domestic waste treatment service fee is RMB68.9 per ton. The electricity generated by waste incineration is connected into the State Grid, and the income is settled by State Grid Jiangsu Electric Power Co., Ltd, according to the electricity metering. The coal residue generated after waste incineration power generation is sold to the public market via open bidding. With waste treatment, Jintan District can foster environmental stewardship, leading to a more resilient and prosperous community.

CZJR, cooperated with private investors, has established SPV for the investment, finance, design, operation and management of the urban-rural sewage treatment consolidation PPP project. The project includes relocation, new construction and expansion of 2 urban sewage treatment plants and 3 town sewage treatment plants, covering the majority of Jintan District. Sewage treatment charges are collected along with water fees, and the Finance Bureau of Jintan District allocates the relevant sewage treatment fees to the Company monthly. As of 30 June 2024, the Company had 3 sewage treatment plants in operation, with a total daily sewage treatment capacity of 75 thousand tons, and 4 sewage treatment plant renovation projects were under construction, with an estimated additional daily treatment capacity of 90 thousand tons. CZJR's market shares in Jintan District will further strengthen due to improved treatment technic and capacity.

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 water supply business is the main contributor to CZJR's revenue accounting for 34.4% of CZJR's total revenue in 2023, followed by garbage treatment and power generation (27.9%), inspection and testing (12.6%) and sewage treatment (9.1%). 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.

Long commissioned operation durations and cost compensation mechanisms underpin CZJR's high visibility of revenue and profitability. The revenue of the water supply and sewage treatment business is highly related to the local water tariff mechanism, which needs approval from the local government. Jintan District implemented the water tariff mechanism approved in 2015, regulating sewage treatment prices such as RMB1.5 per cubic meter for residential sewage and RMB1.6 per cubic meter for commercial sewage. The adjustment of water tariff mechanism used to have a long approval process and time. China newly implemented water tariff policy in October 2021 which would provide a more transparent tariff-setting mechanism and timely adjustments. The Company settles with the local government or agency monthly according to the water supply volume and sewage treatment volume. The settled tap water prices were stable over the past three years, which were around RMB1.84 per ton. In addition, the government appointed feasibility gap grants involved in the PPP projects. For example, the garbage disposal fee in the waste-to-energy incineration projects is negotiable to compensate for the operating costs. CZJR's profitability is moderate but stable. From 2021 to 2023, the Company's EBIT margin increased from 22.2% to 25.1% as more capacity was put into production.

In addition to the public utilities, CZJR has other business segments transferred from the local government without compensation, mainly including inspection and testing, property leasing, and property management. CZJR's inspection and testing business includes construction project quality inspection, special equipment inspection and testing services. Most downstream customers, mainly the state-owned enterprises in Jintan District, make payments in advance. This segment contributed diversifies the revenue and provides a considerable amount of profit to the Company given its light-asset business model.

Financial Profile

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. The surging leverage is mainly due to a rapid increase in total debt. The Company's total debt increased to RMB8.3 billion from RMB3.0 billion during the same period, more than double the previous volume, mainly due to business expansion. The Company relies on support from its shareholder, the Jintan District Government, and profit retention to strengthen its capital. However, the Company's net profit scale remained small, achieving RMB27.4 million in 2023. From 2021 to 2024H1, the Company's total equity raised from RMB3.1 billion to RMB5.5 billion, mainly benefiting from equity assets injected from local government. The Jintan District Government agreed to increase its capital base to RMB1.0 billion in 2025, which may enhance its capital strength and release leverage pressure if realized. However, the actual timing of capital injection payments depends on the government's financial strength. Considering the Company's funding needs for its ongoing or planned construction projects such as industrial parks, and water and sewage treatment plants, we expect that the debt leverage level will remain relatively high in the next 12-18 months.

Exhibit 4. Key projects under construction as of 30 June 2024

Project Type	Budgeted Amount (RMB million)	Invested Amount (RMB million)	Outstanding Amount (RMB million)
Projects Under Construction			
Water supply	375.9	73.5	302.4
Sewage treatment	391.0	276.0	115.0
Total	766.9	349.5	417.4

Source: Company information, CCXAP Research

CZJR mainly runs an asset-based business model, however, its return on average assets ratio was weak. The total assets are mainly comprised of cash and cash equivalent (22.6%), other receivables (22.6%), inventories (24.1%) and fixed assets (10.1%) as of 30 June 2024. The other receivables are generated from the transactions with local state-owned enterprises which lower the yield on assets. The inventories mainly consist of land to be developed which are acquired through assets transfer or purchases. From 2021 to 2024H1, the Company's inventories increased notably from RMB2.5 billion to RMB3.7 billion.

Weak debt servicing capability

CZJR's stand-alone debt-serving metrics are weak given its large debt burden. The Company's 3-year average EBITDA interest coverage ratio was around 1.7x and the average total debt/EBITDA ratio was around 29.2x. 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. As of 30 June 2024, the Company's cash to short-term debt ratio was 1.3x. The

Company's external financing channels concentrated on indirect financing channels such as bank loans, which are exposed heavily to the changes in the macro environment and bank policy. 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.

CZJR's core business cash generation capacity is good with a cash-to-revenue ratio within 0.9x to 1.0x over the past three years. However, its FFO/total debt ratio decreased to 2.8% in 2023 due to a large cash outflow for purchase of land which is planned for an industrial park in the future. The actual cash payment cycle has extended in recent years, making the gap between operating cash inflow and outflow enlarged. The Company's restricted assets were large that may negatively influence its funding flexibility. As of 30 June 2024, the Company had pledged assets of RMB5.2 billion for loans, accounting for 33.5% of total assets.

External Support

High likelihood of support from the Jintan District Government

We expect a relatively high likelihood of receiving support from the Jintan District Government in times of need. Our expectation incorporates the considerations of 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, including capital and assets injections as well as financial subsidies.

Located in the west of Changzhou City, Jintan District is a municipal district with good economic fundamental and fiscal performance. In 2023, its GRP increased to RMB130.3 billion, representing a YoY growth of 8.2%. Jintan District reported general budgetary revenue of RMB5.8 billion, of which tax revenue accounted for 91.4% of the total general budgetary revenue, indicating good fiscal quality.

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. The local government committed to increasing the Company's paid-in capital by RMB460 million in 2025, yet the actual timing of capital injection payments depends on the government's financial strength. The local government integrated and injected equities of state-owned enterprises in the Jintan District into the Company without compensation, broadening its business scope and enhancing its competitiveness. As of 30 June 2024, the Company's capital reserves increased to RMB4.9 billion from RMB2.5 billion at end-2021. In addition, the Company received subsidies from the local government with a total amount of RMB694.9 thousand from 2021 to 2024H1.

We considered CZJR's socio-political implications to be high, as CZJR is commissioned to safeguard water supply and ecological protection businesses such as sewage treatment and greening. These businesses are vital and indispensable for residents' daily lives, production, environmental protection, and facilitating sustainability. 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.

Structural considerations

CZJR's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company, given its full and direct ownership by the Jintan District Government and

its critical roles in the environmental and social development of Jintan District, 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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