

Credit Opinion

9 October 2024

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

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Chongqing Jiangjin District Jiangding Industrial Development Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Chongqing Jiangjin District Jiangding Industrial Development Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Chongqing Jiangjin District Jiangding Industrial Development Co., Ltd. ("Jiangding" or the "Company") to BBB_g from BBB_g-, with stable outlook. The rating upgrade is based on the important position of the Company in developing Jiangjin District and Jiangjin District Government's direct ownership in the Company, which strengthens the local government's willingness to support the Company.

The long-term credit rating of Jiangding reflects the Jiangjin District Government's (1) strong capacity to provide support, and (2) high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Jiangjin District Government's capacity to provide support reflects its economic importance in Chongqing City, with steady economic growth, but constrained by its modest fiscal quality.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) clear functional position in infrastructure construction and land quota sales of Jiangjin District; (2) good business sustainability for undertaking major local projects and services; and (3) proven track record of receiving government.

However, the rating is constrained by the Company's (1) weak assets liquidity; (2) limited access to funding channels; and (3) increasing exposure to commercial activities.

The stable outlook on Jiangding's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic position in the development of Jiangjin District.

Rating Drivers

- Clear functional platform engaging in infrastructure construction and land quota sales of Jiangjin District
- Undertaking major local projects and services with good business sustainability
- Increasing exposure to commercial activities
- Proven track record of receiving government
- Increasing debt burden driven by construction projects
- Weak asset liquidity
- Limited access to funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved debt management and improved asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or increased exposure to commercial activities.

Key Indicators

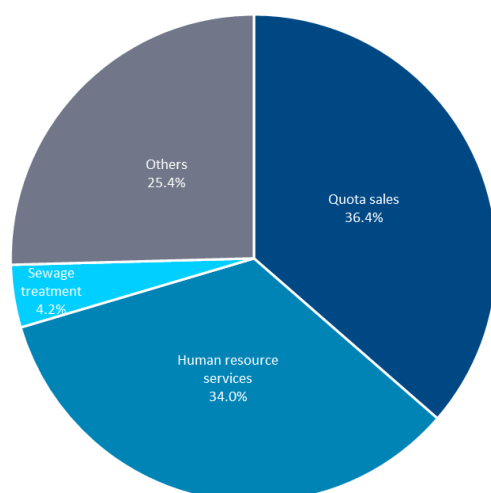
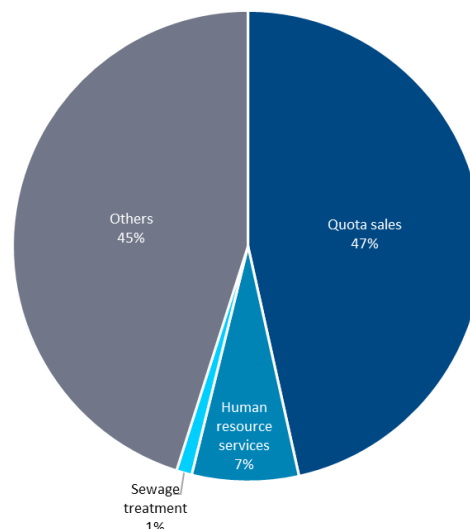
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	12.8	14.4	13.5	15.8
Total Equity (RMB billion)	4.2	7.4	7.1	7.3
Total Revenue (RMB billion)	0.9	1.0	0.7	0.3
Total Debt/Total Capital (%)	33.6	27.0	35.4	40.0

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2018, the Company was formerly known as Chongqing Jiangjin Huaxin Industrial Development Co., Ltd. After the consolidation of Chongqing Jiangjin District Zhenxin Industrial Development Group Co., Ltd. ("Zhenxin") in 2023, the Company became one of the major construction and operation entities in Jiangjin District. The Company is primarily responsible for the sales of land quotas, infrastructure construction, and the operation of sewage treatment in Jiangjin District. Apart from public development projects, the Company also undertakes various commercial activities, such as human resource services, property leasing, parking lot operation, property management, car rental and self-operating projects. In July 2024, according to the local government's consolidation plan, the Company's shareholding was transferred from Chongqing Jiangjin Huaxin Asset Management Group Co., Ltd. ("JHAM") to the State-owned Assets Supervision and Administration Commission of Jiangjin District, Chongqing City ("Jiangjin SASAC"). As of 31 August 2024, Jiangjin SASAC is the ultimate controller of the Company, directly holding 100% of the Company's shares.

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 the Jiangjin District Government has a good capacity to provide support to the Company, given its economic importance in Chongqing City, with steady economic growth, but constrained by its modest fiscal quality.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2023, Chongqing City recorded a gross regional product ("GRP") of RMB3.0 trillion with a GRP growth rate of 6.1% year on year ("YoY"), ranking 5th among municipalities and prefecture-level cities in China, and becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. In the first half of 2024, Chongqing's GRP recorded RMB1.5 trillion, a YoY increase of 6.1%. Meanwhile, thanks to the economic recovery, key financial indicators of Chongqing City showed a restorative uptrend in 2023. Chongqing City's tax revenue has increased from RMB127.1 billion in 2022 to RMB147.6 billion in 2023, resulting in the rising general public budget revenue from RMB210.3 billion in 2022 to RMB244.1 billion in 2023, with a growth rate of 16.1% YoY. We consider Chongqing City to bear a relatively high debt burden owing to its relatively large scale of direct government debt and the debt burden of local state-owned enterprises. As of the end of 2023, the outstanding direct government debt balance of Chongqing City amounted to RMB1.2 trillion, accounting for 40.7% of its GRP for that year.

Exhibit 3. Key economic and fiscal indicators of Chongqing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	2,789.4	2,912.9	3,014.6
GRP Growth (%)	8.3	2.6	6.1
General Budgetary Revenue (RMB billion)	228.5	210.3	244.1
General Budgetary Expenditure (RMB billion)	483.5	489.3	530.4
Local Government Debt (RMB billion)	861.0	1,007.1	1,225.8

Source: Statistic Bureau of Chongqing City, CCXAP research

Jiangjin District is located in the southwest part of Chongqing City, with a total area of 3,200 square kilometers. In 2020, Jiangjin District was included in the metropolitan area of the core district. Jiangjin District is planned as one of the 6 major regional centers in Chongqing City, as well as an important shipping hub and material distribution center in the upper reaches of the Yangtze River. Relying on its pillar industries such as consumer goods, equipment manufacturing, automobile, materials, and electronic information manufacturing, Jiangjin District has continued to grow and develop in recent years. With the rapid economic growth resulting from industrial upgrading, the GRP of Jiangjin District increased by 7.0% YoY from RMB133.0 billion in 2022 to RMB140.2 billion in 2023, ranking 6th among 38 districts and counties in Chongqing City. The general budgetary revenue of Jiangjin District amounted to RMB6.8 billion in 2023, of which tax revenue accounted for 56.7%, indicating moderate fiscal stability. In addition, it recorded an average general budgetary revenue/general budgetary expenditure ratio of 56.5% over the past three years, which was at a relatively weak level. The local government debt scale is expanding at a relatively fast pace. At end-2023, Jiangjin District Government's outstanding debt amount was RMB30.9 billion, accounting for 22.1% of Jiangjin District's GRP.

Exhibit 4. Key economic and fiscal indicators of Jiangjin District

	2021FY	2022FY	2023FY
GRP (RMB billion)	125.8	133.0	140.2
GRP Growth (%)	8.4	3.2	7.0
General Budgetary Revenue (RMB billion)	6.2	6.8	6.8
General Budgetary Expenditure (RMB billion)	11.3	11.6	12.1
Local Government Debt (RMB billion)	22.3	24.7	30.9

Source: Statistic Bureau of Jiangjin District, CCXAP research

Government's Willingness to Provide Support**Clear functional platform engaging in infrastructure construction and land quota sales of Jiangjin District**

There are three major construction and operation entities in Jiangjin District, namely JHAM, Western (Chongqing) Science City Jiangjin Park Development and Construction Group Co., Ltd. ("WSJP"), and Jiangding, each with clear positioning in the development of the region. JHAM is positioned as the core urban development entity and the most important infrastructure construction and park development entity in Jiangjin District, mainly responsible for land consolidation and infrastructure construction in Degan Industrial Park, Baisha Industrial Park and Jiangnan Old Town. WSJP is mainly responsible for the infrastructure construction of Jiangjin District of Western (Chongqing) Science City (excluding Degan Industrial Park) and Luohuang Area. Jiangding engages in land quota sales, infrastructure construction and the operation of sewage treatment in Jiangjin District, maintaining its important position in local projects and services in Jiangjin District. After further restructuring and integration of local state-owned enterprises in 2024, we believe the local government's support for Jiangding

will be strengthened and the replacement cost of the Company will be relatively high given its essential role in regional development.

Undertaking major local projects and services with good business sustainability

As the main developer in Jiangjin District, the Company is entrusted by the local government to undertake land quota sales and infrastructure construction businesses, with social and economic importance. The agency construction business is sustainable given the considerable infrastructure construction projects under construction in the pipeline, but could also exert certain capital expenditure pressure on the Company.

The land quota sales business is the largest revenue source of the Company, accounting for 36.4% of total revenue in 2023. The Company obtains newly cultivated land quotas and auctions the corresponding quotas at the designated trading places in Jiangjin District or other regions in a market-oriented manner. The sales unit price of land quotas in Jiangjin District has been higher than before since May 2023, when the Company established the land quotas pool under the local government's approval to coordinate land quotas in Jiangjin District. As of 31 March 2024, the book value of land quotas for sale was around RMB1.1 billion and the total investments of land quotas under cultivating was RMB88.7 million, with an uninvested amount of RMB74.3 million. Besides, the total investment of land quotas under planning amounted to RMB20.8 million. Given the sufficient scale of the Company's land quotas, we believe the Company's land quota sales business has good sustainability. However, the sales of quotas are subject to the overall market needs.

Jiangding also conducts infrastructure construction business through an agency construction model. The Company signs an agency agreement with related departments of the Jiangjin District Government and recognizes revenue based on a certain proportion of the invested amount of construction projects annually. The Company's agency construction projects have been funded in advance by the local government, alleviating part of its capital pressure. As of 31 March 2024, the Company had completed 3 key infrastructure construction projects with a total invested amount of RMB108.9 million. Meanwhile, the Company had 4 projects under construction with a gross investment amount of RMB623.9 million and an uninvested amount of RMB450.3 million. It also had 1 infrastructure construction project under planning, with a total estimated investment of RMB30.0 million. We believe the Company's infrastructure construction business is sustainable since these infrastructure projects are crucial to local social and economic development.

In addition, Jiangding is one of the major sewage treatment providers in Jiangjin District. As of 31 March 2024, the Company owned the operation right of 31 sewage treatment plants with a daily sewage treatment capacity of 51,300 tons. It is expected that the Company will expand its business scope and increase its sewage treatment capabilities in the future. However, due to the nature of the public welfare business, the sewage treatment business makes a limited contribution to the Company's overall income and profit.

Increasing exposure to commercial activities

Apart from public activities, Jiangding is also involved in various commercial activities such as human resource services, property leasing, parking lot operation, property management, car rental and self-operating projects. We consider Jiangding's commercial business exposure to be medium, as its market-driven businesses account for around 20% of its total assets. These activities have been a good supplement to the Company's operating revenue but could pose the Company with related operational and financial risks.

Human resource service is the second largest source of income for the Company, which accounted for 34.0% of its total revenue in 2023. The Company provides labor dispatch personnel to the client companies based on

their employment needs and also provides security service in the form of labor dispatch with a monopoly position in Jiangjin District. The security service business remains a stable customer base with more than 1,000 customer units with around 3,000 security personnel reserved, providing services to enterprises and institutions in Jiangjin District, such as banks, central enterprises, kindergartens and schools. The income of this business shows a stable growth trend as it increased from RMB211.8 million in 2022 to RMB226.4 million in 2023, but with low profitability reflected by an average gross profit ratio of about 3.9% between 2022 and 2023.

Jiangding was engaged in the sales of refined oil, which involves procuring refined oil from oil companies, and then selling it at the local gas stations. The income from the sales of refined oil accounted for around 16.3% of its total revenue from 2020 to 2022 on average.

The Company also engages in property leasing business by acquiring residential properties by self-raised funds, with a total saleable area of 29,163 square meters as of 31 March 2024. In addition, the Company is involved in the parking lot operation business and owns 9,275 parking units in Jiangjin District. The franchise period is from 1 September 2022 to 31 August 2042. The revenue from parking fees shows a rapid growth trend, increasing to RMB22.7 million in 2023 from RMB6.3 million in 2022.

In addition, the Company participates in the construction of self-operating projects, such as an entrepreneurship center, logistics distribution center, and sewage treatment plant. The Company constructs self-operating projects with self-raised funds, and achieves capital balance mainly through rental, sales, and operating income. As of 31 March 2024, the Company had 1 self-operating project under construction, with a total planned investment amount of RMB4.8 billion and an uninvested amount of RMB2.3 billion, exerting certain capital expenditure pressure. Moreover, the Company had 5 projects under planning with a total planned investment of RMB474 million. Given the relatively large investment in self-operating projects under construction and planning, we expect the Company's exposure to commercial activities will increase in the future.

Proven track record of receiving government

Jiangding has a track record of receiving support from the Jiangjin District Government. These supports take various forms, such as government subsidies, equity transfers and capital injection. Approved by the local government, JHAM transferred 11 companies into the Company in 2022, as well as transferred Zhenxin into the Company in 2023, enhancing its capital strength and broadening its business mix. In 2023, the Company also received a capital injection of RMB300 million from its shareholder, enhancing its capital strength. From 2022 to 2024Q1, the local government has provided total subsidies of RMB10.7 million to the Company. Given Jiangding's important strategic role, we expect the Company will continue to receive support from the Jiangjin District Government in the future.

Increasing debt burden driven by construction projects

The Company shows a rising debt burden owing to its expansion in the construction of public-policy projects and investment in commercial activities. Its total debt increased from RMB2.7 billion at end-2022 to RMB4.9 billion as of 30 June 2024, with a reasonable capitalization ratio of 40.0%. With rising short-term financing and maturing long-term debt since 2023, the Company has certain short-term repayment pressure. As of 30 June 2024, the Company's short-term debt accounted for 17.2% of its total debt and its cash to short-term debt ratio was 1.1x, compared with 2.2% and 10.2x in 2022, respectively. Considering the Company's ongoing investment needs, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

In addition, the Company has low exposure to external guarantees. As of 30 June 2024, the total amount of the Company's external guarantee was RMB827 million, accounting for 11.3% of its net assets. All the external guarantees are provided to local state-owned enterprises in Jiangjin District. We believe that the credit risk of the guarantee is moderately controllable, taking into account the government's support to local state-owned enterprises when needed.

Weak asset liquidity

Jiangding has relatively weak asset liquidity. The Company's total asset mainly consists of receivables and inventories, which accounted for 80.3% of its total assets as of 30 June 2024. Receivables are mainly unreceived payments from the agencies of the government or other state-owned companies. Inventories are mainly investment costs for its construction projects and land-using rights, all of which are considered low liquidity.

Limited access to funding channels

We consider the Company to have a limited funding channel as its debt financing channels are mainly bank loans and non-standard financing. As of 30 June 2024, around 83.1% of the Company's debt financing was provided by domestic banks. The Company has maintained a good relationship with policy banks, large state-owned banks, and commercial banks, with total available credit facilities of RMB3.9 billion, indicating a sufficient liquidity buffer. However, it has moderate exposure to non-standard financing products with a relatively high average financing cost of around 7.4%, which would bring higher refinancing pressure to the Company. In August 2024, the Company issued an offshore RMB bond with a total issuance amount of RMB285 million and a coupon rate of 4%. Given the Company's limited funding channels and large outstanding investment amount on its construction projects, we consider additional funding channel is needed to fulfill its large capital expenditure, such as increasing its credit facilities and issuing onshore bonds.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. Jiangding assumes environmental risks for its local projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

Jiangding is also exposed to social risks as it implements public-policy initiatives by building public projects in Jiangjin District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. Jiangding believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates.

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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