

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

Hong Kong, 19 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g to Taixing City Investment Development Group Co., Ltd. (“TXCI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of TXCI reflects (1) Taixing City Government’s strong capacity to provide support; and (2) the local government’s very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Taixing City Government’s capacity to provide support reflects Taixing City’s relatively good comprehensive strength, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy roles in public-related activities in Taixing City; (2) track record of receiving government support; and (3) good access to diversified funding sources. However, the rating is constrained by the Company’s (1) moderate exposure to commercial business activities; (2) moderate debt management and weak asset liquidity; and (3) high exposure to contingent liabilities.

Corporate Profile

Established in 2019, TXCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Taixing City, Taizhou City. As the main operator and developer in Taixing City, the Company plays important roles in public-related businesses, including infrastructure construction, land consolidation, water supply, and affordable housing businesses. In addition, the Company also undertakes commercial activities such as construction contracting and real estate development. As of 30 June 2022, the Company was wholly owned and ultimately controlled by State-owned Assets Supervision and Administration Office of People’s Government of Taixing City (“Taixing SASAO”).

Rating Rationale

Credit Strengths

Important policy role in public-related activities in Taixing City. TXCI is the primary state-owned assets operation entity in Taixing City, with strong regional franchise advantages in various public-related activities such as infrastructure construction, land consolidation, water supply, and affordable housing development. The Company has consolidated several state-owned enterprises in Taixing City since its establishment and conducts its businesses mainly through its subsidiaries. From 2020 to 30 June 2022, the Company had completed key infrastructure construction projects with total investment of around RMB347.9 million, which significantly benefits people’s livelihood and promotes the urbanization development in Taixing City.



Track record of receiving government support. TXCI has a track record of receiving support from the local government in terms of cash injections, asset injections and financial subsidies. In 2020, the Company received a capital injection of RMB3.0 billion as its paid-in capital from the local government, significantly enhancing its capital strength. Considering TXCI's important position and tight relationship with the local government, we expect the local government will continue to support TXCI over the next 12 to 18 months.

Good access to diversified funding sources. TXCI has sufficient stand-by liquidity and diversified funding channels. As of 30 June 2022, the Company's total credit facilities amounted to around RMB24.4 billion, of which the unutilized portion was around RMB8.0 billion. Furthermore, TXCI has a proven track record of financing from both onshore and offshore debt markets.

Credit Challenges

Moderate exposure to commercial business activities. TXCI also engages in commercial business activities, mainly including construction contracting and real estate development, which generate supplementary revenue and profit to the Company. We estimate that TXCI had moderate commercial exposure, accounting for 15% to 20% of its total assets. TXCI is engaged in construction contracting business through one of its wholly-owned subsidiaries, namely, Taixing Yijian Construction Group Co., Ltd. ("Taixing Yijian"), which holds a premium construction qualification and is the leading engineering and construction company in Jiangsu Province. The construction contracting business is the major income source of the Company, generating around 89.7% of total revenue and around 62.7% of gross profit in 2021.

Moderate debt management and weak asset liquidity. TXCI's total debt increased rapidly in the past three years, with relatively high portion of short-term debt. The Company's total debt increased from RMB17.0 billion at end-2019 to RMB31.4 billion at mid-2022, with total capitalization ratio of 53.6% and short-term debt accounting for 36.6%. TXCI's asset liquidity is relatively weak, and its assets mainly consist of inventories and other receivables. Furthermore, at mid-2022, the Company had pledged assets of RMB8.0 billion for loans, accounting for 11.7% of total assets.

High exposure to contingent liabilities. TXCI has high exposure to contingent liabilities as its external guarantees amounted to RMB11.5 billion, relative to 42.2% of total equity at mid-2022. 2.7% of external guarantees were provided to local private-owned enterprises without counter-guarantee measures, while the remaining guarantees were provided to other state-owned enterprises in Taixing City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which is negative to its credit quality.

Rating Outlook

The stable outlook on TXCI's rating reflects our expectation that Taixing City Government's capacity to provide support will remain stable, and the Company will maintain its important position in public-related activities in Taixing City.

What could upgrade the rating?

The rating could be upgraded if (1) Taixing City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as a material reduction in external guarantees or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Taixing City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a reduction in importance of its policy role or deteriorated debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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