

CCXAP upgrades Taizhou Huaxin Pharmaceutical Investment Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 19 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd. (“Huaxin” or the “Company”) to BBB_g from BBB_{g-}, with stable outlook.

The rating upgrade is based on Taizhou Medical Zone’s enhanced economic and fiscal position in Taizhou City after integration with Gaogang District, with strong policy support. It also reflects Huaxin’s good track record of receiving government payments, in terms of capital injections, debt swaps, financial subsidies, and project payments.

The long-term credit rating of Huaxin reflects Taizhou Municipal Government’s (1) very strong capacity to provide support; and (2) 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 its good industrial base, ongoing economic growth, and moderate fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy role in Taizhou Medical Zone and Taizhou City; (2) direct ownership by Taizhou Municipal Government; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) high exposure to commercial activities, with manageable commercial risks; (2) high debt leverage and weak asset liquidity; and (3) large exposure to external guarantees, with medium contingent liability risks.

Corporate Profile

Founded in 2005, Huaxin is the most important local infrastructure investment and financing company (“LIIFC”) in the Taizhou Medical High-Tech Industrial Development Zone (“Taizhou Medical Zone”) in Jiangsu Province. The Company mainly engages in sales of pharmaceutical and industrial products, sales of real properties, construction management, and leasing in Taizhou Medical Zone. As of 31 March 2023, Taizhou Municipal Government held 99.45% of the Company’s shares, while CDB Development Fund Co., Ltd. held the remaining 0.55%. Taizhou Municipal Government is the ultimate controlling shareholder of the Company.

Rating Rationale

Credit Strengths

Important policy role in Taizhou Medical Zone and Taizhou City. Huaxin is the largest LIIFC in Taizhou City by assets and the primary LIIFC wholly owned and effectively controlled by Taizhou Municipal Government. It is responsible for the development of the pharmaceutical industry and Taizhou Medical Zone. The Company is designated by the Management Committee of Taizhou Medical Zone to undertake land primary development and other construction management businesses. Huaxin is also in a leading position in the sales and

distribution of pharmaceutical products, as well as the provision of land, leasing properties and service platforms in Taizhou Medical Zone, which is conducive to attracting more high-quality pharmaceutical companies to settle in and build a famous pharmaceutical city. Through strong shareholder background and capital strength, the Company is accordingly well positioned to be the primary developer of major projects within Taizhou Medical Zone. Given its important policy role and competitive position, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Good track record of receiving government payments Huaxin has a good track record of receiving payments from local government in terms of capital injections, debt swaps, financial subsidies, and project repayments. Given the important position of Huaxin and its close relationship with the local government, we expect the Company will continue to receive strong support from the local government over the next 12 to 18 months.

Credit Challenges

High exposure to commercial activities, with manageable commercial risks. Huaxin's commercial activity exposure is high, but its commercial risks are manageable. The Company's commercial activities include property development, property leasing, sales and distribution of pharmaceutical products and sales of industrial products. Although some of these activities are more policy-driven and relate to its public policy businesses, if the Company's commercial exposure increases significantly, it could become more difficult for the local government to support Huaxin's commercial activities.

High debt leverage and weak asset liquidity. With the continuous financing of construction projects, Huaxin's debt leverage remains high, and its debt burden continues to increase. As of 31 March 2023, the Company's total debt had increased from RMB46.1 billion at end-2020 to RMB57.0 billion, and the total capitalization ratio was as high as 65.5%. Huaxin's asset liquidity remains relatively weak, as its assets mainly consist of inventories, receivables, and investment properties, all of which has low liquidity. This could undermine its financial flexibility.

Large exposure to external guarantees, with medium contingent liability risks. As of 31 March 2023, Huaxin's external guarantees amounted to RMB15.8 billion, accounting for 54.4% of its net assets. Nevertheless, all external guarantees are provided to state-owned enterprises in Taizhou City, which have low credit risks.

Rating Outlook

The stable outlook on Huaxin's rating reflects our expectation that the Company will maintain its important position in Taizhou Medical Zone. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's



willingness to provide support, such as improvement in debt management and material reduction in external guarantee.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decrease the local government's willingness to provide support, such as decrease in its strategic significance or increase in commercial exposure.

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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