

CCXAP assigns first time long-term credit rating of A_g- to Tongxiang City Construction Investment Group Co., Ltd., with stable outlook.

Hong Kong, 21 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A_g- to Tongxiang City Construction Investment Group Co., Ltd. (“TCIG” or the “Company”), with stable outlook.

The A_g- long-term credit rating of TCIG reflects (1) Tongxiang City Government’s very strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Tongxiang City Government’s capacity to provide support reflects its strong economic and fiscal position in Jiaxing City, with relatively good comprehensive strength, ongoing economic growth, and good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) most important position in the development of Tongxiang City; (2) high sustainability of public policy businesses; (3) good track record of receiving government payments; and (4) good access to multiple financing channels. However, the Company’s rating is constrained by its (1) medium exposure to commercial activities with manageable commercial risks; and (2) fast debt growth and moderate asset liquidity.

Corporate Profile

Founded in 2003, TCIG is the most important local infrastructure investment and financing company (“LIIFC”) in Tongxiang City, Jiaxing City, Zhejiang Province. The Company mainly engages in primary land development, infrastructure construction, water supply and sewage treatment, and public transportation businesses in Tongxiang City. It is also engaged in commercial businesses such as property development, property leasing, trading, security service, guarantee, and sales of gasoline. The Company is wholly owned and directly controlled by Tongxiang Finance Bureau.

Rating Rationale

Credit Strengths

Most important position in the development of Tongxiang City. TCIG is the largest infrastructure construction and state-owned assets operation entity in Tongxiang City by assets, mainly focusing on land development and infrastructure construction in Tongxiang Economic and Technological Development Zone (“Tongxiang ETDZ”) and rural towns such as Wuzhen, Puyuan and Chongfu, and providing utility and transportation services in the whole city. Considering the TCIG’s dominant position in undertaking public policy projects and essential role in public utility services in Tongxiang City, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses. As the major developer and operator of Tongxiang City, TCIG has participated in primary land development, infrastructure construction,



water supply and sewage treatment, and public transportation businesses through its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure to the Company.

Good track record of receiving government payments. TCIG has a good track record of receiving payments from local government in terms of capital injections, financial subsidies, equity transfer, and agency project payments. Considering the important position of TCIG and its tight relationship with the local government, we expect that the payments from the local government to support TCIG will continue over the next 12 to 18 months.

Good access to multiple financing channels. TCIG's good access to fundings is reflected by its sufficient stand-by liquidity and smooth bond market financing channel. The Company has good relationship with multiple commercial banks and policy banks in China, such as Agricultural Development Bank of China and Agriculture Bank of China, and has obtained sufficient credit facilities. Furthermore, the Company has a track record of direct financing in bond market. From 2020 to 2023Q1, the Company had issued a series of bond products in the onshore debt markets, such as SCPs, PPNs, MTNs, and corporate bonds, with average coupon rate of about 3%, raising RMB16.6 billion in total.

Credit Challenges

Medium exposure to commercial activities with manageable commercial risks. TCIG's exposure to commercial activities is medium as the commercial assets accounted for 25% to 30% of total asset as of 31 March 2023. The commercial businesses include property development, property leasing, trading, security service, guarantee, and sales of gasoline. We believe that the commercial risks are manageable as most of the commercial businesses provide stable income and reasonable profit to the Company.

Fast debt growth and moderate asset liquidity. With the increasing financing demand for the construction projects, TCIG has a fast debt growth over the past three years. The Company's total debt increased from RMB39.1 billion at end-2020 to RMB74.7 billion at end-2023Q1, with total capitalization ratio of 55.6%. TCIG's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, receivables, investment properties, and construction in progress, all with relatively low liquidity.

Rating Outlook

The stable outlook on TCIG's rating reflects our expectation that the Company will maintain its most important policy role in Tongxiang City. 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) Tongxiang City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local



government's willingness to provide support, such as materially decrease in its exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Tongxiang City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its importance, materially decrease in government payments, 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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