

Credit Opinion

30 April 2025

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

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Tai'an Tianze Investment Operation Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Tai'an Tianze Investment Operation Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Tai'an Tianze Investment Operation Group Co., Ltd. ("TATZ" or the "Company") reflects the Tai'an 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 Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength, but constrained by its moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) essential role as the primary urban developer and operator of the Wenhe New District in Tai'an City; and (2) good track record of receiving government supports.

However, the rating is constrained by the Company's (1) medium and increasing exposure to commercial activities; (2) relatively fast debt growth; and (3) moderate asset liquidity.

The stable outlook on TATZ's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Tai'an City, especially in the Wenhe New District over the next 12-18 months.

Rating Drivers

- Essential role as the primary urban developer and operator of the Wenhe New District
- Medium and increasing exposure to commercial activities
- Good track record of receiving government supports
- Relatively fast debt growth and moderate asset liquidity
- Relatively high reliance on bank loans

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as increased strategic significance or improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 reduced strategic significance or higher exposure to risky commercial activities.

Key Indicators

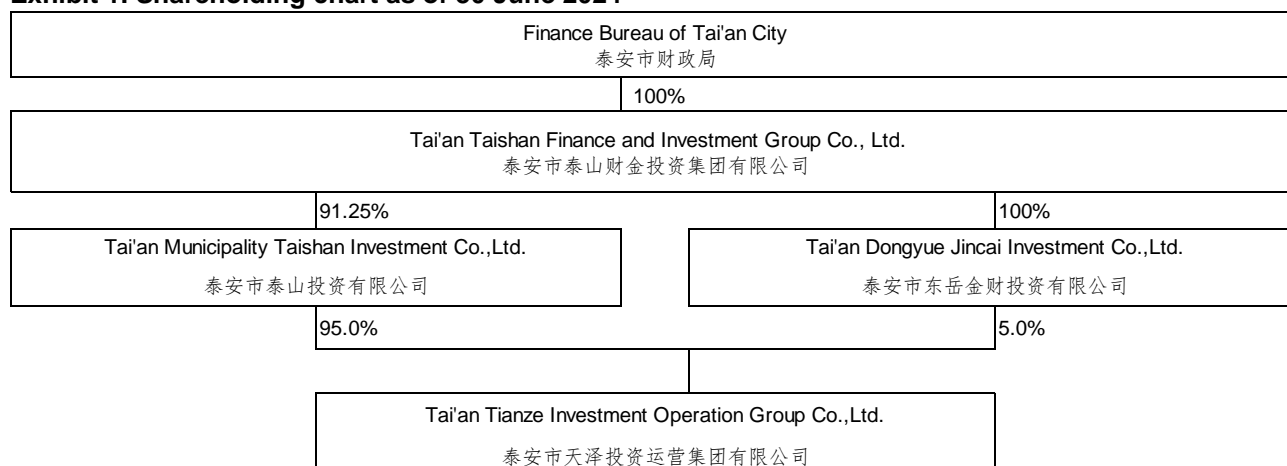
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	15.9	22.2	25.1	26.7
Total Equity (RMB billion)	3.3	7.5	10.1	10.1
Total Revenue (RMB billion)	0.7	1.2	1.3	0.7
Total Debt/Total Capital (%)	75.1	59.4	54.0	54.8

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

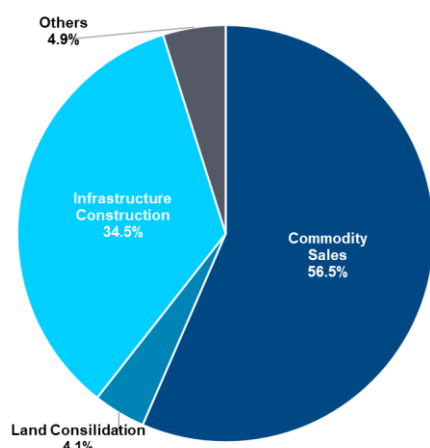
Source: Company data, CCXAP research

Corporate Profile

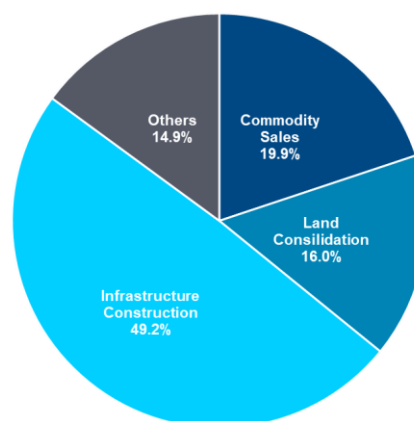
Established in 2018, TATZ is one of the major local infrastructure investment and financing companies ("LIIFCs") in Tai'an City, mainly responsible for the investment, construction, and operation of Wenhe New District in Culai Mountain. It undertakes major public infrastructure and welfare projects in the region, including infrastructure construction, land consolidation, and green maintenance and cleaning in the Wenhe New District. Meanwhile, the Company has developed some commercial activities, including self-operation construction projects, commodity sales, hotel management, and leasing. As of 30 June 2024, Tai'an Taishan Investment Co., Ltd. ("TTIC") directly owned 95.0% of the Company's shares, and the rest of the shares were held by Tai'an Dongyue Jincai Co, Ltd. The Finance Bureau of Tai'an City was the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company data, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company data, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe that the local government has very strong capacity to provide support given Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength, but constrained by its moderate fiscal metrics.

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and marine technology, chemical, automotive and agri-food. Tai'an City is a prefecture-level city located in the middle of Shandong Province. It serves as an important transportation hub of Shandong Province which connects to a number of national economic and industrial development zones. Meanwhile, as a national historical and cultural city in Shandong Province, Tai'an City was designated by the State Council as one of China's Top Tourism Cities. After years of development, Tai'an City has established 10 pillar industries, including new generation information technology, high-end equipment and intelligent manufacturing, new material, medical and health care, clean energy and eco-friendly industry, cultural tourism, modern high-efficient agriculture, high-end chemistry, modern logistics, and textile garment.

Tai'an City's economic strength continuously increased over the past three years. Its GRP increased to RMB362.2 billion in 2024 from RMB332.4 billion in 2023, with a year of year ("YoY") increase of 5.8%. The general budgetary revenue of Tai'an Municipal Government rose to RMB25.3 billion in 2024 from RMB23.9 billion in 2023. Meanwhile, its tax revenue also increased to RMB18.0 billion from RMB17.9 billion. The fiscal balance of Tai'an Municipal Government remained moderate. In 2024, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 52.6% and the fiscal stability ratio (tax revenue/general budgetary revenue) was 71.3%. As of end-2024, its government debt balance amounted to RMB112.4 billion, accounting for 31.0% of GRP.

Exhibit 4. Key economic and fiscal indicators of Tai'an City

	2022FY	2023FY	2024FY
GRP (RMB billion)	319.8	332.4	362.2
GRP Growth (%)	4.3	6.4	5.8
General Budgetary Revenue (RMB billion)	22.3	23.9	25.3
General Budgetary Expenditure (RMB billion)	44.2	46.3	48.0
Local Government Debt (RMB billion)	83.2	96.0	112.4

Source: Tai'an Municipal Government, CCXAP research

Wenhe New District is located in the southeast of the urban area in Tai'an City. It is a national wetland park, a national water conservancy scenic area, and a national 4A tourist attraction. In April 2024, as Tai'an City promoted the reform of functional zones and initiated the construction of the ecological protection and high-quality development of the Yellow River Basin in Shandong Province, the former Wenhe Scenic Spot was officially renamed as Wenhe New District, with a total area of 100 square kilometers. Supported by its rich historical culture, red culture, and ecological resources, Wenhe New District takes life and health as the leading industry and the space economy as the cultivating industry, with supporting industries such as culture tourism and health, new energy, and digital economy.

Government's Willingness to Provide Support

Essential role as the primary urban developer and operator of the Wenhe New District

TATZ is one of the major LIIFCs in Tai'an City, mainly responsible for the investment, construction, and operation of Wenhe New District. It plays an important role in undertaking public projects in Wenhe New District including infrastructure construction, land development and consolidation, and green maintenance and cleaning. The Company has a clear functional positioning and strong regional specialization in public-oriented business.

TATZ carries out various infrastructure construction projects mainly through agent construction model. Under the agent construction model, TATZ signs entrusted construction contracts with the management committee of Wenhe New District and takes responsibility for fundraising and construction work of the projects. The local government would make payments based on the construction costs plus a certain markup (generally 15% to 18%) in return. As of 30 June 2024, the Company had 5 key infrastructure construction projects under construction, mainly involving shantytown renovation projects, expressway projects, roads, as well as health care industrial park, with a total investment of RMB9.0 billion and uninvested amount of RMB1.6 billion. At the same time, there were 7 infrastructure construction projects under planning, with a total investment of RMB1.2 billion. The current infrastructure construction projects in the pipelines may bring certain capital expenditure pressure to the Company. Meanwhile, the government payment cycle for construction projects is relatively long, which may further increase TATZ's capital expenditure pressure.

The Company is the sole entity to conduct land consolidation and land quota trading business in Wenhe New District. The land quota trading mainly includes the balance of cultivated land and the reclamation of abandoned industrial and mining land. In recent years, the Company mainly generated sales revenue through sale of land quotas obtained through external purchases. As of 30 June 2024, the Company completed land quota trading of 1,775 mu, and the Company had almost 2,000 mu of land index on hand for sale. Meanwhile, TATZ had 5 land consolidation projects under construction, with outstanding investment of RMB52.5 million. Despite the relatively large volume of land quota trading, there has been a certain lag in the payment of land index trading from the local government in recent years.

Medium and increasing exposure to commercial activities

The Company's commercial activities include sales, engineering construction, leasing, as well as hotel management. The Company's commercial activities may pose higher operational and business risks than its public-policy businesses. Based on our assessment, TATZ's exposure to commercial activities is moderate.

TATZ's commodity sales business increased steadily in recent years, with the revenue increasing to RMB761.0 million in 2023 from RMB666.3 million in 2022. The commodity sales business accounted for 58.5% of TATZ's total revenue in 2023. In the first six months of 2024, the Company reported sales revenue of RMB512.6 million for the commodity sales business. However, the gross profit margin remains at a low level at around 1.9% in 2023. The main products of the trading business include sand and gravel, zinc ingots, ethylene glycol and wood. The Company mainly adopts demand-on-purchase mode, which means it only makes procurement with upstream suppliers when orders from downstream customers are made. However, the top 5 supplies and customers of trading business accounted for 87.5% and 65.0% of the total procurement and total sales in 2024H1, respectively, demonstrating relatively high concentration risks. Moreover, some customers are private-owned enterprises and have credit periods offered by the Company. With expanding business scale in commodity sales, the Company may face more recovery risk.

According to the strategic plan of TATZ, the Company also carry out a series of self-operation projects, such as new industrial park, energy storage project, and infrastructure development for trading and distribution centers. As of 30 June 2024, the Company had 4 self-operation projects under construction, with total investment of RMB4.1 billion, and uninvested amount of RMB3.2 billion. Meanwhile, the Company had 2 self-operation projects under planning, including 1 gas station and 1 electric vehicle charging station project, with total planned investment of RMB146.0 million. The Company plans to achieve fund balance for self-operation projects through operating revenue, such as leasing or sales of factory and office buildings, and sales of electricity. The large investment amount of self-operation projects may further enlarge the Company's capital expenditure pressure.

Good track record of receiving government supports

The Company has a good track record of receiving support from the local government to support its operation in the form of equity transfer, cash and asset injections, and fiscal and operating subsidies. TATZ received capital injection in cash of RMB1.1 billion from the Management Committee of Wenhe New District in 2023, increasing its paid-in capital to RMB1.6 billion. The Company also received asset injections with total value of RMB604.6 million from the government in 2023 such as parking lots, reservoirs and scenic area admission rights, enhancing its capital strength. During the first half year of 2023, TTIC converted the shareholder loans provided to TATZ's subsidiary into equity investment under the guidance of the local government, which increased TATZ's capital reserve by RMB812.0 million and decreased its debt burden. Apart from that, in 2023, the Company received a total of RMB83.3 million in operating subsidies from the local government. However, the Company's infrastructure projects are experiencing slow paybacks. As of 30 June 2024, the Company had

received government repayment of RMB580.0 million for its infrastructure projects. Given the importance of TATZ to local economic and industrial development, we believe the Company will continue to receive support from the local government.

Relatively fast debt growth and moderate asset liquidity

The Company showed relatively fast debt growth due to the continuous investment in infrastructure construction projects. TATZ's total debt increased to RMB12.3 billion as of 30 June 2024, from RMB11.1 billion as of end-2022. TATZ had relatively high level of debt leverage, with a total capitalization ratio of 54.8% as of 30 June 2024. The Company also bears relatively large short-term debt pressure. As of 30 June 2024, the short-term debt was RMB4.4 billion, accounting for 35.4% of the total debt, decreasing from 40.8% at the end of 2022. TATZ's cash to short-term debt ratio was relatively low at 0.3x, which could not fully cover the short-term debt. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its debt burden would further increase over the next 12-18 months.

In addition, TATZ's asset liquidity was relatively weak. As of 30 June 2024, TATZ's inventories, intangible assets, and other receivables accounted for 81.7% of the total assets. Majority of these assets were considered low liquidity. Inventories accounted for nearly half of the total assets, which were mainly construction costs of infrastructure construction projects.

Relatively high reliance on bank loans

TATZ has relatively high reliance on bank loans. The Company maintains good and long-term relationships with large domestic banks such as China Development Bank, Agricultural Development Bank of China, and Bank of Tai'an. As of 30 June 2024, the Company had total bank facilities of RMB11.9 billion, with the available portion of around RMB4.4 billion. As the major LIIFC in Tai'an City, the Company obtained project loans from policy banks and regional commercial banks to support its infrastructure construction projects, which could partially relieve the Company's financial pressure. Meanwhile, TATZ has a relatively high portion of non-standard financing, and the main non-standard financing products were finance lease, trusts, and factoring. The Company's exposure to non-standard financing products has been decreasing over the past years, which were replaced by bank loans. Nevertheless, such exposure remains relatively large and accounted for around 15% to 20% of the total debts as of 30 June 2024.

ESG Considerations

TATZ faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure in Wenhe New District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

TATZ's governance considerations are also material as the Company is subject to oversight by the local government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

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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