

## Credit Opinion

3 June 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

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## Taizhou Huaxin Pharmaceutical Investment Co., Ltd.

### Surveillance credit rating report

**CCXAP upgrades Taizhou Huaxin Pharmaceutical Investment Co., Ltd.'s long-term credit rating to A<sub>g</sub>-, with stable outlook.**

### Summary

CCXAP has upgraded the long-term credit rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd. ("Huaxin" or the "Company") to A<sub>g</sub>- from BBB<sub>g</sub>+, reflecting our expectation of increasing government's willingness to provide support. This is underpinned by its solid role in the developing health industry in Taizhou Medical High-Tech Industrial Development Zone (Gaogang Zone) ("Taizhou Medical Zone") and track record of receiving support from the local government.

The A<sub>g</sub>- 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 Taizhou Municipal Government's capacity to provide support reflects its good industrial base and ongoing economic growth.

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, especially in the development of health industry; and (2) good track record of receiving government support.

However, the rating is constrained by its (1) moderate exposure to commercial activities; (2) high debt leverage and weak asset liquidity; and (3) large exposure to external guarantees with contingent liability risks.

The stable outlook on Huaxin's rating reflects our expectation that the local government's capacity to provide support will remain stable, and that the Company will maintain its vital position in the Taizhou Medical Zone and continue to receive ongoing government supports.

## Rating Drivers

- Important policy role in Taizhou Medical Zone and Taizhou City
- Moderate exposure to commercial activities with tempered investment pace in risky segments
- Good track record of receiving government supports
- High debt leverage and weak asset liquidity
- Access to funding channels with declining financing costs
- Large exposure to external guarantees with contingent liability risks

## 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 strengthens the local government's willingness to provide support, such as an expanded policy role, reduced exposure to commercial activities, or improved asset liquidity and debt management.

### 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 a reduction in the importance of its policy role, a significant reduction in government payments, or materially deteriorated debt management.

## Key Indicators

	2022FY	2023FY	2024FY	2025Q1
Total Assets (RMB billion)	89.1	94.7	97.2	101.0
Total Equity (RMB billion)	29.1	31.1	32.4	32.4
Total Revenue (RMB billion)	4.0	3.7	3.5	0.6
Total Debt/Total Capital (%)	64.6	64.5	63.2	63.8

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

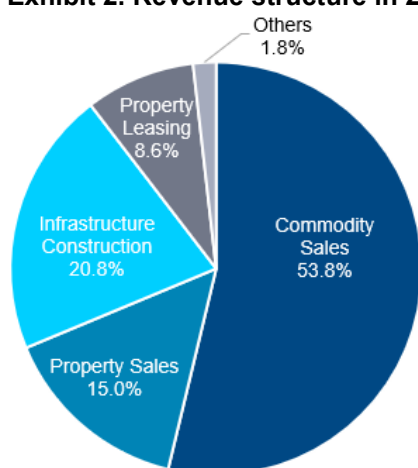
Source: Company data, CCXAP research

## Corporate Profile

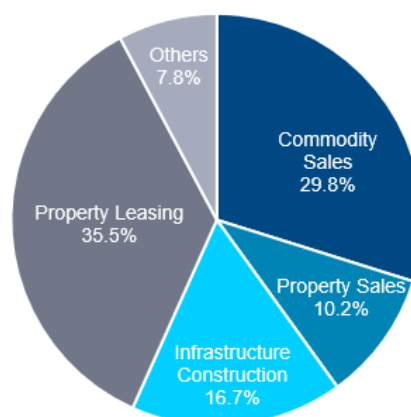
Founded in 2005, Huaxin is one of the most important local infrastructure investment and financing companies ("LIIFCs") in Taizhou Medical Zone in Jiangsu Province, undertaking infrastructure, resettlement housing construction, and land development in the core area of the original Taizhou Pharmaceutical High-tech Zone. The Company is also engaged in sales of pharmaceutical and industrial products, sales of properties, and property leasing in Taizhou Medical Zone, which is crucial to the investment attraction and industrial development in the region. In July 2023, to optimize the layout and structure of state-owned capital, Taizhou Municipal Government transferred its stake in Huaxin to the Taizhou Guotou Investment Group Co., Ltd. ("TZGI"), which is fully owned by the Taizhou State-owned Assets Supervision and Administration Commission ("Taizhou SASAC"), and the Company's ultimate controller, Taizhou Municipal Government, remained unchanged. As of 31 March 2025, TZGI owned 99.61% shares of Huaxin, and CDB Development Fund Co., Ltd. held the remaining 0.39%.

**Exhibit 1. Shareholding chart as of 31 March 2025**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2024**

Source: Company information, CCXAP research

**Exhibit 3. Gross profit structure in 2024****Rating Considerations****Government's Capacity to Provide Support**

We believe the Taizhou Municipal Government has a very strong capacity to provide support given its good industrial base and ongoing economic growth.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2024, Jiangsu Province's total GRP amounted to RMB13.7 trillion, a year-over-year ("YoY") increase of 5.8%, ranking 2<sup>nd</sup> among all provinces in the country.

Taizhou City is a prefecture-level city located in the central region of Jiangsu Province, with pharmaceuticals, electricity, chemicals, and shipbuilding as its pillar industries. Over the past years, Taizhou City has achieved sustained economic growth. Taizhou City's preliminary GRP increased to RMB702.1 billion in 2024, representing a YoY growth of 5.1%. Meanwhile, Taizhou Municipal Government's general budgetary revenue increased steadily from RMB44.0 billion in 2023 to RMB45.3 billion in 2024. Taizhou City also has a good fiscal balance, with a fiscal balance ratio (general budgetary revenue to general budgetary expenditure) averaging 62.6% for the past three years. As at end-2024, the outstanding debt of Taizhou Municipal Government increased to RMB131.6 billion, accounting for 18.7% of the GRP.

**Exhibit 4. Key economic and fiscal indicators of Taizhou City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	640.2	673.2	702.1
GRP Growth (%)	4.4	6.8	5.1
General Budgetary Revenue (RMB billion)	41.7	44.0	45.3
General Budgetary Expenditure (RMB billion)	70.4	69.7	69.6
Local Government Debt (RMB billion)	100.1	107.1	131.6

Source: Taizhou Municipal Government, CCXAP research

Taizhou Pharmaceutical High-tech Zone is the first national-level high-tech zone in the pharmaceutical field in China approved in 2009 and is a strategic region leading the development of pharmaceutical industry in Jiangsu Province. With ongoing development, it is home to more than 1,300 bio-pharmaceutical enterprises, with top companies including AstraZeneca (Taizhou), Boehringer Ingelheim, and Nestle Health Science (China) Co Ltd. According to China National Center for Biotechnology Development, Taizhou Pharmaceutical High-tech Zone ranked 9<sup>th</sup> in the 2023 National Biomedicine Industrial Park Comprehensive Competitiveness Ranking, indicating the strong competitiveness and good development prospect Taizhou Medical High-tech Zone, especially in pharmaceutical industry.

Gaogang District is the main riverside urban area of Taizhou City. In June 2021, Taizhou Pharmaceutical High-tech Zone and Gaogang District were integrated to optimize Taizhou City's pharmaceutical industry and create a future China Medical City. After the integration, Taizhou Medical Zone has a relatively large planned area, about 402.9 square kilometers, with five functional zones covering biomedicine, new chemical materials, electronic information, high-end equipment manufacturing and port logistics. In addition, the economic and fiscal strength of Taizhou Medical Zone has been steadily enhanced. Its GRP amounted to RMB112.1 billion 2024, representing a YoY growth of 3.9%, and its general budget revenue increased from RMB10.3 billion in 2023 to RMB10.5 billion in 2024, ranking 3<sup>rd</sup> by GRP and 1<sup>st</sup> by general budget revenue among all districts and counties in Taizhou City. Taizhou Municipal Government has introduced a series of policies, in terms of investment promotion, and talent introduction, to support the development of Taizhou Medical Zone.

**Government's Willingness to Provide Support****Important policy role in Taizhou Medical Zone and Taizhou City**

Huaxin is one of the most important LIIFCs in Taizhou Medical Zone by assets and acts as the important policy role in developing the pharmaceutical industry of Taizhou City. Huaxin is responsible for the major construction projects in the core area of the original Taizhou Pharmaceutical High-tech Zone with limited competition, including primary land development, infrastructure construction and resettlement housing construction. 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 increasing 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.

Huaxin has undertaken a large number of public activities in Taizhou Medical Zone with clear business model and good business stability. Under the agency construction model, Huaxin is responsible for the financing and construction of the projects, and settles with the local government after the audit. Generally, the local

government will pay the construction costs to the Company within 5 years after the project is completed, and pay the Company a construction management fee of 6.0% of the total project completion price. As of 31 March 2025, the Company had invested more than RMB15.3 billion into the completed land consolidation and infrastructure construction projects, but with large uncollected payments from the local government due to slow pace of settlement. Meanwhile, the Company had one affordable housing project under construction, with a total estimated investment of RMB2.9 billion and an uninvested amount of RMB402.0 million. Despite the limited project reserve, we expected a continued increase in demand for its services due to Taizhou Medical Zone's economic and industrial growth prospects.

### **Moderate exposure to commercial activities with tempered investment pace in risky segments**

To promote investment attraction and industry development, Huaxin conducts diversified commercial activities to enhance carrier construction and supporting facilities, covering property development, property leasing, sales and distribution of pharmaceutical products and sales of industrial products. Amid property market uncertainty and macroeconomic volatility, the Company adopts tempered investment in elevated-risk segments such as real estate development, while preserving comprehensive risk controls in the commodity sale business. Its exposure to commercial businesses was moderate, with commercial assets accounting for approximately 25.0% of its total assets.

Leveraging on geographical and resources advantages and strong shareholder background, Huaxin is one of the leading local pharmaceutical distribution companies in Taizhou Medical Zone. Huaxin's pharmaceutical sales business mainly refers to the sales and distribution of pharmaceutical products through the general agency and distribution model, and represents the Company's primary revenue stream. Huaxin's pharmaceutical marketing network has covered 26 provinces and cities in China, and has established cooperative relationships with more than 800 upstream companies, with strong distribution capabilities. In 2024, the resurgence of the industry and the subsequent development of business has had a positive impact on the Company's sales revenue, increasing to RMB1.1 billion in 2024 from RMB841.4 million in 2023. The gross profit margin decreased to 17.8% in 2024 from 27.0% in 2023 due to the profit squeezing trend in the industry. In addition, Huaxin also provides warehousing and logistics businesses for pharmaceutical enterprises in the zone. As of 31 March 2025, it owned three logistics warehouses with an area of 37,367 square meters.

Huaxin conducts property development and sales business in Taizhou Medical Zone. As of 31 March 2025, the Company had two completed property projects under sale, namely Tianlu Lake and Shengya Garden, with a total investment of RMB4.6 billion and a destocking ratio of 75.8%. Affected by the recent real estate market downturn, the Company's property projects were sold at a relatively slow rate and the gross profit margin of the property development and sales business declined. In recent years, the Company has slowed down its investment in real estate development and currently has only one property project under planning, with a total planned investment of RMB359.4 million.

Under the guidance of the local government, Huaxin leased self-owned investment properties, such as office buildings and factories, to enterprises located in Taizhou Medical Zone at relatively low prices to attract investment. Correspondingly, the local government would compensate the Company with subsidies for the lower leasing prices. As subsidies are largely dependent on the fiscal condition of the local government, the Company's rental receivables are subject to uncertainties and lags. Most of the rent preferential policies have ended in 2023, and the subsidies receivable from the local government will continue until 2028 with a stable amount of approximately RMB50.0 million each year. The high occupancy rate and the end of the rent preferential policy have contributed to the stability of the property leasing segment as a revenue supplement to

the Company's total revenue. As of 31 March 2025, Huaxin had a leasable property project under construction, with a total investment amount of RMB1.0 billion and the remaining investment needs of RMB3.0 million. The leasing conditions are dependent on the pace of investment promotion in the region, bringing higher operation uncertainty to the Company.

Huaxin is also engaged in the trading of industrial products, such as light cycle oil, fuel oil, steel, silver, and other chemical materials. As the Company expanded its business scope with a diversified product range, this segment's revenue increased notably to RMB364.1 million in 2024 from RMB82.9 million in 2023. However, the trading business is highly concentrated on procurement and sales. In 2024, the procurement of industrial products from the top five suppliers accounted for 62.4% of total procurement, while sales to the top five customers accounted for 96.9% of total sales.

### **High debt leverage and weak asset liquidity**

Huaxin's debt leverage remained high, despite the moderated debt growth rate. The Company's total debt rose from RMB56.5 billion at end-2023 to RMB57.3 billion as of 31 March 2025. The total capitalization rate dropped slightly due to the capital injection from local government, but it was still as high as 63.8%. In terms of the term structure, Huaxin is still facing certain short-term debt pressure, as indicated by its relatively high short-term debt percentage of 31.5% as of 31 March 2025. Its cash-to-short-term ratio was 0.2x as of the same time. Over the next 12 to 18 months, we expect the Company's debt leverage will remain relatively high given the debt refinancing needs and the absence of effective leverage reduction initiatives.

Huaxin's asset liquidity remains relatively weak, as its assets mainly consist of inventories, receivables, and investment properties, all of which have low liquidity. This could undermine its financial flexibility. As of 31 March 2025, inventories were mainly land development costs, receivables were uncollected payments from the local government or local state-owned enterprises, and investment properties were rental properties, and they accounted for 92.0% of total asset in total. Moreover, the Company has pledged a certain amount of its assets, mainly inventories and investment properties, for loans. The pledged assets accounted for about 17.6% of total assets on 31 March 2025.

### **Access to funding channels with declining financing costs**

Huaxin has maintained good access to fundings as reflected by its sufficient stand-by liquidity and diversified funding channels. The Company maintains good relationships with diversified large domestic banks, such as Industrial and Commercial Bank of China and China CITIC Bank. As of 31 March 2025, the Company's total credit facilities amount was RMB31.5 billion, of which the unutilized portion was RMB8.0 billion, indicating sufficient liquidity buffer.

Furthermore, the Company is an active bond issuer in the debt capital markets. The Company issued different financial products in the onshore bond market, such as SCPs, corporate bonds, MTNs, and private placement notes. From January 2024 to April 2025, the Company issued 10 tranches of domestic bonds to raise RMB5.0 billion, with decreasing coupon rates. Meanwhile, the Company has good presence in the offshore debt capital market. For instance, the Company issued two tranches of 3-year offshore bonds to raise USD60.0 million in January 2024 for refinancing purposes. Supported by the strong shareholder base and favorable refinancing conditions, Huaxin's financing costs continue to decline. However, the Company had a moderate exposure to non-standard financing products, mainly trusts and financial leasing, accounting for around 21.9% of the total debt as of 31 March 2025.



### Good track record of receiving government support

Huaxin has a continuous track record of receiving support from the local government in terms of capital injections, financial subsidies, and project repayments. In December 2024, Taizhou Municipal Government increased the Huaxin's paid-in capital by RMB1.0 billion in cash through TZGI, strongly enhancing the Company's capital strength. As one of the most important infrastructure entities in Taizhou Medical Zone, the Company has undertaken many key projects in the area and has continuously received project repayments from the local government. In 2024, the Company received a total of RMB3.1 billion in project repayments. In addition, the Company continued to receive operating subsidies from the local government for the period from 2024 to 2025Q1, totaling RMB221.8 million. 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.

### Large exposure to external guarantees, with medium contingent liability risks

Huaxin's credit profile is constrained by its large external guarantees. As of 31 March 2025, Huaxin's external guarantees amounted to RMB17.6 billion, accounting for 54.3% of its net assets. Since there are no counter-guarantee measures, when a credit event occurs, the Company may face certain contingent liability risks. Nevertheless, all external guarantees are provided to state-owned enterprises in Taizhou City, and we assess the credit risks as relatively low considering the government support when needed.

## ESG Considerations

Huaxin bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of projects, as well as close supervision during construction.

Huaxin is involved in real estate construction such as commercial property, factories, and R&D centers in Taizhou Medical Zone to help the government attract investment and develop the pharmaceutical industry. As a public service provider, the Company also faces social risks. Demographic changes, public awareness and social priorities shape the government's target for Huaxin, and may affect the government's capability to support the Company.

Huaxin's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, reflecting its public policy role and status as a government-owned entity. Major events, including strategic development, financial budgeting, and investment, require approval from the Taizhou Municipal Government.

## 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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