

Credit Opinion

21 June 2023

Ratings

Senior Unsecured Debt Rating	A _g -
Long-Term Credit Rating	A _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Tongxiang City Construction Investment Group Co., Ltd.

Initial credit rating report

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

Summary

The A_g- long-term credit rating of Tongxiang City Construction Investment Group Co., Ltd. (“TCIG” or the “Company”) 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.

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.

Rating Drivers

- Most important position in the development of Tongxiang City
- High sustainability of public policy businesses
- Medium exposure to commercial activities with manageable commercial risks
- Fast debt growth and moderate asset liquidity
- Good access to multiple financing channels
- Good track record of receiving government payments

Rating Sensitivities

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.

Key Indicators

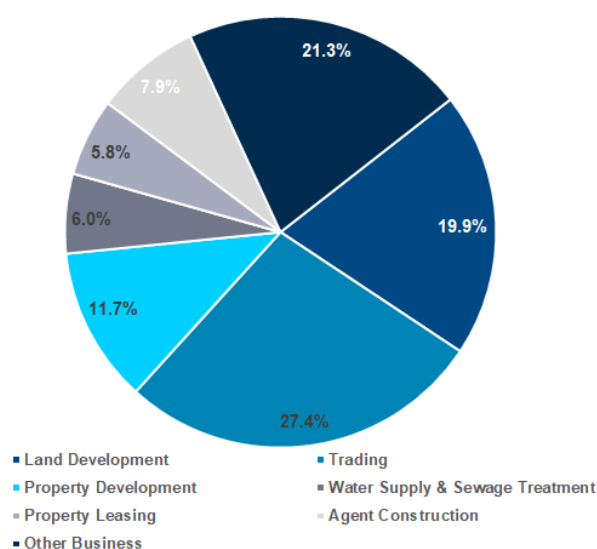
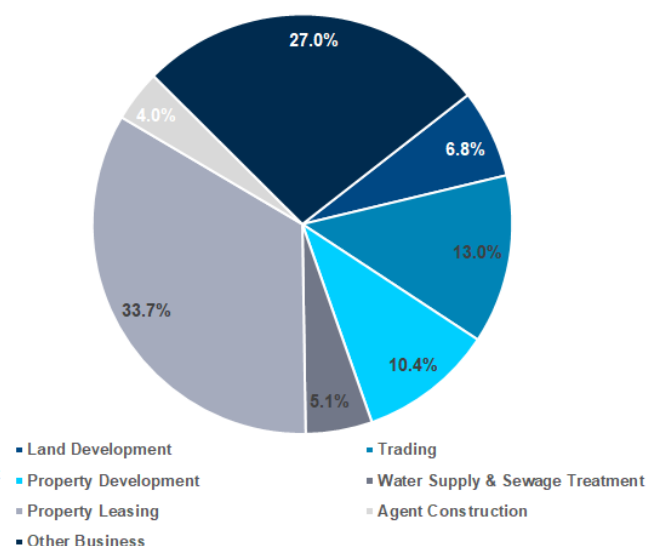
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	88.6	114.8	141.3	151.6
Total Equity (RMB billion)	36.2	48.2	59.3	59.6
Total Revenue (RMB billion)	4.8	6.6	6.7	1.3
Total Debt/Total Capital (%)	52.6	50.3	52.2	55.6

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

Source: CCXAP research

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.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Tongxiang City Government has a very strong capacity to provide support given its strong economic and fiscal position in Jiaxing City, with relatively good comprehensive strength, ongoing economic growth, and good fiscal self-sufficiency.

Zhejiang Province is one of the most economically developed provinces in China, and its comprehensive economic strength and private economy leads in China. In 2022, the gross regional product ("GRP") of Zhejiang Province was RMB7.8 trillion, ranking 4th among all provinces in China, with a year-on-year ("YoY") increase of 3.1%. In 2022, its general budgetary revenue reached RMB0.8 trillion, ranking 3rd among all provinces in China.

Jiaxing City, a prefecture-level city under Zhejiang Province, is a city in the central area of the Yangtze River Delta and an important city in the Shanghai metropolitan area. It is a national historical and cultural city and a tourist city with the characteristics of Jiangnan Water Town. Affected by the pandemic disruption, the Gross Regional Product ("GRP") of Jiaxing City increased by 2.50% YoY to RMB673.9 billion, ranking 5th in Zhejiang Province. Due to the tax reduction policy, Jiaxing City's general budgetary revenue dropped from RMB67.5 billion in 2021 to RMB59.6 billion in 2022, with tax income accounting for 87.8% of total general budgetary revenue. Jiaxing Government reported outstanding governmental debt of RMB162.6 billion at end-2022, representing 24.1% of GRP.

Exhibit 3. Key economic and fiscal indicators of Jiaxing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	551.0	635.5	673.9
GRP Growth (%)	3.5	8.5	2.5
General Budgetary Revenue (RMB billion)	59.9	67.5	59.6
General Budgetary Expenditure (RMB billion)	71.2	79.4	82.8
Local Government Debt (RMB billion)	117.0	131.9	162.6

Source: Statistics Bureau of Jiaxing City, CCXAP research

Tongxiang City is a county-level city under the jurisdiction of Jiaxing City, with total area of 727 square kilometers. It has a relatively good comprehensive strength. In 2022, it ranked 24th by comprehensive strength among top 100 counties/county-level cities in China. The pillar industries of Tongxiang City include textile, chemical fiber, leather, digital economy, new material and new fashion. Supported by the ongoing development of pillar industries, Tongxiang City's economic strength has continued to increase. From 2020 to 2022, the GRP of Tongxiang City increased from RMB100.3 billion to RMB121.0 billion, ranking 2nd among 7 districts/counties in Jiaxing City. However, the economic growth rate showed a degree of fluctuations over the past three years due to the disruptions of the pandemic. With the ongoing economic growth, Tongxiang City's general budgetary revenue also increased from RMB9.4 billion in 2020 to RMB10.6 billion in 2022, ranking 1st among 7 districts/counties in Jiaxing City. In addition, Tongxiang City's general budgetary revenue has high quality, with tax income accounting for 86.4% of total general budgetary revenue. Besides, Tongxiang also has good fiscal self-sufficiency, with 88% on average for the past three years. Tongxiang Government reported outstanding governmental debt of RMB22.2 billion at end-2022, representing 18.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Tongxiang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	100.3	114.2	121.0
GRP Growth (%)	1.0	8.5	2.6
General Budgetary Revenue (RMB billion)	9.4	10.9	10.6
General Budgetary Expenditure (RMB billion)	10.4	11.6	13.3
Local Government Debt (RMB billion)	17.1	18.7	22.2

Source: Statistics Bureau of Tongxiang City, CCXAP research

Government's Willingness to Provide Support

Most important position in the development of Tongxiang City

There are two primary LIIFCs in Tongxiang City, TCIG and Tongxiang Urban Development Group Co., Ltd. ("TUDG"), each with clear positioning in the development of the region. TUDG is responsible for the construction and development in the main urban area. 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.

Entrusted by the local government, TCIG undertakes primary land development and infrastructure construction projects by self-raised funds under agency construction model. The Company will receive a return based on the actual costs plus a certain markup upon project completion. It has completed a number of agency construction projects, such as land consolidation, roads, bridges, and pipe networks in Tongxiang ETDZ and rural towns. As

of 31 March 2023, the Company had invested RMB35.5 billion into primary land development projects under construction, with an uninvested amount of RMB9.8 billion, and RMB2.9 billion into infrastructure construction under construction, with an uninvested amount of RMB4.2 billion, indicating high capital expenditure pressure. In addition, the business is susceptible to local land planning and construction progress.

TCIG is the sole water supplier and an important sewage treatment provider in Tongxiang, with strong regional position. As of 31 March 2023, the Company had three water plants with a daily water supply capacity of 450,000 tons, serving around 1 million people in the whole Tongxiang City. Besides, the Company resumes 80% of emission reduction in Tongxiang via one sewage treatment plant and 1,874 kilometers of sewage collection pipeline network. Due to the public welfare nature of water services, the Company regularly receives subsidies from the local government to support its operations.

TCIG is also engaged in public transportation business, involving bus, intercity passenger transport, and bicycle and electric vehicle rental services, with regional monopoly position. In 2022, the Company operated 102 bus lines, with 9 million passenger volume, and 4 intercity passenger transport stations, with 80,000 passenger volume. Due to the public welfare nature of public transportation business, the Company regularly receives subsidies from the local government to support its operations. The Company also undertakes major transportation construction projects in Tongxiang City, exerting large financing pressure. As of 31 March 2023, it had Suzhou-Taizhou Expressway project under construction, with a total estimated investment of RMB18.0 billion and uninvested amount of RMB12.8 billion.

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.

TCIG's property development business mainly involves construction and sales of residential complexes, industrial plants, and relocation housing in Tongxiang City. The Company still has large construction projects in the pipeline, causing high financing pressure. As of 31 December 2022, the Company had 13 real estate projects under construction, with total investment of RMB10.4 billion and uninvested amount of RMB4.0 billion. However, the income from property development is susceptible to regional property sales, causing fluctuations in revenue. In 2022, the revenue from property development decreased by 9.4% YoY to RMB787.5 million.

TCIG plays an important role in the operation of state-owned assets in Tongxiang City, and owns high-quality operating assets in the region. The Company has leased self-owned investment properties in Tongxiang City, such as shops, industrial factories, talent apartments, and markets, providing stable rental income. In 2022, affected by the rent reduction policy during the pandemic, the revenue from property leasing decreased by 8.0% YoY to RMB393.4 million, with high gross profit margin of 73.8%. The Company still has certain self-operated projects under construction, which will be sold or leased after the projects are completed. As of 31 March 2023, the Company had 3 major self-operated under construction, with total estimated investment of RMB1.8 billion and uninvested amount of RMB674 million.

TCIG also engages in trading business, with diversified trading products such as agricultural products, aluminum materials, electronic components, wool, and steel. The trading business is the major income source of the Company. In 2022, the Company's trading business revenue increased by 12.1% YoY to RMB1.8 billion,

accounting for 27.4% of total revenue. However, the gross profit margin of trading business is relatively low at 6% in 2022.

The Company is also engaged in security service, guarantee, and sales of gasoline. However, the income scale of these businesses is small and does not contribute much to the Company's revenue.

Exhibit 5. Projects under construction as of 31 March 2023

	Total Investment (RMB billion)	Uninvested amount (RMB billion)
Land Development	45.3	9.8
Infrastructure Construction	4.1	1.2
Transportation Construction	18.0	12.8
Property Development	10.4	4.0
Self-operated Construction	1.8	1.1
Total	79.6	28.9

Source: Company information, CCXAP Research

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%. In addition, the Company has a reasonable debt maturity structure. As of 31 March 2023, its short-term debt accounted for about 26.1% of total debt, but the proportion demonstrated an increasing trend over the past three years. With large number of projects under construction, the Company will continue to rely on external financing to meet its future capital needs. As a result, we expect that its debt burden will continue to grow in the next 12 to 18 months.

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. The inventories and constructions in progress are development costs from construction projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, and the investment properties are leasable properties, totally accounting for about 72% of total asset at end-2023Q1.

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. As of 31 March 2023, the Company's total credit facilities were RMB62.8 billion, of which the unutilized portion was RMB25.5 billion. 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. The Company plans to issue offshore bonds to further diversify its financing channels. In addition, TCIG has low exposure to non-standard financing, which accounted for less than 5% of its total debts.

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. From 2020 to 2022, the local government has injected capital of about RMB19 billion into the Company, including cash, fiscal special funds, equity interests, lands, and properties, significantly enhancing the Company's capital strength. Furthermore, the local government consistently provides subsidies to the Company to support its operation, with total amounts of RMB2.2 billion from 2020 to 2022. The Company regularly receives agency project payments from the local government, which totally amounted to RMB11.4 billion as of 31 December 2022. 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.

Exhibit 6. Track record of government payments from 2020 to 2022

(RMB billion)	2020	2021	2022
Capital and asset injections	4.1	6.7	8.2
Financial subsidies	0.6	0.6	1.0
Total	4.7	7.3	9.2

Source: Company information, CCXAP Research

Small exposure to external guarantees, with manageable contingent liability risk

TCIG has small exposure to external guarantees. As of 31 March 2023, TCIG's external guarantees amounted to RMB6.2 billion, accounting for 10.3% of its net assets. All guarantees are provided to the state-owned enterprises in Tongxiang City, which have low credit risks. We believe the Company's contingent liability risk is manageable.

ESG Considerations

TCIG bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

TCIG involved in real estate construction such as commercial properties in Tongxiang City. The Company is also exposed to social risks as a its role of public services provider. Demographic changes, public awareness and social priorities shape government's target for TCIG, or affect the government's propensity to support the Company.

TCIG'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.

Structural Consideration

TCIG's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in land development and infrastructure construction in Tongxiang City, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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