

Credit Opinion

26 June 2023

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

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Tianchang City Investment Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Tianchang City Investment Holding Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Tianchang City Investment Holding Group Co., Ltd. (“TCCI” or the “Company”) reflects Tianchang City Government’s (1) strong capacity to provide support based on our assessment; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Tianchang City Government’s capacity to provide support reflects that Tianchang City’s relatively good comprehensive strength and ongoing economic growth. Its gross regional production (“GRP”) ranked first-tier among all counties/districts in Chuzhou City and Anhui Province.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) the most important local infrastructure investment and financing company (“LIIFC”) with the largest asset scale in Tianchang City; and (2) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden driven by large investments; and (3) medium contingent liabilities risk.

The stable outlook on TCCI’s rating reflects our expectation that Tianchang City Government’s capacity to provide support will remain stable, and the Company will maintain its role as the most important LIIFC in Tianchang City over the next 12-18 months.

Rating Drivers

- The most important LIIFC in Tianchang City, with the largest asset scale
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden driven by large investments
- Good access to funding channels
- Medium contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Tianchang City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the Tianchang 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 reduced strategic significance, decrease in government support or higher exposure to risky commercial activities.

Key Indicators

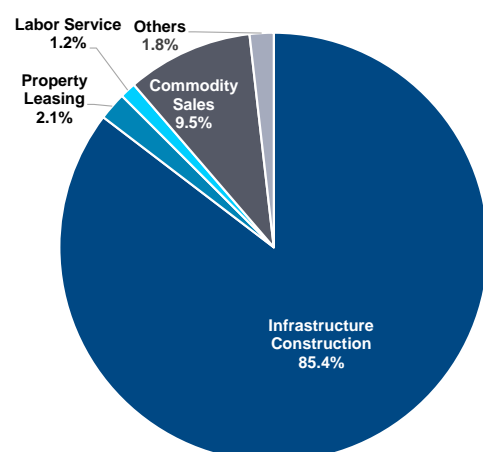
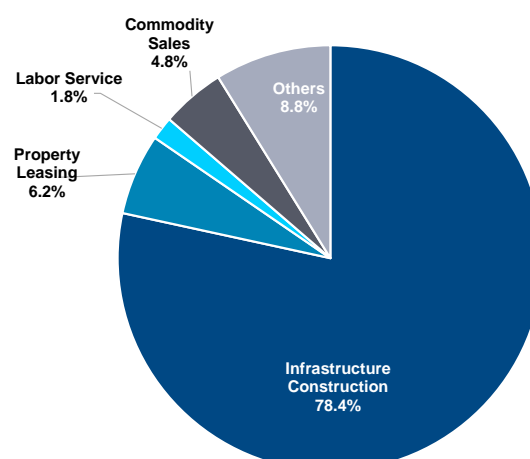
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	30.2	38.0	46.2
Total Equity (RMB billion)	16.9	19.7	26.3
Total Revenue (RMB billion)	2.0	2.5	3.2
Total Debt/Total Capital (%)	37.0	41.8	38.9

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

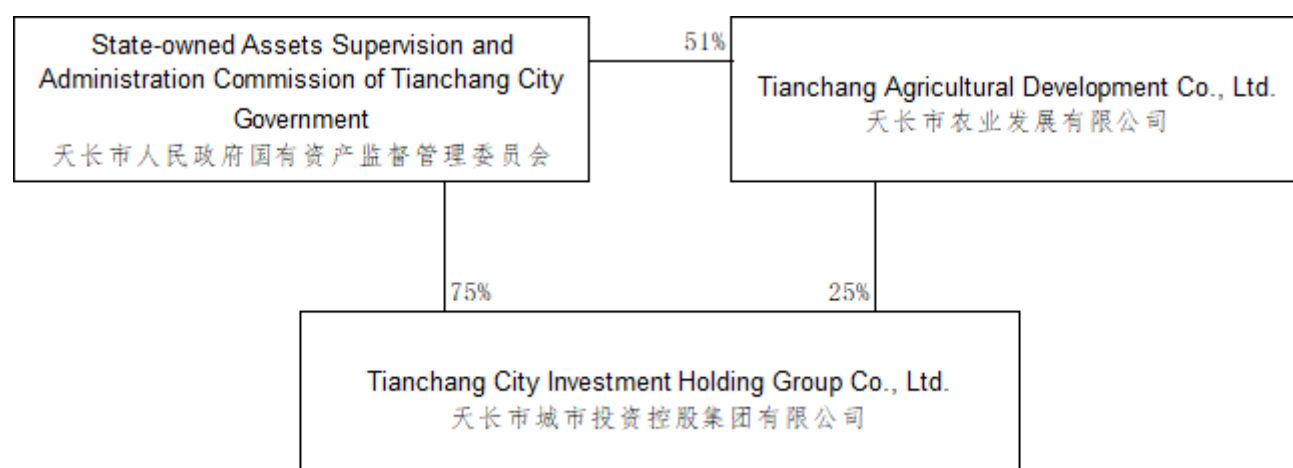
Source: Company information, CCXAP research

Corporate Profile

Established in 2021, TCCI is the most important and largest LIIFC by total assets in Tianchang City, consolidating the other 3 major LIIFCs in Tianchang City. TCCI was mainly responsible for the infrastructure construction in Tianchang City. The Company also engages in diversified commercial activities, including commodity sales, leasing, labor service as well as toll charges. As of 31 December 2022, the State-owned Assets Supervision and Administration Commission of Tianchang City Government ("Tianchang SASAC") was the ultimate controller of the Company that directly held 75% of shares and indirectly held the remaining 25% shares through Tianchang Agricultural Development Co., Ltd.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 December 2022

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Tianchang City Government has a strong capacity to provide support given its good comprehensive strength and ongoing economic growth, but it has a moderate fiscal profile.

Located in the eastern part of Anhui Province, Chuzhou City is the central city of Nanjing Metropolitan Circle and Hefei Economic Circle. Chuzhou City has relatively good economic and fiscal strengths, ranking first-tier among all prefecture-level cities in Anhui Province. It has 10 development zones and actively develops eight industrial lines, including photovoltaics, semiconductors, equipment manufacturing, new energy batteries, medical equipment, smart home appliances, new chemicals, healthy food industry. In 2022, its GRP increased to RMB361.0 billion from RMB336.2 billion in 2021, with a year-over-year ("YoY") growth rate of 5.5%, ranking third by GRP among all prefecture-level cities in Anhui Province and growing faster than the provincial average level. The general budgetary revenue of Chuzhou Municipal Government also increased to RMB27.7 billion in 2022 from RMB22.6 billion in 2020. Chuzhou Municipal Government's fiscal balance is moderate but improving, with the ratio of general budgetary revenue to general budgetary expenditure being 54.7% in 2022, compared

to 48.8% in 2020. However, Chuzhou Municipal Government's debt profile is relatively weak. As of end-2022, its government debt balance amounted to RMB105.9 billion, accounting for 29.3% of GRP and 147.7% of its total fiscal revenue.

Exhibit 4. Key economic and fiscal indicators of Chuzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	303.2	336.2	361.0
GRP Growth (%)	4.4	9.9	5.5
General Budgetary Revenue (RMB billion)	22.6	25.1	27.7
General Budgetary Expenditure (RMB billion)	46.3	46.2	50.6
Local Government Debt (RMB billion)	73.1	86.9	105.9

Source: Statistics of Bureau of Chuzhou City, CCXAP research

Tianchang City is a county-level city under the administration of Chuzhou City with a good geographical location and convenient transportation network as an important satellite city of the Nanjing Metropolitan Circle. It has developed three leading industries, which are new energy, alloy materials, and instrument cables industry, and three potential industries, which are green food, medical supplies and equipment, and electronic information industry. Supported by its industrial development, Tianchang City maintained ongoing economic growth. In 2022, the GRP of Tianchang City was RMB68.6 billion, an increase of 7.3% YoY. The GRP of Tianchang City ranked first in Chuzhou City over the past three years. Tianchang City Government's general budget revenue also recorded three consecutive years of growth. The general budgetary revenue of Tianchang City Government increased to RMB4.7 billion in 2022 from RMB4.1 billion in 2020. However, Tianchang City Government's fiscal balance was moderate, the balance ratios (general budgetary revenue/general budgetary expenditure) were in the range of 59% to 63% over the past three years. As of 31 December 2022, the outstanding debt of the Tianchang City Government amounted to RMB11.7 billion, accounting for 17% of the GRP.

Exhibit 5. Key economic and fiscal indicators of Tianchang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	54.9	62.3	68.6
GRP Growth (%)	1.6	11.0	7.3
General Budgetary Revenue (RMB billion)	4.1	4.4	4.7
General Budgetary Expenditure (RMB billion)	7.0	7.0	7.4
Local Government Debt (RMB billion)	7.5	9.2	11.7

Source: Statistics of Bureau of Tianchang City, CCXAP research

Government's Willingness to Provide Support

The most important LIIFC with the largest asset scale in Tianchang City

There are 5 major LIIFCs in Tianchang City and all of them have a clear position under the government's planning. In 2021, TCCI consolidated three LIIFCs, namely Tianchang Urban Development (Group) Co., Ltd. ("TCUD"), Tianchang Science and Technology Industry Development Co., Ltd. ("TCST") and Tianchang Cultural Tourism Development (Group) Co., Ltd., in Tianchang City and positioned as a comprehensive state-owned assets management entity. TCUD is in charge of the key infrastructure construction projects in the urban area of Tianchang City. TCST and TCCT are responsible for the infrastructure construction projects in the Chuzhou High-tech Zone and cultural tourism related projects in Tianchang City, respectively. As the most important LIIFC in Tianchang City, the Company undertakes different public activities such as infrastructure

construction and engineering construction, which could promote the local economic development and improve the living quality of local people.

TCCI carries out various infrastructure construction projects mainly through agent construction mode, which mainly include roads, cultural tourism projects and affordable housing, in urban areas and the Chuzhou High-tech Zone. The Company signs an entrusted construction contract with the Tianchang City Government or Tianchang Qianqiu Highway Construction Engineering Co., Ltd. The Company takes responsibility for fundraising for infrastructure construction projects. The entrusted parties would pay construction costs plus a certain markup, according to the construction progress of the project or after the completion of the examination. As of 31 December 2022, the total investment amount and uninvested amount of key infrastructure construction projects under construction were RMB16.8 billion and RMB10.8 billion, which include schools, integration of urban and rural water supply and standard factories. Meanwhile, there were several projects under planning, with a total investment of RMB5.5 billion. Large reverses in hand will promise the sustainability of the infrastructure construction business. TCCI also engaged in engineering construction through open market bidding which mainly includes hydropower building installation and road construction. The main service targets of engineering construction are government units in Tianchang City and other areas in Anhui Province.

Medium exposure to commercial activities

TCCI's major commercial activities include commodity sales, property leasing, labor services as well as road operations. Based on our assessment, TCCI's exposure to commercial activities is medium with assets accounting for less than 30% of total assets.

TCCI mainly engages in the sale of oil and building materials such as concrete and cables. In 2022, this business reported a revenue of RMB302.3 million. Oil commodity sales are expected to increase along with the increase in operated gas stations and the number of important traffic roads passing through Tianchang City. The Company operates 7 retail gas stations at present. It is a franchise business with little competition. The top 5 supplies and customers represented 27.3% and 7.4% of the purchase and sales amount, respectively, at end-2022, reflecting relatively low concentration risk.

TCCI also conducts property leasing business to generate supplementary revenue. In 2022, the leasing revenue amounted to RMB66.9 thousand. As of 31 December 2022, the total leasable area was 293.2 thousand square meters, which were fully leased. The major rental properties are buildings, standardized factories and shops which are mainly transferred by the local government.

Besides, the Company also had other commercial activities such as labor service and roll charge. However, the scales of these businesses are small and only contributed a small proportion of total revenue. The Company will participate in various commercial activities according to its planning such as property development, ore mining and equity investment in the future. For example, the Company invests in basalt mines in the form of equity investment. The basalt has a wide range of uses and is an important construction material for highways. The Company already acquired the concession and found a subsidiary with Chuzhou Xingchu Mining Investment Group Co., Ltd. ("CZMI"). It is expected to start the mining production at the end of 2023 at the earliest after finishing the production lines. The Company may receive the dividend as a return in the future.

Increasing debt burden driven by large investments

The Company's total debt increased to RMB16.8 billion in 2022 from RMB9.9 billion in 2020 due to the continuous investment in construction projects. Thanks to ongoing support from local government, TCCI

maintained a moderate total capitalization ratio over the past three years. As of 31 December 2022, TCCI's total capitalization ratio was 38.9%. Meanwhile, the short-term debt to total debt ratio was 24.9% and the cash to short-term debt ratio recorded 0.8x. Due to the large uninvested amounts of construction projects, we estimate the Company would continue to rely on external financing such as bank loans and bond issuance and its total debt would further increase over the next 12-18 months.

Good track record of receiving government support

The Company and its subsidiaries have a good track record of receiving support from the Tianchang City Government, including the allocation of government special funds, equity transfers, operating subsidies, as well as capital injections. For example, in 2022, the Company received capital injection of RMB440 million from the local government, which further strengthened TCCI's capital strength. From 2020 to 2022, Tianchang City Government provided a total of RMB838 million in subsidies for the Company. Considering the Company's status as the most important LIIFC of Tianchang City, we expect TCCI will continue receiving support from the local government.

Good access to funding channels

The Company has good access to financing channels from banks, the domestic bond market and non-standard products financing. The debt from bank loans and bond issuances accounted for the majority of total debt. The Company maintains good relationships with banks such as Agricultural Development Bank of China, China Development Bank and Huishang Bank Corporation Limited. As of 31 December 2022, the Company had a total credit facility of RMB18.9 billion, with the available portion being RMB6.7 billion. The credit facility provided by policy banks accounted for around 55% of total credit facility. Majority of bank loans were medium and long-term loans. The Company's exposure to non-standard financing is moderate, accounting for around 14% of its total debt.

Medium contingent liabilities risk from external guarantees to local state-owned enterprises

The Company bears moderate contingent risk resulting from its external guarantees. As of 31 December 2022, the Company's external guarantees amounted to RMB4.3 billion, accounting for 16.2% of its net assets. The external guarantees were provided to the state-owned enterprises ("SOEs") in Tianchang City. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks. However, we estimate the local SOEs can get timely support from the local government when necessary due to the nature of the enterprises so that contingent risk resulting from external guarantees would be controllable.

ESG Considerations

TCCI 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 Tianchang City. 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.

TCCI's governance considerations are also material as the Company is subject to oversight by Tianchang City 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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