Credit Opinion

7 August 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited
Long-Term Credit Rating	BBB_g+
Outlook	Stable

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Changzhou Eastern New City Construction Group Co., Ltd

Surveillance credit rating report

CCXAP affirms Changzhou Eastern New City Construction Group Co., Ltd's long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Changzhou Eastern New City Construction Group Co., Ltd ("CENCC" or the "Company") reflects (1) the Changzhou Municipal Government's very strong capacity to support, and (2) the local government's high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Changzhou Municipal Government's capacity to provide support given its good economic fundamentals and fiscal strengths. It also reflects the fast-growing economic of Changzhou Economic Development Zone ("Changzhou ETDZ"), with good fiscal performance.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) dominant role in public activities in Changzhou ETDZ; (2) good track record of receiving government support; and (3) good access to funding.

However, the Company's rating is strained by (1) medium exposure to commercial activities; and (2) increase in debt burden with high debt leverage.

The stable outlook on CENCC's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the provision of public services in Changzhou ETDZ over the next 12-18 months.

Rating Drivers

- Dominant role in public activities in Changzhou ETDZ
- Good track record of receiving government support
- Medium exposure to commercial activities
- Increase in debt burden with high debt leverage
- Good access to funding and manageable liquidity risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens significantly; and (2) the Company's characteristics change in way that strengthens the local government's willingness to provide support, such as increased strategic significance, lower exposure to risky commercial activities, and improved debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support deteriorates; and (2) the Company's characteristics change in way that weakens the local government's willingness to provide support, such as decreased in government support or higher exposure to risky commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	47.7	52.0	51.0	52.3
Total Equity (RMB billion)	16.5	17.4	17.9	18.0
Total Revenue (RMB billion)	2.3	2.6	3.6	1.0
Total Debt/Total Capital (%)	64.2	64.4	63.4	64.8

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

Source: CCXAP research

Corporate Profile

CENCC was established by the Qishuyan District Government in December 2014. In August 2015, after Qishuyan District was merged into Changzhou ETDZ, the Company's shares were transferred to the Administrative Committee of the Jiangsu Changzhou Economic Development Zone. Meanwhile, the Company's paid-in capital increased from RMB100 million to RMB1,000 million. In April 2020, the Company's shares were transferred to Jiangsu Changzhou Eastern Investment Holding Co., Ltd ("Changzhou Eastern Investment"). CENCC is the largest infrastructure investment and financing company ("LIIFC") in Changzhou ETDZ, and mainly engages in infrastructure construction and land consolidation. It also engages in commercial activities, such as property development, trading, and property leasing businesses. As of 31 March 2023, CENCC is indirectly and wholly owned by the State-owned Assets Supervision and Administration Commission of Changzhou Municipal Government ("Changzhou SASAC") through Changzhou Eastern Investment.

Exhibit 1. Shareholding chart as of 31 March 2023

State-owned Assets Supervision and Administration Commission of Changzhou Municipal Government
常州市人民政府国有资产监督管理委员会

100%

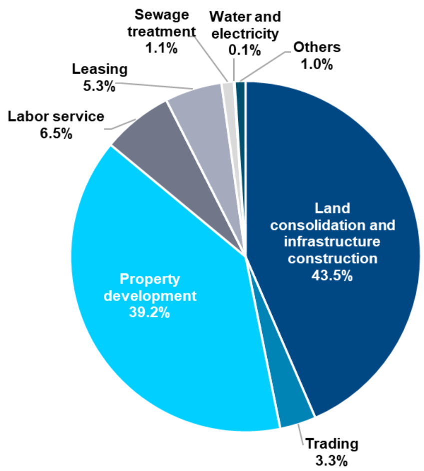
Jiangsu Changzhou Eastern Investment Holding Co., Ltd.
江苏常州东方投资控股有限公司

100%

Changzhou Eastern New City Construction Group Co., Ltd
常州东方新城建设集团有限公司

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Changzhou Municipal Government has strong capacity to provide support given its good economic fundamentals and fiscal strengths. It also reflects the fast-growing economic of Changzhou ETDZ, with good fiscal performance.

Located in the southern part of Jiangsu Province, Changzhou City is part of the Suzhou-Changzhou-Wuxi city cluster, which is one of the most developed city clusters in China. In 2022, Changzhou City ranked 5th in Jiangsu Province and recorded gross regional product ("GRP") of RMB955.0 billion, the economic growth of Changzhou City was 3.5%. Changzhou City reported general budgetary revenue of RMB63.2 billion while its general budgetary fiscal balance of 76.5% in 2022. We consider that Changzhou City has a relatively healthy fiscal profile, characterized by strong contribution from tax incomes and relatively low debt leverage. In 2022, Changzhou City's tax incomes accounted for 79.5% of its general budgetary revenue. As of 31 December 2022, Changzhou Municipal Government reported outstanding debt of RMB160.8 billion, equivalent to about 16.8% of its GRP.

Exhibit 3. Key economic and fiscal indicators of Changzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	781.0	903.8	955.0
GRP Growth (%)	4.5	10.0	3.5

General Budgetary Revenue (RMB billion)	61.7	68.8	63.2
General Budgetary Expenditure (RMB billion)	72.8	77.2	82.6
Local Government Debt (RMB billion)	122.0	141.5	160.8

Source: Statistic Bureau of Changzhou City, CCXAP research

Changzhou ETDZ is a provincial-level economic development zone established in June 2015, formed by merging Qishuyan District, Hengshanqiao Town, Henglin Town, and Yaoguan Town, which was under the administration of Wujin District Government. Changzhou ETDZ has adopted a new governance structure since 1 January 2020, which is directly under the administration of Changzhou Municipal Government. As the Changzhou Municipal Government shows stronger capacity and willingness to support the development of the Changzhou ETDZ, the zone is applying to become a national-level economic development zone.

Changzhou ETDZ is one of the fastest-growing economic development zones in China. Changzhou ETDZ has a solid industrial foundation, supported by three leading industries, namely mass transit railway, intelligent electricity equipment, and special materials. In 2022, Changzhou ETDZ's GRP and the total industrial output value were RMB99.2 billion and RMB209.3 billion, respectively. The general budgetary revenue slightly decreased to RMB5.3 billion but was still at a relatively strong level. Moreover, it had a stable income and strong fiscal balance capacity as the tax incomes accounted for nearly 90% of the budgetary revenue and the budgetary revenue covered nearly 110% of its general budgetary expenditure.

Government Willingness to Provide Support

Dominant role in public activities in Changzhou ETDZ

CENCC is the most important LIIFC and undertakes most of the representative public projects in the Changzhou ETDZ such as infrastructure construction, land consolidation, resettlement housing, as well as sewage treatment. The Company has been commissioned by the local government to be engaged in the local economic and social development.

The Company has participated in the major projects of the region's land consolidation and infrastructure construction. It signs an entrusted construction agreement with the government before the development of each project, and transfer the ownership of the projects to the government or related parties when the projects are completed. The government will then pay the total cost plus a certain percentage of markups to the Company after examination of the projects. However, there is a time lag between capital investment and revenue recognition, resulting in a prolonged cash collection period. As of 31 March 2023, CENCC had 2 infrastructure projects and 9 land consolidation projects under construction, with the total investment amount of approximately RMB27.0 billion.

In addition, the Company's sewage treatment business has a monopoly position in Hengshanqiao Town, Henglin Town, and Yaoguan Town in Changzhou ETDZ. It consists of removing pollutants from wastewater generated from residential and non-residential sources using multiple processes, which shows the Company's vital and irreplaceable position in the region. As of 31 March 2023, the Company had 3 sewage treatment plants with planned capacity of 60 thousand tons per day. The completion of these projects has contributed to the revenue growth of the Company's sewage treatment business, in our view. Also, due to the public function of the sewage business, the local government would subsidize the Company to ensure that it can obtain an annual investment return of around 6%.

Apart from that, the Company is also responsible for the resettlement housing in the region, according to the relocation plans of the local government. Upon completion, the Company would enter the sales contracts with the qualified relocated residents, usually at the sales prices determined by the local government. As of 31 March 2023, it still has one project under construction with total gross investment of RMB488 million and uninvested amount of RMB157 million, respectively.

CENCC's public service businesses are relatively sustainable given that there are abundant projects in the pipeline. We expect that the Company's vital position in public activities in Changzhou ETDZ could ensure its business sustainability. We also believe the visibility and predictability of its business position are relatively high with its strong policy mandate.

Medium exposure to commercial activities

CENCC takes part in commercial activities, such as commercial housing development, leasing, and trading businesses. We estimate the Company's commercial exposure is medium at around 25% of its total assets as of end-2022.

The Company started the property development business in 2019, containing part of commercial housing, which is sold at the market price after the resettlement ones are sold. The Company generally conducts its commercial housing development business under the self-operation model. Junkai Garden was the only commercial housing project which was completed, with total investment of RMB2.0 billion and total returns of RMB2.2 billion as of 31 March 2023, respectively. However, the unsold value of RMB55 million is subject to uncertainty in the future sales progress due to the impact of the real estate market.

Moreover, the Company engages in property leasing including shopping malls and factories, providing stable income. It generated rental income of RMB190.1 million in 2022, representing 19.5% YoY growth and maintaining a high gross profit of over 95%. Also, tenants of the Company's investment properties are mainly local enterprises with long lease term, which could ensure the sustainability of the business. Benefiting from the expansion of the Company's operating assets, it is expected that CENCC's rental income will continue to increase.

Additionally, the Company's trading business mainly serves the local companies by providing coals and mineral products, with relatively weak stability and sustainability, in our view. CENCC has a high concentration risk with only one downstream client, Changzhou Zhongfa Iron-smelting Co., Ltd., contributing 100% of the Company's trading revenue in 2022. The limited profitability level of the Company's trading business and high dependence on a single upstream supplier and downstream customer will pose certain operational risks to it. Also, as the Company intends to focus on its main business in the future, it is expected to reduce the scale of commercial trading business.

We expect the Company will not aggressively grow its commercial exposure because of its focus on the development of public projects in Changzhou ETDZ.

Good track record of receiving government support

CENCC has a history of receiving government cash payments, equity injections, asset injections, and government subsidies. In 2020, Changzhou Eastern Investment transferred the shareholding of Changzhou Tonghe Technology Co., Ltd. ("Tonghe"), mainly engaging in factory leasing, to CENCC, which helped improve the Company's business scope and capital strength. In addition, the Company received capital injection of RMB1.2 billion in total from Changzhou Eastern Investment and local government, and operating subsidies of RMB86.4 million accumulated from the local government in 2020 to 2022, which has provided the Company more resources and flexibility to support new investment and construction. In 2022, the Company received government payments of RMB758 million and RMB813 million for the infrastructure construction and land consolidation projects, respectively. We believe that the local government's support will be continued over the next 12-18 months, which is based on the Company's clear and solid strategic position in Changzhou ETDZ and its close relationship with the local government.

Increase in debt burden with high debt leverage

CENCC has demonstrated heightened debt burden with high debt leverage as a result of slow payment collections and large capital demands for the development of infrastructure and land consolidation projects. As of 31 March 2023, the Company maintained a large scale of total debt of RMB33.2 billion, increasing by RMB1.6 billion from year-end 2021, while its total capitalization ratio rose slightly from 64.4% to 64.8% over the same period. Moreover, most of CENCC's prepaid accounts and inventories have not yet been settled, and these assets accounted for around 60% of the Company's total assets as of 31 March 2023. We expect that the Company will continue to rely on external financing such as bank loans and bonds issuance due to its prolonged cash collection period, while its total capitalization ratio would remain relatively high over the next 12-18 months.

Good access to funding and manageable liquidity risk

CENCC has good access to diversified funding, including bank loans, onshore and offshore bond markets. From January 2022 to June 2023, CENCC raised RMB6.3 billion in the onshore bond market, with coupon rates ranging from 1.98% to 4.0%. The Company also issued USD bond in 2021, with total amount of USD300 million and coupon rate of 3%. Moreover, the Company had a relatively low exposure to financing from non-standard channels of around 4% of the total debt, while bank loans accounted for around 55% of the total debts as of 31 March 2023. Additionally, CENCC's weighted average financing cost continued to decrease to 4.77% in 2022, as compared to 5.12% in 2021.

CENCC's liquidity profile improved with the refinement of its debt structure. As of 31 March 2023, the Company's short-term debt was RMB10.4 billion, accounting for 31.2% of total debt. The Company held cash and cash equivalents of RMB6.6 billion over the same period, which is approximately 0.6x of its short-term debt, same as at end-2021. As of 31 March 2023, the Company had credit facilities of RMB34.2 billion, of which unutilized facilities amounted to RMB16.0 billion, indicating sufficient standby buffer. On the whole, we believe that the Company's liquidity risk is manageable over the next 12-18 months, given its liquidity cushion and strong support from the local government.

ESG Considerations

CENCC is exposed to environmental risks because it has undertaken infrastructure construction and land consolidation projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

In terms of social concerns, CENCC plays a crucial role in the social welfare of the residents in Changzhou ETDZ by providing public services, including resettlement housing, building and leasing of public infrastructures, and sewage treatment. As an important state-owned enterprise in Changzhou ETDZ, the Company has also launched multiple measures to ensure the provision of utility and daily needs of the residents during the pandemic control period.

In terms of corporate governance, CENCC has established a sound and effective internal control framework, and has also set up a corporate governance structure, with the shareholders, directors, supervisors, senior management team and internal departments performing their duties collectively and efficiently. The Company is subject to oversight of and reporting requirements to the local government, which has full control and supervision of the Company's operation.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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