

Credit Opinion

8 December 2023

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

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Jessica Cao +852-2860 7139

Credit Analyst

jessica_cao@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Binhai Industry & City Integration Industrial Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Binhai Industry & City Integration Industrial Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Binhai Industry & City Integration Industrial Development Co., Ltd. (“BHIC” or the “Company”) reflects (1) the Binhai County Government’s relatively 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 the Binhai County Government’s capacity to provide reflects Binhai County’s ongoing economic and fiscal growth. However, its fiscal balance ratio is moderate.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in infrastructure construction and industrial development in Binhai County; and (2) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) large future investment needs from construction projects; and (2) moderate access to funding with limited financial flexibility.

The stable outlook on BHIC’s rating reflects our expectation that the Binhai County Government’s capacity to provide support will remain stable, and the Company will maintain its important position in Binhai County over the next 12-18 months.

Rating Drivers

- Important role in infrastructure construction and industrial development in Binhai County
- Low but increasing exposure to commercial activities
- Large future investment needs from construction projects
- Moderate access to funding with limited financial flexibility
- Good track record of receiving government support

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Binhai County Government's ability 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 significantly improved financing ability and improved importance in Binhai County.

What could downgrade the rating?

The rating could be downgraded if (1) Binhai County Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as material increase in risk exposure to commercial activities or increase in contingent risks.

Key Indicators

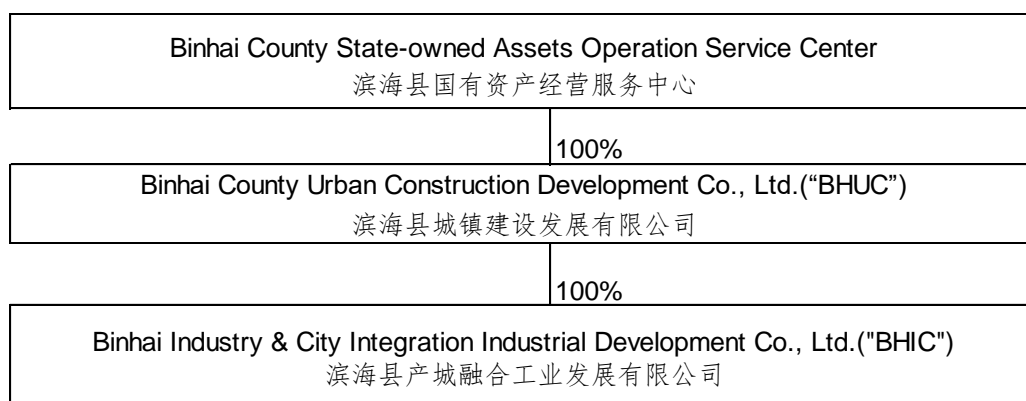
| | 2020FY | 2021FY | 2022FY | 2023Q3 |
|------------------------------|--------|--------|--------|--------|
| Total Asset (RMB billion) | 2.4 | 5.2 | 9.7 | 10.5 |
| Total Equity (RMB billion) | 0.7 | 2.0 | 5.1 | 5.2 |
| Total Revenue (RMB billion) | 0.5 | 0.8 | 1.0 | 0.2 |
| Total Debt/Total Capital (%) | 52.4 | 52.5 | 35.3 | 41.1 |

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

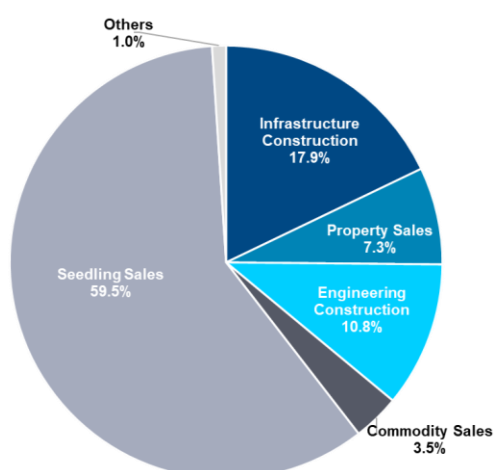
Source: Company information, CCXAP research

Corporate Profile

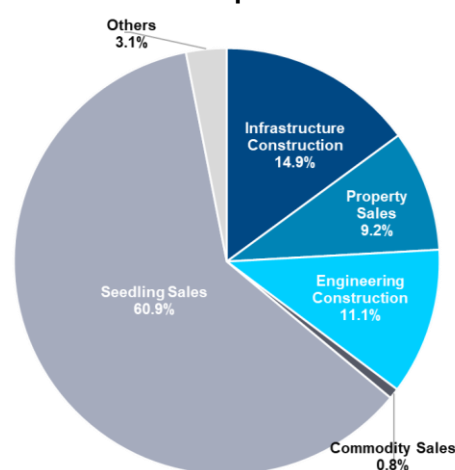
Founded in 2020, BHIC is an important local infrastructure investment and financing company ("LIIFC") in Binhai County. It is engaged in infrastructure construction and also aims to promote investment attraction such as replacing factories with low efficiency and providing standard factories in Binhai County. The Company has also expanded its business scope to engineering construction, property sales, and commodity sales. As of 30 September 2023, the Company was indirectly held by the Binhai County State-owned Assets Operation Service Center through Binhai County Urban Construction Development Co., Ltd. ("BHUC"), the largest LIIFC by total assets in Binhai County.

Exhibit 1. Shareholding chart as of 30 September 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Binhai County Government has a relatively strong capacity to provide support to the Company, given its ongoing economic and fiscal growth over years of development. However, its fiscal balance ratio is moderate.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, Jiangsu Province's total gross regional product ("GRP") amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The GRP per capita of the same period was RMB144,390, ranking first among all provinces in the country.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which will help support sustainable economic growth in the long run.

In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8th among 13 municipals in Jiangsu Province. At the same time, Yancheng Municipal Government reported a general budgetary revenue of RMB45.3 billion, of which tax income accounted for around 65.6%. However, its fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) was 40.5%, which was at a moderate level. As of the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion at end-2022, accounting for about 21.7% of GRP. During the first half year of 2023, the GRP of Yancheng City amounted to RMB341.3 billion with a YoY growth rate of 6.1%.

Exhibit 3. Key economic and fiscal indicators of Yancheng City

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 595.3 | 661.7 | 708.0 |
| GRP Growth (%) | 3.5 | 7.7 | 4.6 |
| General Budgetary Revenue (RMB billion) | 40.0 | 45.1 | 45.3 |
| General Budgetary Expenditure (RMB billion) | 97.4 | 105.3 | 111.8 |
| Local Government Debt (RMB billion) | 137.0 | 147.3 | 153.5 |

Source: Yancheng Municipal Government, CCXAP research

Binhai County is a county-level city in Yancheng City. The economic and financial strength of Binhai County was weaker than most districts and counties of Yancheng City but the economic status has been increasing steadily. The industrial structure has been transformed and upgraded in Binhai County in recent years, forming leading industries such as electronic information, auto parts and new pharmaceutical industry. From 2020 to 2022, Binhai County's GRP increasing from RMB50.4 billion to RMB60.6 billion. Affected by the COVID-19 pandemic and the government policy of tax rebates in 2022 to promote the development of the local economy, the tax revenue of Binhai County slightly decreased from RMB2.1 billion in 2021 to RMB2.0 billion in 2022, with the tax revenue over general budgetary revenue down from 80.0% to 70.4% over the same period. Binhai County Government's fiscal balance ratio is relatively low at 25.2% in 2022, reflecting a high reliance on fiscal support from higher-tier governments and proceeds from land sales to balance its fiscal budget. Its outstanding government debt amounted to RMB11.8 billion at end-2022, accounting for about 19.4% of GRP.

Exhibit 4. Key economic and fiscal indicators of Binhai County

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 50.4 | 56.5 | 60.6 |
| GRP Growth (%) | 0.2 | 8.4 | 4.3 |
| General Budgetary Revenue (RMB billion) | 2.4 | 2.7 | 2.9 |
| General Budgetary Expenditure (RMB billion) | 9.1 | 10.0 | 11.1 |
| Local Government Debt (RMB billion) | 8.2 | 9.9 | 11.8 |

Source: Binhai County Government, CCXAP research

Government's Willingness to Provide Support

Important role in infrastructure construction and industrial development in Binhai County

BHIC is an important LIIFC in Binhai County and is a key subsidiary of BHUC. BHUC is the largest LIIFC by total assets and the most important one in Binhai County, mainly engaged in infrastructure construction, land development and affordable housing construction in Binhai County. In 2023, BHUC transferred several subsidiaries to the Company, which enlarged its business scope and size including commodity sales and engineering construction, and became an important subsidiary of BHUC. BHIC is positioned to be responsible

for infrastructure construction and industrial projects construction such as industrial upgrades and construction of standard factories in Binhai County.

The Company conducts infrastructure construction mainly through the agency construction mode and mainly focuses on education and landscape projects such as the construction of schools and the trash recycling station. The local government pays the project fee based on the project audit cost plus a certain markup after the project completion final accounts are audited. As of 30 September 2023, The Company has completed 3 major infrastructure construction projects for schools in Binhai County with a total investment of approximately RMB506.0 million. Meanwhile, the Company had 5 key infrastructure construction projects under construction with a total investment of RMB2.9 billion and an uninvested amount of RMB750.0 million.

Low but increasing exposure to commercial activities

BHIC is also engaged in some commercial activities such as engineering construction, commodity sales and property leasing. Based on our assessment, the existing risk exposure to such commercial activities is limited with an asset size of around 10% of its total assets. However, we believe that the exposure to commercial activities may increase in the future because the Company is planning to expand its industrial property business such as acquiring industrial property and building standard factories. For example, there is a plan with a total investment of RMB1.3 billion to upgrade and construct factories and infrastructures in Binhuai Town Industrial Park.

BHIC is mainly engaged in the trading of coal through its subsidiary. It purchases commodities based on customer's requirements and then sells them to downstream enterprises. The Company earns a thin trading spread for the business. The downstream customers are mainly power production companies with high concentrations. In 2022, sales of the top 5 clients and purchases from the top 4 suppliers accounted for around 88.3% and 100% of total sales and purchases, respectively.

BHIC is engaged in engineering construction through its subsidiary and acquires construction projects within Binhai County through bidding and public tenders. With the expansion of the business and the increase in the number of construction projects undertaken by the Company, the revenue from engineering construction increased year on year from RMB52.4 million in 2020 to RMB112.4 million in 2022. However, the increase in construction costs due to the different types of projects undertaken resulted in a lower level of gross profit in the same period.

Large future investment needs from construction projects

BHIC's total debt increased significantly from RMB740 million in 2020 to RMB3.7 billion in the third quarter of 2023. This was mainly due to the consolidation of newly acquired subsidiaries. However, its capitalization ratio, calculated as the ratio of total debt to total capital, is moderate and fell from 52.4% at the end of 2020 to 41.1% on 30 September 2023, as a result of asset injections by its parent company and the local government. BHIC has a large investment plan for its infrastructure construction in the future. As of 30 September 2023, the Company had several infrastructure projects under construction with outstanding investment of RMB750 million and projects under planning with planned investment of RMB2.0 billion. We expect the Company's debt burden to continue to rise over the next 12 to 18 months, given its large investment needs.

Moderate access to funding with limited financial flexibility

BHIC has moderate access to funding constrained by its small operating scale. It relies highly on indirect financing, particularly asset-pledge loans, without a track record in accessing the domestic debt market. It has

moderate exposure to non-standard financing products with relatively high costs and short periods. As of 30 September 2023, non-standard financing accounted for less than 15% of total debt. The limited access to funding will also make BHIC less resilient to the change in the financing market environment. In addition, the relatively weak asset liquidity will limit its financing flexibility. As of 30 September 2023, the restricted assets amounted to RMB1.4 billion, accounting for 26.3% of net assets. At the same time, the receivables and other receivables accounted for a large portion of 34.7% of total assets, which were mainly from its parent company, government-related departments such as Binhai County Education Bureau, and other local state-owned enterprises.

The Company has relatively weak balance-sheet liquidity and requires refinancing for its operations. As of 30 September 2023, the Company has cash on hand of RMB1.3 billion which was insufficient to cover its short-term debts of RMB1.6 billion, and the restricted portion of cash was high at 67.5%. Nevertheless, BHIC's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk. As of 30 September 2023, the Company had obtained a total credit facility of RMB3.1 billion from banks, with an unused amount of RMB845.5 million. It was provided by joint-stock commercial banks and large state-owned commercial banks such as China Construction Bank Corporation, Industrial Bank Co., Ltd., and Bank of China Limited. In addition, its parent company with stronger funding capacity is expected to provide support to access funding resources such as providing guarantees if needed.

Good track record of receiving government support

BHIC has a good track record of receiving support from the local government support and parent company, including repayment, capital injections and operation subsidies. In 2020, BHIC received capital injections of RMB146.1 million in cash from its parent company. From 2020 to 2023Q3, the Company continuously received subsidies from the local government with collectively amount of RMB101.8 million. The Company also received government project repayments of RMB128.0 million in 2020. It is expected that the Company will continue to receive government project repayments as the parent company has allocated infrastructure construction projects with a value of RMB3.0 billion to the Company. However, the timing of the repayments depends on the government's arrangement and fiscal position. In 2021, the Binhai County Urban Management Bureau and the Binhai County Housing and Construction Bureau transferred RMB1.1 billion of seedling assets to the Company without compensation. These seedling assets generated sales of RMB616.1 million in 2022. We believe that given BHIC's important position in Binhai County, the local government will provide support such as financial subsidies to the Company in times of need over the next 12 to 18 months.

ESG Considerations

BHIC faces environmental risks because it has undertaken 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.

BHIC bears social risks as it implements public policy initiatives by building public infrastructure in Binhai County. 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.

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

Structural Consideration

BHIC's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in Binhai County, 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 \(July 2022\)](#).

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656