

Credit Opinion

22 December 2023

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

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Nantong Coastal Development Co., Ltd.

Surveillance credit rating report

CCXAP affirms Nantong Coastal Development Co., Ltd.'s long-term credit rating at A_g, with stable outlook.

Summary

The A_g long-term credit rating of Nantong Coastal Development Co., Ltd. ("NTCD" or the "Company") reflects Nantong Municipal Government's very strong capacity to provide support and its very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Nantong City's status as the fourth largest city by gross regional product ("GRP") in Jiangsu Province with good economic fundamentals and good fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) full ownership and ultimate control by the Nantong Municipal Government; (2) strong strategic position in local infrastructure construction; (3) solid track record of receiving government payments; and (4) good access to funding.

However, the rating is constrained by the Company's (1) large exposure to commercial activities; and (2) fast-growing debt from large development pipelines.

The stable outlook on NTCD's rating reflects our expectation that the Nantong Municipal Government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Nantong City.

Rating Drivers

- Strong strategic position in the infrastructure construction of Nantong City
- Solid track record of receiving government payments
- Good access to diversified funding
- Large exposure to commercial activities
- Fast-growing debt from large development pipelines

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 local government's willingness to provide support, such as reduction in the exposure to commercial activities.

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 reduced regional significance or weakened access to funding.

Key Indicators

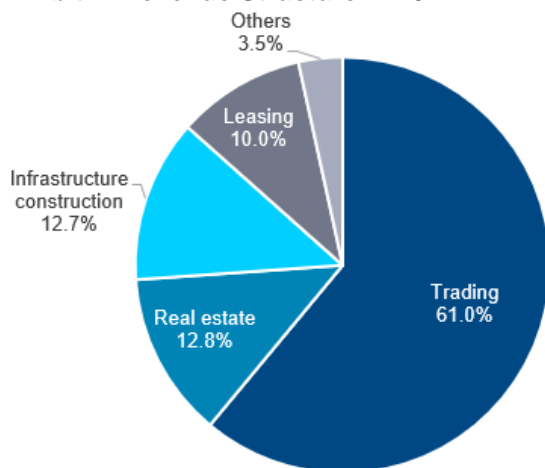
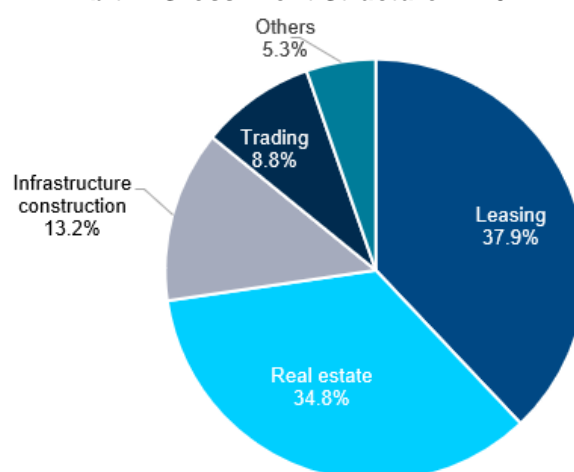
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	72.7	79.7	89.2	94.9
Total Equity (RMB billion)	29.5	32.4	33.5	34.0
Total Revenue (RMB billion)	9.4	12.1	7.8	3.1
Total Debt/Total Capital (%)	54.1	54.3	58.2	60.6

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

Source: Company information, CCXAP research

Corporate Profile

Founded in 2012, NTCD is one of the key local infrastructure investment and financing companies ("LIIFCs") in Nantong City. It undertakes major infrastructure projects in Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD also positions as an all-around city operator in Nantong City, with business coverage from infrastructure construction, education and tourism to real estate development, financial services and trade businesses. NTCD is wholly owned by the State-owned Assets Supervision and Administration Commission of Nantong Municipal Government ("Nantong SASAC"), with paid-in capital of RMB5.6 billion as of 30 June 2023.

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 that the Nantong Municipal Government has a very strong capacity to provide support for the Company, given its status as the fourth largest city by GRP in Jiangsu Province, with fast economic growth and good fiscal stability.

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, its total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP for the same period was RMB144,390, ranking first among all provinces in China. In the first three quarters of 2023, Jiangsu Province achieved GRP of RMB9.3 trillion with a YoY increase of 5.8%.

Located in the south of Jiangsu Province, Nantong City is an economic center and a modern port city on the north shore of the Yangtze River Delta. On the back of its port resources and location advantages, Nantong City has developed six core industrial sectors, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. Nantong's GRP reached RMB1.1 trillion in 2022, ranking fourth among the prefecture-level cities in Jiangsu Province. In the first three quarters of 2023, Nantong City recorded a GRP of RMB900.6 billion, a YoY increase of 5.5%. Mainly affected by factors such as value-added tax credits and refunds, Nantong Municipal Government's main fiscal indicators decreased in 2022. General budget revenue decreased from RMB71.0 billion in 2021 to RMB61.3 billion and the fiscal self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) decreased to 53.4%. During the past three years, the average proportion of tax revenue in general budgetary revenue was 75.0%, representing a relatively stable source of fiscal resources. As of 31 December 2022, the outstanding direct government amounted to RMB197.9 billion, accounting for 17.4% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Nantong City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,003.6	1,102.7	1,138.0
GRP Growth (%)	4.7	8.9	2.1
General Budgetary Revenue (RMB billion)	63.9	71.0	61.3
General Budgetary Expenditure (RMB billion)	108.1	112.2	114.7
Local Government Debt (RMB billion)	168.4	186.3	197.9

Source: Statistic Bureau of Nantong City, CCXAP research

Government's Willingness to Provide Support**Strong strategic position in the infrastructure construction of Nantong City**

NTCD has a clear functional positioning in the first-class state-owned enterprises in Nantong City. Nantong City government has restructured its state-owned assets and clearly stated the functions of NTCD. In 2019, the Nantong SASAC transferred 51% shares of Jiangsu Tongzhou Bay Investment Development Co., Ltd., an important company in the construction of Tongzhou Bay to the Company. In 2020, the Nantong SASAC transferred 100% of its holdings in Nantong Cultural Tourism Industry Development Group Co., Ltd. to the Company. In 2021, the Comprehensive Service Center of Tongzhou Bay Demonstration Zone transferred 100% of its holdings in Nantong Tongwan Urban Infrastructure Construction Co., Ltd. to the Company. Since then, NTCD has become an all-around city operator in Nantong City, with a wide range of business coverage. It undertakes the major infrastructure construction and urban service operation of Nantong City, particularly in Tongzhou Bay and Pingchao New Town. NTCD is the second-largest LIIFC that is directly owned by the Nantong Municipal Government in terms of total assets as of 30 June 2023. We believe that the strategic position of NTCD in Nantong City's economic development and public welfare remains strong and will not be easily replaced in the short-to-medium term.

Major infrastructure construction entity in Nantong City, especially for Tongzhou Bay and Pingchao New Town

NTCD is commissioned by the local government to be the key urban infrastructure constructor in Tongzhou Bay and a key developer in Pingchao New Town. The Tongzhou Bay and Pingchao New Town projects adopt the entrusted construction model. The entrusting parties included the Demonstration District Management Committee, the Construction Bureau, government-related departments, and other state-owned enterprises in Nantong City. The government or its agency signs a construction agreement with NTCD, and the project will be settled annually according to the progress of land sales and the government fiscal budget. For example, the local government of Tongzhou Bay will pay 60% of the land sales amount within one month after the land project is sold and the rest of the amount in stages. For projects in Pingchao New Town, the Tongzhou District government will settle the projects in accordance with the progress of the government's land banking activities.

Tongzhou Bay is in the eastern part of Jiangsu Province. It covers an area of 585 square kilometers ("sq. km"), including 292 sq. km on land and 293 sq. km on sea. The total planned development areas of Tongzhou Bay were 94 sq. km, including five industrial parks, one commercial town and one logistic base. It was upgraded to the national strategic development level in 2015. According to government documents, Tongzhou Bay will be prioritized to implement the pilot reforms related to taxation, finance, land, ocean, industry, and talents of Jiangsu Province. Pingchao New Town is a new transportation hub of Nantong City, developed in two phases. Pingchao New Town has a planned total area of 9.1 sq. km and a total construction area of 7.7 million square meters. In the future, it will be the core transportation area of Nantong City. The total planned investment in this

project is RMB23.0 billion. The Company is responsible for demolition, land consolidation, infrastructure construction and urban supporting tasks in the area. Given the large infrastructure need in the region, we believe that NTCD will have sufficient project reserves over the next 3-5 years.

In addition, NTCD has a self-operated project under construction, the Railway Connection Line Project of Nantong Port Yangkou Port Area to Lusi Port Area (“Yanglu Railway”) with a total planned investment of RMB9.9 billion. This project is undertaken by its subsidiary and the Company is mainly responsible for the financing, and construction, while the operation and management are expected to be entrusted to China Railway Shanghai Bureau Group Co., Ltd. As of 31 March 2023, the Company has invested RMB6.0 billion and the funds mainly came from government special bonds and bank financing. As for the fund balance, according to the deficit compensation plan drawn up by the Nantong Municipal Government, other local governments along the railway route would transfer operational lands with equivalent value to the Company based on the principle of “who benefits, who contributes”.

Large exposure to commercial activities

Apart from public services, NTCD has also been engaged in diversified commercial activities covering real estate development, property leasing, trading business, financial service and equity investment. Although the commercial activities can bring in supplemental income, they may also pose higher operating and business risks to the Company compared with its infrastructure businesses. The Company’s exposure to commercial businesses is high which accounted for over half of its total assets, by our assessment.

NTCD has been engaged in real estate development since 2018. In 2022, this segment contributed RMB1.0 billion in revenue which is, mainly attributable to the completion of Jiuli Taoyuan project. As of 31 March 2023, the Company has completed 3 projects with a total investment of RMB4.4 billion and most of them have sold out, achieving a total revenue amount of RMB4.5 billion. The Company’s real estate projects can generally cover its investment expenditures with decent profit in the past. The Company had 2 projects under construction and no project under planning as of 31 March 2023, with a planned investment of RMB2.9 billion and an uninvested amount of RMB620 million. Considering the market downturn of the real estate industry, the Company may face much uncertainty and sensitivity in this business.

NTCD started its trading business in 2013 and its products included rebars, disc screws, billets, as well as food such as soybean, wheat, and barley. The Company earns the rebate difference between upstream steel mills and downstream distributors. In addition, the products are transported by ship, which reduces logistics costs and helps increase profit margins. The Company also earns logistics service fees. Although this trading business has contributed a large amount of revenue to the Company in the past three years, it was subject to large fluctuations in the market price of steel and counterparty risks of trading partners. The profitability of the Company’s trading business is relatively low, with no higher than 1% over the past three years. Under the effect of macroeconomic environment, the Company’s trading business has experienced a drop in both volume and price. The sales volume of the Company’s trading business decreased by 45.1% in 2022 and further decreased to 166,000 tons in the first quarter of 2023.

NTCD has accumulated a certain amount of high-quality assets such as property leasing and equity investments, providing additional recurring income. NTCD’s leasing assets were in Tongzhou Bay including education buildings, standard factories, and office buildings, mostly leased out based on market prices with some policy support at the initial stage. The lease term is generally from one to five years. The rental income in 2021 and 2022 were RMB659.5 million and RMB783.3 million respectively. As of 31 March 2023, the Company had invested in private equity funds and equity investment projects of a total investment amount of RMB1.9 billion.

Private equity funds were invested in local businesses and planned to realize the investment income of projects through IPO or share buyback while equity investment projects were mainly investing in local enterprises or infrastructure projects such as the Su-Tong Yangtze River Highway Bridge ("Su-Tong Bridge"). As of the end of March 2023, the Company has achieved cumulative investment profit of RMB198.0 million from the private equity funds and received a dividend of RMB39.6 million from Su-Tong Bridge in 2022. However, the Company may be exposed to some risks associated with the investment activities because the investment return is subject to uncertainties and the long payment period. In addition, the Company engages in financing leasing and engineering factoring business through two subsidiaries specifically in Nantong City. As of 31 March 2023, the balance in financing leasing was RMB1.4 billion and the cumulative business amount was RMB2.4 billion. The customers of the factoring business are mainly construction companies involved in the infrastructure construction projects of SOEs in Nantong City. The balance of the factoring business was RMB1.3 billion as of 31 March 2023.

Solid track record of receiving government payments

NTCD has received ongoing support from the Nantong Municipal Government including capital injections, project payments and financial subsidies. For example, in 2022, the Company received capital injection of RMB752 million from the Nantong Municipal Government. Apart from that, the Company had received operating and financial subsidies of RMB134 million in 2022 and RMB75 million in 2023H1. As of 31 March 2023, the Company has received total repayments of RMB3.2 billion for the completed infrastructure construction projects.

Exhibit 4. Track Record of Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Capital Injection	5,142	2,169	752
-Cash	677	2,000	752
-Assets	4,465	169	-
Government Subsidies	36	1,133	134
Total	5,178	3,302	886

Source: Company information, CCXAP Research

The Nantong Municipal Government also provided strong policy support for the development of Tongzhou Bay and is expected to support NTCD's project funding. The Nantong Municipal Government established a special fund, managed by the Nantong Finance Bureau, to support local infrastructure projects. The fund will receive 5% of the gross income of the land sales in Chongchuan District, Gangzha District, Nantong Economic and Technological Development District, Sutong Industrial Park and Tongzhou Bay since 2019, and 10% of the land sales in Tongzhou Bay starting from 2021. This will largely increase the sustainability of local infrastructure projects, thereby benefiting NTCD's project funding source.

Fast-growing debt from large development pipelines

NTCD has a high debt leverage owing to its debt-driven business expansion over the past few years. As of 30 June 2023, the Company's total debt increased to RMB52.4 billion from RMB46.7 billion at end-2022 and RMB38.5 billion at end-2021. Its capitalization ratio, as measured by total debt to total capital, also increased to 60.6% from 58.2% from end-2022 and 54.3% from end-2021. NTCD has certain short-term debt pressure with short-term debt accounting for 37.7% of the total debt and a cash/short-term debt ratio was 0.3x as of 30 June 2023. Given its need for external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

As of 31 March 2023, the Company had projects under construction with gross investment of around RMB39.4 billion and an uninvested amount of RMB26.0 billion. Furthermore, the Company had projects under planning with an outstanding investment amount of RMB1.2 billion over the next two to three years. Projects include roads, schools, coastal ecological districts, fire station and water supply pipeline construction, and are expected to be funded mainly through external financing over the next 12-18 months.

Exhibit 5. Major projects under construction and planning as of 31 March 2023

Project type	Budgeted amount (RMB million)	Invested amount (RMB million)	Outstanding amount (RMB million)
Project Under Construction			
Tongzhou Bay	3,552	1,272	2,280
Pingchao New Town	23,000	4,697	18,303
Self-construction Projects	9,921	5,166	4,755
Real Estate Projects	2,944	2,322	622
Project Under Planning			
Tongzhou Bay	1,235	-	1,235
Total	40,652	13,457	27,195

Source: Company information, CCXAP Research

Good access to diversified funding

NTCD has access to multiple financing channels, including bank loans and bond issuances. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. As of 30 June 2023, the Company has obtained total credit facilities of RMB64.4 billion, with an unutilized amount of RMB12.5 billion. The Company also has a good track record of fund-raising activities in the capital market and has issued general corporate bonds, MTNs and private placement bonds in the past three years. For example, in the first three quarters of 2023, the Company issued 4 tranches of private placement bonds with a total raised amount of RMB4.0 billion, and the coupon was between 3.1% and 3.8%. In addition, NTCD has manageable exposure to non-standard financing, with a proportion of below 10%.

Contingent liability risks from external guarantee

The Company's exposure to external guarantees is manageable. As of 30 June 2023, the Company had outstanding external guarantees of RMB1.7 billion, equivalent to 5.0% of its net assets. Most of the external debt guarantees were provided to local state-owned companies and approximately RMB135.0 million was provided to a local private-owned company, namely Nantong Sumin Renewable Energy Technology Co., Ltd. ("NSRET"). NSRET is one of the investments of NTCD, which has been listed as a judgment defaulter.

ESG Considerations

NTCD faces environmental risks because it has undertaken primary land development and 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.

NTCD bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Nantong 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.

NTCD's governance considerations are also material as the Company is subject to oversight by the Nantong Municipal 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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