

Credit Opinion

31 January 2024

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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Kunshan Guochuang Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms the long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. at A_g-, with stable outlook.

Summary

The A_g- long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. (“KGIG” or the “Company”) reflects Kunshan City Government’s very strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Kunshan City Government’s capacity to provide support reflects its strong comprehensive strength, ranking 1st among the Top 100 counties/county-level cities in China, with good fiscal profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in public policy activities of Kunshan Economic and Technological Development Zone (“Kunshan ETDZ”), which has a leading position among the national-level ETDZs; (2) solid track record of receiving government payments; and (3) good access to financing channels.

However, the rating is constrained by the Company’s (1) high exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclicality; and (2) high financial leverage with short-term debt burden.

The stable outlook on KGIG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its strategic role in Kunshan ETDZ.

Rating Drivers

- Essential role in public policy activities of Kunshan ETDZ
- Solid track record of receiving government payments
- High financial leverage with the short-term debt burden
- High exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclical
- Good access to financing channels
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as decreasing exposure to commercial activities or improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 reducing strategic significance or weakening access to financing channels.

Key Indicators

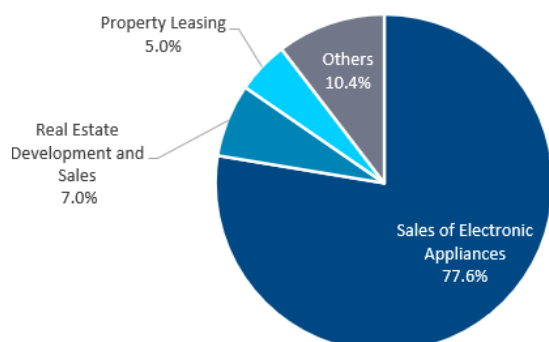
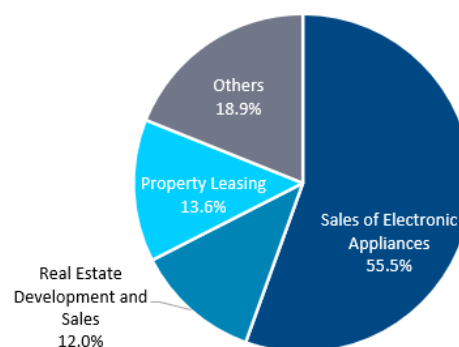
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	90.4	97.2	98.2	102.8
Total Equity (RMB billion)	26.1	28.6	32.9	33.4
Total Revenue (RMB billion)	5.2	7.6	5.3	3.4
Total Debt/Total Capital (%)	66.2	67.3	67.5	67.7

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 1992, KGIG is a local infrastructure investment and financing company ("LIIFC") in Kunshan City, Suzhou City. The Company is primarily responsible for infrastructure construction and land development in Kunshan ETDZ, playing an important role in the urban development and operation of Kunshan City. The Company is also engaged in commercial activities such as real estate development and sales, property leasing, and sales of electronic appliances. As of 30 September 2023, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Office of Kunshan City Government ("Kunshan SASAO").

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 Kunshan City Government has a very strong capacity to provide support to the Company, given its strong comprehensive strength combined with good fiscal profile.

Suzhou City is the largest city in Jiangsu Province and a highly developed economic region in China. It is also the economic center and logistics hub of Jiangsu Province. Characterized by industries such as pharmaceutical, electronic goods, automobile and logistics, Suzhou City has achieved sustained economic growth. In 2022, GRP of Suzhou achieved increased by 2.0% year-over-year ("YoY") to RMB2.4 trillion, ranking 1st among all prefecture-level cities in Jiangsu Province. In the first three quarters of 2023, Suzhou City recorded a GRP of RMB1.8 trillion, with an increase of 4.2% YoY. Suzhou Municipal Government's fiscal strength remained strong although its general budgetary revenue declined from RMB251.0 billion in 2021 to RMB232.9 billion in 2022 due to the tax refund policies. Suzhou Municipal Government's tax revenue, decreased from RMB216.7 billion in 2021 to RMB190.0 billion in 2022. Tax revenue is a stable source of general budgetary revenue with a high portion of more than 80% over the past three years. Suzhou City also has a strong fiscal balance and good debt profile with a self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of over 90% in the past three years and a low debt/GRP ratio of 7.4% as of the end of 2022.

Exhibit 3. Key Economic and Fiscal Indicators of Suzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,017.0	2,271.8	2,395.8
GRP Growth (%)	3.4	8.7	2.0
General Budgetary Revenue (RMB billion)	230.3	251.0	232.9
General Budgetary Expenditure (RMB billion)	226.4	258.4	258.9
Local Government Debt (RMB billion)	153.2	158.8	177.2

Source: Statistics Bureau of Suzhou City, CCXAP research

Kunshan City is a county-level city in southeast Jiangsu Province, with a total area of 931 square kilometers. Kunshan City ranked 1st for consecutive 19 years among the Top 100 counties/county-level cities in China, in terms of comprehensive strength. Supported by its pillar industries, such as digital information, optoelectronic semiconductors, intelligent equipment and new energy automobiles, Kunshan City demonstrated ongoing economic growth for the past three years. In 2022, the GRP of Kunshan City increased by 1.8% YoY to

RMB500.7 billion, ranking 1st among all districts/counties in Suzhou City. In the first three quarters of 2023, Kunshan City achieved a GRP of RMB359.5 billion, with an increase of 4.0% YoY. The general budgetary revenue of Kunshan City showed a slight decline from RMB46.7 billion in 2021 to RMB43.0 billion in 2022, mainly due to the tax refund policy. Kunshan City has good fiscal stability and fiscal self-sufficiency ability. The average self-sufficiency rate (general budgetary revenue to general budgetary expenditure) was relatively high at 115.8% over the past three years. In addition, Kunshan City also has a manageable debt profile, with a government debt to GRP ratio of 5.1% as of 31 December 2022.

Exhibit 4. Key Economic and Fiscal Indicators of Kunshan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	427.7	474.8	500.7
GRP Growth (%)	4.0	7.8	1.8
General Budgetary Revenue (RMB billion)	42.8	46.7	43.0
General Budgetary Expenditure (RMB billion)	36.6	39.9	37.9
Local Government Debt (RMB billion)	21.3	22.1	25.7

Source: Statistics Bureau of Kunshan City, CCXAP research

Founded in 1984, Kunshan ETDZ is a state-level Economic and Technological Development Zone in Kunshan City that mainly focuses on optoelectronic, digital information, intelligent equipment and new energy automobile industries, with strong comprehensive strength, as evidenced by ranking among the top five for 19 consecutive years in the comprehensive assessment of state-level ETDZs. In 2022, Kunshan ETDZ recorded a GRP of over RMB240 billion. In 2023, Kunshan ETDZ ranked 4th among 230 national-level ETDZs.

Government's Willingness to Provide Support Essential role in public policy activities of Kunshan ETDZ

KGIG is the primary state-owned assets operation entity in Kunshan City and is mandated by the government to develop Kunshan ETDZ. The Company is one of the core entities undertaking public policy activities, such as infrastructure construction and land development in Kunshan City. KGIG has completed a series of large-scale infrastructure construction projects over the past few years, including roads, schools, bridges and relocation houses, which significantly benefit people's livelihood and promote the urbanization development of Kunshan City.

The Company conducts infrastructure construction projects by agency construction model and construction service model. Under the agency construction model, the Company will self-fund the construction costs, and upon project completion, the local government would repurchase the project and make payments to the Company within 3 to 5 years. On the other hand, under the construction service model, construction costs will be provided by the entrusting parties, and the Company receives construction management fees for return, typically around 3%. As of 30 September 2023, the Company had 32 key infrastructure construction projects under construction, with a total estimated investment of around RMB6.7 billion and an uninvested amount of RMB1.3 billion. Among them, 10 construction projects are under agency construction model, with a total invested amount of RMB3.2 billion and an outstanding amount of RMB169.0 million. Key projects under agency construction model include schools, bridges, houses and roads. Meanwhile, there Company had 22 construction projects under construction service model, with a total estimated investment amount of RMB3.6 billion. Key projects include upgrading of municipal facilities, schools, roads and industrial park infrastructure. KGIG's infrastructure construction business is sustainable given its large number of construction project reserves.

Exhibit 5. Key Infrastructure Construction Projects as of 30 September 2023

Project type	No. of projects	Estimated investment amount	Invested amount	Outstanding amount
		(RMB million)	(RMB million)	(RMB million)
Projects under agency construction model	10	3,175	3,006	169
Projects under construction service model	22	3,565	2,483	1,082
Total	32	6,740	5,489	1,251

Source: Company information, CCXAP research

KGIG is entrusted by the local government to undertake land development projects in Kunshan City. The Company will first consolidate the lands, then the local government will inject the land-use rights into the Company for further development. When the injected lands being sold in the market, the local government will make payments to the Company within 3 to 5 years. As of 30 March 2023, the Company had been authorized to operate 3,981.2 mu of land with a book value of RMB25.7 billion.

Overall, considering KGIG's essential role in regional economic and social development in Kunshan ETDZ as well as Kunshan City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High exposure to commercial activities

KGIG is also engaged in other commercial activities such as sales of electronic appliances, real estate development and sales, and property leasing. Based on our assessment, KGIG's commercial activities exposure is high, accounting for more than 30% of its total assets.

The electronic appliances sales business is the major income source of KGIG. The Company conducts its electronic sales business through its subsidiary Infovision Optoelectronics (Kunshan) Co., Ltd. ("Infovision Optoelectronics", Stock Code: 688055.SZ). Infovision Optoelectronics focused on research, development, production and sales of thin-film-transistor liquid crystal displays ("LCD"). Infovision Optoelectronics has accumulated rich customer resources in various application fields. In the field of consumer display applications, Infovision Optoelectronics has established long-term strategic cooperation with famous brand customers such as HP, Lenovo, Dell and Acer; in the field of in-vehicle display, it has formed a stable cooperation relationship with system integrators such as Panasonic and VCK. The electronic appliances sales business contributes largely to both revenue and gross profit. In 2022, the Company recorded revenue of RMB4.1 billion and gross profit of RMB768.2 million from the electronic appliances sales business, accounting for 85.5% and 70.1% of its total revenue and total gross profit, respectively. However, the LCD industry is susceptible to the macro-environment, which may cause fluctuation in the profitability of the Company. During the first three quarters of 2023, the revenue and gross profit were both seen to decrease YoY, mainly due to the decline in demand and price during the downturn of the industry. Especially, the gross profit margin of the electronic appliances sales business dropped notably from 18.7% in 2022 to 5.7%.

KGIG also conducts real estate development and sales business in Kunshan ETDZ, involving the construction and sale of resettlement housing, commercial properties and talent apartments. As of 30 September 2023, the Company had completed 6 real estate projects and most of them are sold, with a total invested amount of RMB2.0 billion and total sales amount of RMB2.9 billion. However, the sales of properties are susceptible to the volatility of the real estate market, which may cause fluctuations to property sales. In addition, the Company has large number of projects in the pipelines, exerting high capital expenditure pressure. As of 30 September

2023, the Company had 8 property development projects under construction, with an expected investment amount of RMB5.7 billion and an outstanding amount of RMB2.2 billion.

Furthermore, the Company also leases out its self-owned properties, such as factories, office buildings, residential and commercial properties. As of 30 September 2023, the Company has a total leasable area of approximately 1.8 million square meters, with an overall occupancy rate of 69.0%. The property leasing business is stable, providing annual rental income of more than RMB200 million to the Company for the past three years.

Solid track record of receiving government payments

As the core LIIFC in Kunshan ETDZ, KGIG has a proven track record of receiving government payments in the forms of government subsidies, asset and cash injections, to support its businesses and operations. From 2020 to 2023Q3, the Company continuously received financial subsidies from the local government with the total amount of RMB338.1 million. In May 2023, the local government injected RMB515.0 million of cash into the Company, increasing its paid-in capital to RMB2.7 billion as of 2023H1. In December 2023, the local government also injected RMB558.5 million of cash into the Company as capital. The Company also regularly received payments from the local government for its infrastructure construction projects under both agent construction and construction service model. Considering that the Company plays a strategic position in regional economic and social development in Kunshan City, we expect the Company will continue to receive support from the local government over the next 12 to 18 months.

Exhibit 6. Government support from 2020 to 2023Q3

(RMB million)	2020FY	2021FY	2022FY	2023Q3
Government Subsidies	79.5	78.2	121.3	59.1
Capital Injections	456.2	-	-	515.0
Total	535.7	78.2	121.3	574.1

Source: Company information, CCXAP research

High financial leverage with short-term debt burden

KGIG's debt has kept increasing over the recent years mainly attributable to the ongoing financing for the infrastructure construction and property development projects. As of 30 September 2023, its total debt (including perpetual debts) increased to RMB59.5 billion from RMB56.2 billion as of 30 September 2022. The Company's total capitalization ratio gradually increased to a relatively high level of around 67.7% as of the same date. Meanwhile, the Company remained a relatively high short-term debt burden with short-term debt increasing by 25.6% to RMB20.3 billion, accounting for 34.1% of total debt, exerting the Company's short-term debt repayment pressure. The cash to short-term debt ratio of around 0.2x, indicating that its cash balance could not be able to fully cover its short-term debt. We expect that the debt leverage will remain at a relatively high level in the next 12-18 months, considering the capital needs from project construction.

Moderate asset liquidity

KGIG maintained moderate asset liquidity. As of 30 September 2023, the Company's total asset consists mainly of inventories and other receivables, accounting for 62.3% of the total assets, which are considered relatively low liquidity. As of 30 September 2023, the Company's inventories amounted to RMB34.7 billion, accounting for 33.7% of total assets, and mainly consisted of construction development costs and land development costs. Meanwhile, the Company's other receivables increased from RMB21.9 billion in 2022 to RMB29.4 billion in

2023Q3, accounting for 28.6% of total assets.

Good access to financing channels

KGIG has sufficient stand-by liquidity and diversified funding channels, including bank loans, bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. As of 30 September 2023, the Company had a total credit facility of RMB61.4 billion with an unused portion of RMB28.5 billion. They were mainly provided by diversified large domestic banks such as the Industrial and Commercial Bank of China.

Furthermore, KGIG has a proven track record of financing from both onshore and offshore debt capital markets and equity capital market. The Company has issued several types of debt products, including commercial papers (“CPs”), medium-term notes (“MTNs”), private placement notes (“PPNs”) and private corporate bonds. In 2023, the Company had raised RMB8.8 billion through onshore bond issuances. The Company also has access to the offshore capital market and issued a 3-year offshore bond with a coupon rate of 3.6% to raise RMB1.0 billion in June 2023. In addition, its subsidiary, Infovision Optoelectronics is able to access the equity capital market as listed in the Shanghai Stock Exchange. Moreover, the Company maintained a manageable exposure to non-standard financing, accounting for around 10% to 15% of its total debt as of 30 September 2023.

Contingent risk associated with external guarantees

The Company is exposed to a certain contingent risk from its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the total amount of external guarantees was RMB2.6 billion, accounting for 7.8% of KGIG’s net assets. Among them, 28.8% of external guarantees were provided to state-owned enterprises in Kunshan City amounted to RMB750 million, and the remaining 71.2% were provided to private-owned enterprises in Kunshan City amounting to RMB1.9 billion.

ESG Considerations

KGIG bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction phase.

KGIG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Kunshan City. Demographic changes, public awareness and social priorities shape the government’s development strategy, or affect the government’s propensity to support the Company.

KGIG’s governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public policy role and status as a government-owned entity.

Structural Considerations

KGIG’s senior unsecured debt rating is equal to its long-term credit rating. We believe that the government support will flow through the Company given its dominant position in Kunshan ETDZ, thereby mitigating any differences in 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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