

## Credit Opinion

5 February 2024

Ratings	
Senior Unsecured Debt Rating	A <sub>g</sub> -
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Taicang State-owned Capital Investment Holding Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Taicang State-owned Capital Investment Holding Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Taicang State-owned Capital Investment Holding Co., Ltd. (“TCSI” or the “Company”) reflects Taicang City Government’s very strong capacity to provide support, and the local government’s 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 Taicang City’s comprehensive strengths with good economic fundamentals and good fiscal self-sufficiency. Taicang City’s comprehensive economic strength ranked 6<sup>th</sup> among the Top 100 Counties in 2023 according to CCID.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role in the development of Taicang City as the largest entity for infrastructure construction and state-owned capital operation under the direct control of Taicang City Government; (2) good track of receiving government support; and (3) good access to diversified financing channels.

However, the rating is constrained by the Company’s (1) medium level of commercial business risk; and (2) increasing debt financing for property and public projects.

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

## Rating Drivers

- Policy role as the largest state-owned enterprise under the control of Taicang City Government to carry out city and economic development in Taicang City
- Medium level of commercial business risk
- Good track record of receiving government support
- Increasing debt financing for property and public projects
- Good access to diversified financing channels

## 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 decreased commercial business risks or improved 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 materially increased exposure to risky commercial activities or a deterioration in its financing ability.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	72.2	83.9	100.2	107.6
Total Equity (RMB billion)	28.6	32.4	34.9	35.2
Total Revenue (RMB billion)	6.0	6.9	8.4	6.4
Total Debt/Total Capital (%)	51.0	51.6	55.9	58.1

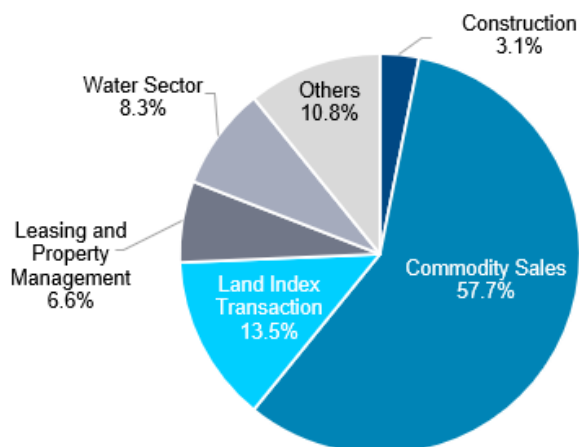
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in 2020, TCSI is one of the essential entities for construction and state-owned capital operation in Taicang City, Suzhou City. In December 2022, the State-owned Assets Supervision and Administration Office of Taicang City Government ("Taicang SASAO") transferred its shares in five key state-owned enterprises ("SOEs") to the Company, all of which were important SOEs with clear function divisions in Taicang City. After the consolidation, TCSI's total assets amounted to RMB100.2 billion as of the end of 2022. TCSI's businesses cover key urban construction and development projects in Taicang City, which include infrastructure construction, resettlement housing construction, transportation, and water. It also engages in commercial activities such as commodity sales, real estate development and property leasing. The Company has sufficient projects under construction and planning, such as the Times Financial Building, sewage treatment plants and the science and technology innovation park. Most of the business is undertaken by its subsidiaries. As of 30 September 2023, Taicang SASAO was the ultimate controller of the Company.

### Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Taicang City Government has a very strong capacity to provide support, given its comprehensive economic strengths with good economic fundamentals and high fiscal self-sufficiency. Taicang City's comprehensive economic strength ranked 6<sup>th</sup> among the Top 100 Counties in 2023 according to CCID.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country. In 2023, according to preliminary estimation, Jiangsu Province achieved a GRP of RMB12.8 trillion with a YoY increase of 5.8%.

Suzhou City is a prefecture-level city located in the southeast of Jiangsu Province and is regarded as one of the top Chinese cities for its advanced economic and social developments. Suzhou City has a rich historical background and is known for its canals, classical gardens and bridges. Suzhou City owns 14 national hi-tech zones, the most national hi-tech zones in one single city in China. Supported by its good location advantages, completed industrial chain, intensive layout of national-level incubators, world-class traditional cultural resources and water ecological resources, Suzhou City's economic strength has long been ranked first in Jiangsu Province. In 2022, Suzhou City recorded a GRP of RMB2,395.8 billion with a year-over-year("YoY") growth rate of 2.0%, and the general budgetary revenue amounted to RMB232.9 billion. In 2023, the GRP of Suzhou City is expected to achieve RMB2,501.2 billion. Tax revenue in Suzhou City has been stable, accounting for over 80% of general budgetary revenue over the past three years, despite the effect of China's unprecedented tax rebate program. 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 2. 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: Suzhou Municipal Government, CCXAP research

Under the jurisdiction of Suzhou City, Taicang City is located in the southeast of Jiangsu Province, bordering Baoshan District and Jiading District of Shanghai City in the south, Kunshan City in the west, and Changshu City in the north. Taicang City has a state-level Taicang Port Economic and Technological Development Zone and a provincial-level High-tech Zone. It has a complete range of industries, mainly including precision machinery, auto parts, petrochemicals, new materials, high-end equipment manufacturing and biomedicine, which has become an important driving force for regional economic development. In 2022, its GRP reached RMB165.4 billion with an increase of 2.2% YoY. Affected by tax refunds, the general public budget revenue of Taicang City declined to RMB17.8 billion in 2022 from RMB19.0 billion in 2021. Nevertheless, according to the preliminary estimation in 2023, its GRP grew more than 5% YoY and general public budget revenue increased by 6.5% YoY to RMB18.9 billion. Taicang City is characterized by a good self-sufficiency ability and stability. Over the past three years, the tax revenue has accounted for an average of around 85% of general budgetary revenue and the average fiscal balance ratio was more than 100%. At the end of 2022, the local government's outstanding debt was RMB16.8 billion, accounting for 10.2% of its GRP.

**Exhibit 3. Key economic and fiscal indicators of Taicang City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	138.6	157.4	165.4
GRP Growth (%)	3.9	9.7	2.2
General Budgetary Revenue (RMB billion)	17.1	19.0	17.8
General Budgetary Expenditure (RMB billion)	15.1	16.8	17.9
Local Government Debt (RMB billion)	15.5	15.8	16.8

Source: Taicang City Government, CCXAP research

**Government's Willingness to Provide Support****Position as the largest SOE after the equity transfer from the local government**

In December 2022, the Taicang City Government transferred its shares of five essential SOEs to TCSI, including 100% of Taicang Asset Management Group Co., Ltd. ("TCAM"), Taicang Taihe Holding Group Co., Ltd. ("TCTH"), Taicang Water Group Co., Ltd. ("TCWG"), Taicang City Development Group Co., Ltd. ("TCCD"), and 90% stakes of Taicang Culture and Education Investment Group Co., Ltd. ("TCEI"). After the consolidation, TCSI's total assets amounted to RMB100.2 billion as of the end of 2022, being the largest SOE under the control of Taicang SASAO. Apart from TCSI and its five major subsidiaries, there is another important wholly-owned SOE under Taicang SASAO, namely Taicang Cultural Tourism Development Group Co., Ltd., whose business mainly includes the cultural and sports industry, tourism development and health care.

The Company mainly carries out its businesses through its subsidiaries. Specifically, TCAM is responsible for state-owned capital investment and operation, asset management, and development of the modern service industry in Taicang City; TCTH is engaged in comprehensive urban transportation, industry-city integration and

environmental protection and energy sector in Taicang City; TCWG is responsible for water supply and drainage business, water environment management and water project construction in Taicang City; TCCD is responsible for urban construction, urban operation, and comprehensive real estate development in Taicang City; TCEI is mainly responsible for the development of Science and Education Innovation Area of Loujiang New City, Taicang City, including education and talents development, science and technology investment, and operation of incubators.

### **Important role in the urban construction and development in Taicang City**

TCSI is mainly responsible for the construction projects in the central area of Taicang City which includes multiple projects such as major projects, municipal roads, water facilities, greening engineering, and supporting infrastructure in industrial parks. The Company undertakes infrastructure construction mainly under two models. One is the Company raises funds itself for development and will receive payments from entrusting parties generally equal to cost plus a markup after the settlement of relevant projects. Another is the management service model, which means the entrusting party pays the Company according to construction progress subject to the contract and the Company is responsible for the management of the project and earns a management fee, generally equal to 1%-2% of the invested amount. As of 30 September 2023, the Company has key projects under construction using a management service model with a total investment of RMB2.3 billion including a new building of Taicang Senior High School and a new emergency science and technology building of Taicang First People's Hospital.

TCSI is also responsible for the development and construction of resettlement housing in Taicang City. In recent years, the projects were mainly located in Chengxiang Town (Old Town), Huangjing Town and High-tech Zone in Taicang City. The Company raises funds for project construction and after completion, those housing is sold to resettlement households directly or repurchased by relevant government departments. As of 30 September 2023, TCSI has completed 2 key resettlement housing projects with a total investment amount of RMB1.1 billion. At the same time, it has 2 key resettlement housing projects under construction with a total investment amount of around RMB551 million and an outstanding investment amount of around RMB270 million.

TCSI is the sole entity for the water supply in Taicang City and has two water plants with a designed water supply capacity of 700,000 tons per day that can fully meet the water needs of Taicang City. TCSI also provides sewage treatment covering the whole city except the Taicang Port Development Zone and Taicang Economic Development Zone and has 8 sewage treatment plants with a designed capacity of 225 thousand tons per day. In addition, the revenue from sewage treatment is expected to improve as 3 industrial wastewater treatment plants will be completed in the near future and the capacity of sewage treatment will improve greatly.

TCSI is also engaged in providing public services including public bus business and sanitation services. TCSI's public bus business has strong public welfare attributes and is currently experiencing gross profit losses. Taicang Municipal Finance Bureau provides subsidies every year to make up for the losses. In addition, it invested in 5 railway projects within Taicang City in representation of the Taicang City Government, demonstrating prominent policy functions. The total investment of the projects is RMB10.2 billion and the Company's planned investment is RMB8.4 billion with RMB5.9 billion has been invested as of 30 September 2023.

We believe that the strategic role of TCSI in Taicang City's urban and economic development is irreplaceable in the short-to-medium term in view of TCSI and its subsidiaries have a track record of providing diversified public service and engaging in the entire urban construction.

### **Medium level of commercial business risk**

TCSI has medium risk exposure to commercial activities such as commodity sales, real estate development, property leasing and management and financial investments, based on our assessment. These activities have been a good supplement to the Company's operating revenue but would pose the Company to related business risks that require prudent risk control.

TCSI's commodity sales business includes import and export agency business and domestic trade, which is the main source of the Company's operating revenue. In 2022, the revenue from the commodity sales and trading business was RMB4.8 billion, accounting for 57.7% of the total revenue. However, during the past 2 years, the deteriorated international trade environment and exchange rate fluctuations have adversely affected the stability of the Company's import and export agency business. In 2022, its total sales amount of import and export agency business decreased by 15.6% compared to 2021. Moreover, during the economic downturn, as most of its clients are private-owned companies, the Company may face more risk in the recovery of the receivables, most of which are generated by early trading business with long account periods and small provisions.

TCSI owns leasable assets including real estate, shops and standard factory buildings, mainly located in Taicang City and have brought stable property leasing profit to the Company for the past two years. With the increase in leasable assets and the marketization of rental prices, TCSI's revenue from property leasing and management had increased steadily. As of 30 June 2023, TCSI has leasable assets with a total leasable area of 1.4 million square meters. We believe its rental income is recurring and stable, as a high rental rate of over 75%. In addition, the Company's leasing properties will increase significantly in the future and become more diversified. There are a lot of properties under construction including office buildings, campuses and industrial parks, with a total investment of approximately RMB8.8 billion. Since the leasing and management fee business is highly related to the local economic prosperity and business environment, TCSI faces certain commercial and financial risks.

In addition, TCSI also engaged in self-operated projects, having a Taicang City Chengxiang Area Quality Improvement and Renewal Project, which will be balanced through future income. The project mainly includes the construction of a kindergarten, the construction and renovation of urban roads, and renovation of residential areas with a total investment of RMB5.3 billion and an uninvested amount of RMB1.8 billion as of 30 September 2023. The balance of investment mainly relies on the leasing income from commercial buildings and operation income from industrial cultivation facilities. According to the Company's estimation, the yield is low and the payback period would be long for approximately 13.7 years. TCSI is also responsible for facilities construction for Taicang Station and Taicang South Station with a total planned investment of RMB1.9 billion. The Company is expected to achieve a balance of project funds through parking fees, leasing and advertising leasing.

TCSI also participates in the construction and sales of residential properties. It has 7 key residential property projects under construction with a total investment amount of around RMB12.4 billion and an uninvested amount of RMB5.7 billion, and a key residential property project under planning with a total investment of RMB2.2 billion. TCSI is exposed to higher business risk due to its property development business, especially during the slowdown of the property market in China and the Company had large-scale investment in real estate projects.

### **Good track of receiving government support**

TCSI has a good track record in receiving government support in terms of asset injections and financial subsidies. In December 2022, the local government consolidated its state-owned assets and incorporated five key local state-owned enterprises into the Company, which has greatly enhanced the Company's capital

strength and strategic importance. Meanwhile, the Company received a monetary injection of RMB1.1 billion from the government at the end of 2022. From 2020 to 2023Q3, the Company received government subsidies totaling RMB2.8 billion. In addition, the Company has a track of obtaining the repayments for the agent construction business. Since TCSI plays an important role in the urban construction and public welfare of Taicang City, it is expected that the Company will continue to receive government support such as subsidies and repayments to the agent construction projects.

### Increasing debt financing for property and public projects

TCSI has high debt growth owing to its debt-driven business expansion over the past years. As of 30 September 2023, the Company's total debt grew to RMB48.9 billion from RMB29.8 billion as of end-2020, with a compound annual growth rate of 14.1%. The total capitalization ratio, as measured by total debt to total capital, has also increased to 58.1% from 51.0% during the same period. Meanwhile, the Company bore a relatively high short-term debt burden with the short-term debt accounting for 40.0% of the total debt, and the cash to short-term debt ratio was low at 0.2x. Considering the Company's ongoing investment needs, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

#### Exhibit 4. Key projects under construction and planning as of 30 September 2023

Project type	No. of projects	Budgeted amount	Invested amount	Outstanding amount
		(RMB billion)	(RMB billion)	(RMB billion)
<b>Project under construction</b>				
Residential Property	7	12.4	6.7	5.7
Commercial Property and Leasing	10	8.8	5.2	3.6
Resettlement Housing	2	0.6	0.3	0.3
Self-operated Projects	2	7.2	4.6	2.6
Water	7	5.3	1.4	3.9
<b>Project under planning</b>				
Residential Property	1	2.2	0.8	1.4
Commercial Property and Leasing	5	5.2	-	5.2
Water	2	0.3	-	0.3
<b>Total</b>	<b>36</b>	<b>42.0</b>	<b>19.0</b>	<b>23.0</b>

Source: Company information, CCXAP research

Besides, TCSI's asset liquidity was constrained by relatively high portion of restricted assets. As of 30 September 2023, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB14.3 billion, accounting for 13.3% of its total assets.

### Good access to diversified financing channels

TCSI has good access to bank borrowing and capital market, which can partially relieve the pressure on debt repayment and capital expenditure. It maintains good relationships with policy banks and large state-owned commercial banks. As of 30 September 2023, the Company had a total bank credit facility of RMB65.2 billion, with an available amount of RMB29.8 billion. The Company also has a good track record of fund-raising activities through its subsidiaries in the capital market with low financing costs. For example, its subsidiary, TCAM, raised RMB500 million with a 3-year PPN and the coupon rate was 3.14% in 2023. Meanwhile, the Company has a low exposure to non-standard financing products, which accounted for less than 5% of the total debt as of 30 September 2023. Taicang City and Suzhou City is a well-developed city in Jiangsu Province with strong

economic strengths and good financial environment. As the largest SOE in Taicang City, the Company is expected to maintain good access to both bank borrowing and debt capital market which thereby relieve the pressure of capital expenditure.

### **Certain level of contingent risks**

TCSI's contingent risk is controllable as the total amount of external guarantees accounted for a limited proportion of its net assets and most of the guarantees are provided to the SOEs within Taicang City. As of 30 September 2023, the total amount of external guarantees was approximately RMB2.3 billion, representing 6.6% of its net assets. There were around RMB1.2 billion in guarantees provided to private-owned enterprises, part of whose equity is held by the Company. The remaining part of the guarantees were provided to local SOEs. We believe that the credit risk of the guarantee could be partially relieved by the local government's support to some of these local SOEs in times of need. Meanwhile, TCSI has two subsidiaries engaged in guarantee business with a total balance on guarantee of RMB1.8 billion as of 30 September 2023, accounting for around 5.1% of its net assets.

### **ESG Considerations**

TCSI faces environmental risks because it has undertaken construction business. 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.

TCSI bears social risks as it implements public policy initiatives by building public infrastructure in Taicang 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.

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

### **Structural Consideration**

TCSI'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 Taicang City, 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 \(July 2022\)](#).



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