

Credit Opinion

12 November 2024

Ratings

Senior Unsecured
Debt Rating BBB_g

Long-Term Credit
Rating BBB_g

Outlook Stable

Category Corporate

Domicile China

Rating Type Solicited Rating

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Tianchang City Investment Holding Group Co., Ltd.

Update of restated financial information

CCXAP affirms Tianchang City Investment Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Tianchang City Investment Holding Group Co., Ltd. ("TCCI" or the "Company") reflects Tianchang City Government's (1) strong capacity to provide support based on our assessment; and (2) extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Tianchang City Government's capacity to provide support reflects that Tianchang City's economic importance in Chuzhou City, with ongoing economic and fiscal growth. Its gross regional production ("GRP") ranked first among all counties/districts in Chuzhou City and Anhui Province.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) the most important state-owned asset operation entity with the largest asset scale in Tianchang City; and (2) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) increased contingent liabilities risk.

The stable outlook on TCCI's rating reflects our expectation that Tianchang City Government's capacity to provide support will remain stable, and the Company will maintain its role as the most important state-owned asset operation entity in Tianchang City over the next 12-18 months.

Rating Drivers

- The most important state-owned asset operation entity with the largest asset scale in Tianchang City
- Medium exposure to commercial activities
- Good track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Good access to funding channels
- Increased contingent liabilities risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Tianchang City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the Tianchang City 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 strategic significance, decrease in government support or higher exposure to risky commercial activities.

Key Indicators

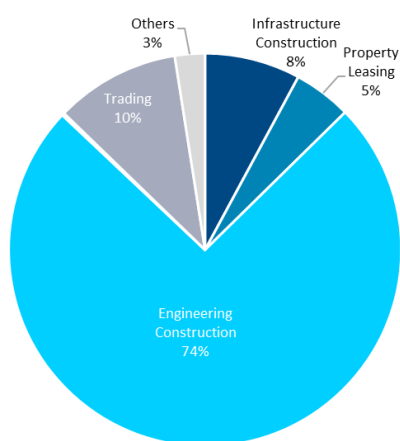
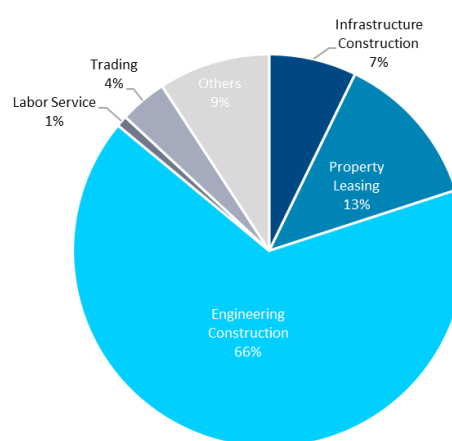
	2021FY (restated)	2022FY (restated)	2023FY
Total Asset (RMB billion)	30.5	39.8	46.1
Total Equity (RMB billion)	14.6	20.8	24.8
Total Revenue (RMB billion)	2.2	2.9	2.5
Total Debt/Total Capital (%)	46.2	43.9	43.9

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

Source: Company information, CCXAP research

Corporate Profile

Established in 2021, TCCI is the most important and largest state-owned assets operation entity by total assets in Tianchang City, mainly responsible for the engineering construction in Tianchang City. The Company also engages in diversified commercial activities, including trading, property leasing and fund operation. As of 31 December 2023, the State-owned Assets Supervision and Administration Commission of Tianchang City Government ("Tianchang SASAC"), the ultimate controller of TCCI, directly held 100% of its shares.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Tianchang City Government has a strong capacity to provide support given its economic importance in Chuzhou City, with ongoing economic and fiscal growth.

Located in the eastern part of Anhui Province, Chuzhou City is the central city of Nanjing Metropolitan Circle and Hefei Economic Circle. Chuzhou City has relatively good economic and fiscal strengths, ranking first-tier among all prefecture-level cities in Anhui Province. It has 10 development zones and actively develops eight industrial lines, including photovoltaics, semiconductors, equipment manufacturing, new energy batteries, medical equipment, smart home appliances, new chemicals, healthy food industry. In 2023, its GRP increased to RMB378.2 billion, with a year-over-year ("YoY") growth rate of 6.4%, ranking third by GRP among all prefecture-level cities in Anhui Province and growing faster than the provincial average level. The general budgetary revenue of Chuzhou Municipal Government also increased to RMB29.8 billion in 2023. Chuzhou Municipal Government's fiscal balance is moderate but improving, with the ratio of general budgetary revenue to general budgetary expenditure being 55.9% in 2023. However, Chuzhou Municipal Government's debt profile is relatively weak. As of end-2023, its government debt balance amounted to RMB129.0 billion, accounting for 34.1% of GRP.

Exhibit 3. Key economic and fiscal indicators of Chuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	336.2	361.0	378.2
GRP Growth (%)	9.9	5.5	6.4
General Budgetary Revenue (RMB billion)	25.1	27.7	29.8
General Budgetary Expenditure (RMB billion)	46.2	50.6	53.4
Local Government Debt (RMB billion)	86.9	105.9	129.0

Source: Statistics Bureau of Chuzhou City, CCXAP research

Tianchang City is a county-level city under the administration of Chuzhou City with a good geographical location and convenient transportation network as an important satellite city of the Nanjing Metropolitan Circle. It has developed three leading industries, which are new energy, alloy materials, and instrument cables industry, and three potential industries, which are green food, medical supplies and equipment, and electronic information

industry. Supported by its industrial development, Tianchang City maintained ongoing economic growth. In 2023, the GRP of Tianchang City was RMB70.1 billion, an increase of 3.1% YoY, ranking first in Chuzhou City over the past three years. The general budgetary revenue of Tianchang City Government increased to RMB5.1 billion in 2023. However, Tianchang City Government's fiscal balance is moderate, with the general budgetary revenue/general budgetary expenditure ratio of 66.3% in 2023. As of 31 December 2023, the outstanding debt of the Tianchang City Government amounted to RMB14.9 billion, accounting for 21.2% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Tianchang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	62.3	68.6	70.1
GRP Growth (%)	11.0	7.3	3.1
General Budgetary Revenue (RMB billion)	4.4	4.7	5.1
General Budgetary Expenditure (RMB billion)	7.0	7.4	7.6
Local Government Debt (RMB billion)	9.2	11.7	14.9

Source: Statistics Bureau of Tianchang City, CCXAP research

Government's Willingness to Provide Support

The most important state-owned asset operation entity with the largest asset scale in Tianchang City

In 2023, the Tianchang City Government transferred Tianchang Technology Industrial Development Co., Ltd. ("TTID") out of the Company and injected Tianchang Cultural Tourism Investment Holding (Group) Co., Ltd. ("TCTI") into the Company. After the asset integration, the Company will not be responsible for the infrastructure construction of Chuzhou Hi-tech Zone, and broaden its business scope to the construction and operation of cultural tourism projects. We expect the Company's position as the most important state-owned asset operation entity in Tianchang City would not change, given its asset size and contributions to local economic and social development.

TCCI continues to carry out engineering construction projects through open bidding in Tianchang City, excluding Chuzhou High-Tech Zone. As of 31 December 2023, the total planned investment and uninvested amount of key engineering construction projects under construction were RMB10.7 billion and RMB5.2 billion. Meanwhile, there were several projects under planning, with a total planned investment of RMB1.2 billion. Large amount of projects under construction or planning will promise the sustainability of the engineering construction business.

Medium exposure to commercial activities

TCCI's major commercial activities include trading, property leasing, and fund operations. Based on our assessment, TCCI's exposure to commercial activities is medium with assets accounting for less than 30% of total assets.

TCCI mainly engages in the sale of gas and building materials. Revenue from trading decreased to RMB260.1 million in 2023 from RMB302.3 million in 2022 due to the transfer out of the trading entity of building materials. At present, the Company focuses on sale of gas, which is a franchise business with little competition in the local area. We expect the sale of gas business will provide stable income to the Company.

TCCI also continues to conduct property leasing business to generate supplementary revenue. The major rental properties are buildings, standardized factories and shops, which are mainly transferred by the local government. In 2023, the rental income increased significantly to RMB120.6 million, due to rent reduction in 2022.

Besides, the Company used to conduct labor service through subsidiary. However, after the asset integration, the Company will not conduct this business in the future. Its revenue in this sector was RMB242.5 million in 2022 and RMB507.5 million in 2023.

The Company newly engaged in fund operation in 2023. As of 31 December 2023, TCCI had set up 4 industrial funds, with paid-in capital of around RMB316 million. However, this business is susceptible to local industrial development and hence is subject to certain investment risk.

Increasing debt burden and moderate asset liquidity

The Company's total debt increased to RMB19.5 billion at end-2023 from RMB16.3 billion at end-2022 due to the continuous investment in construction projects. Besides, TCCI's total capitalization ratio remained at 43.9% at end-2023. However, although the Company's debt maturity structure has improved as seen by the reduction of short-term debt proportion to 14.7%, it still faces certain short-term debt repayment pressure as its cash to short-term debt ratio was at a relatively low level of 0.7x at end-2023. Due to the large uninvested amount of construction projects, we estimate the Company would continue to rely on external financing such as bank loans and bond issuance and its total debt would further increase over the next 12-18 months.

TCCI's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, other receivables and work-in-progress, accounting for around 63% of its total assets as of 31 December 2023, all with relatively low liquidity. The inventories and work-in-progress are mostly the development costs of construction projects, and the other receivables are mainly uncollected payments from the local government and other state-owned enterprises. However, the Company has cash reserves of RMB2.0 billion at end-2023 to support its daily operations and debt repayment. Besides, the Company has certain amounts of investment properties, which can generate supplementary revenue and stable cash flow to TCCI.

Good track record of receiving government support

The Company and its subsidiaries have a good track record of receiving support from the Tianchang City Government, including equity transfers, operating subsidies, as well as capital injections. In 2023, local government transferred TCTI into the Company. Besides, in 2022, the Company received capital injection of RMB440 million from the local government, which further strengthened TCCI's capital strength.

Good access to funding channels

TCCI has good access to financing channels from banks, the domestic bond market and non-standard debts, with bank loans accounting for the majority of total debt. The Company maintains good relationships with domestic banks such as Agricultural Development Bank of China, China Development Bank and Huishang Bank. As of 30 June 2024, the Company had a total credit facility of RMB25.0 billion, with the available credit facility of RMB7.9 billion. Tianchang Urban Development (Group) Co., Ltd, TCCI's subsidiary, has issued two bonds on the onshore bond market, raising about RMB1.0 billion. In addition, the Company's exposure to non-standard financing has reduced, accounting for less than 10% of its total debt, leading to lower financing cost for the Company.

Increased contingent liabilities risk

The Company's external guarantees is RMB6.9 billion as of end-2023, accounting for 27.9% of its net assets. However, all the external guarantees are provided to the state-owned enterprises in Tianchang City. In case a

credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

ESG Considerations

TCCI faces environmental risks because it has undertaken major engineering 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.

The Company bears social risks as it implements public policy initiatives by undertaking engineering construction projects in Tianchang 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.

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

Structural considerations

TCCI'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 key roles in the development of Tianchang 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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