

Credit Opinion

27 November 2024

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

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Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd.

Surveillance credit rating report

CCXAP affirms Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd. ("TXSI" or the "Company") reflects the local government's strong capacity to provide support and very high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Xinghua City Government's capacity to provide support reflects Xinghua City's relatively good comprehensive strength, with stable economic and fiscal growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) status as the most important urban construction and state-owned assets operator in Xinghua City, with important regional status and functional positioning; (2) relatively large reserves in infrastructure construction and affordable housing projects under construction; and (3) good track record of receiving support from the local government.

However, the rating is constrained by the Company's (1) increasing exposure to commercial activities; (2) fast debt growth and moderate asset liquidity; and (3) moderate exposure to external guarantees.

The stable outlook on TXSI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its most important position in public-related activities in Xinghua City.

Rating Drivers

- Most important role in urban development and operation in Xinghua City, with large project reserves
- Increasing exposure to commercial activities
- Good track record of receiving government support
- Fast debt growth and moderate asset liquidity
- Access to different funding channels
- Moderate exposure to external guarantees

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a material reduction in the importance of its policy role or government support.

Key Indicators

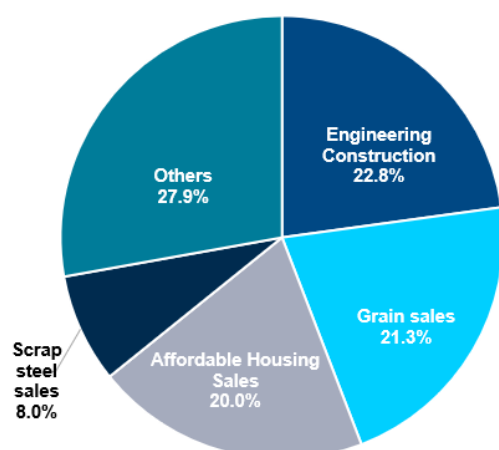
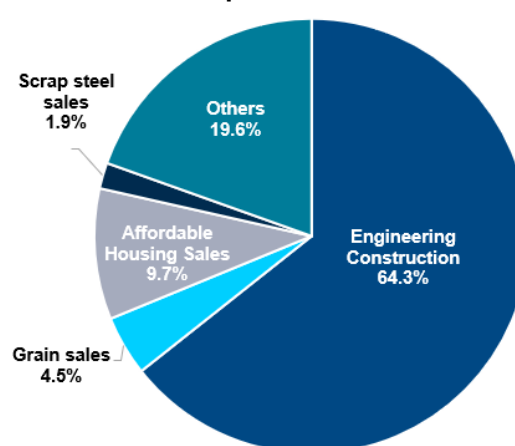
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	82.6	90.2	98.8
Total Equity (RMB billion)	29.8	32.2	32.4
Total Revenue (RMB billion)	4.3	6.0	5.6
Total Debt/Total Capital (%)	62.0	61.8	65.0

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2016, TXSI is the most important and largest construction and operation entity in Xinghua City, Taizhou City. As the main operator and developer in Xinghua City, the Company plays important roles in public activities, including grain sales and storage, project construction, affordable housing sales, water-related business and public transportation services. In addition, the Company also undertakes commercial activities such as trading and leasing businesses. As of 31 December 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Office of Xinghua City Government ("Xinghua SASAO").

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 Xinghua City Government has a strong capacity to provide support, based on its relatively good comprehensive strength, with stable economic and fiscal growth.

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 2023, Jiangsu Province's total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP of the same period was RMB150,487, ranking first among all provinces in the country. In the first half of 2024, Jiangsu Province achieved a GRP of RMB6.3 trillion with a YoY increase of 5.8%.

Taizhou City is a prefecture-level city located in the central region of Jiangsu Province, with pharmaceutical, electric, chemical, and shipbuilding as its pillar industries. In 2023, Taizhou City's fixed asset investment achieved nearly double-digit growth owing to the contribution of industrial investment and large-scale project investment. With the vigorous development of the industrial sector, Taizhou City has achieved sustained economic growth. In 2023, the GRP of Taizhou City was RMB673.2 billion, representing a YoY increase of 6.8%. Taizhou Municipal Government's general budgetary revenue increased from RMB42.0 billion in 2021 to RMB44.0 billion in 2023. Taizhou City also has a good fiscal balance, with a fiscal balance ratio averaging 70% for the past three years. As of the end of 2023, the outstanding debt of Taizhou Municipal Government increased to RMB107.1 billion, accounting for 15.9% of the GRP. In the first three quarters of 2024, Taizhou City's GRP reached RMB514.5 billion with a YoY increase of 5.0%.

Exhibit 3. Key economic and fiscal indicators of Taizhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	602.5	640.2	673.2
GRP Growth (%)	10.1	4.4	6.8
General Budgetary Revenue (RMB billion)	42.0	41.7	44.0
General Budgetary Expenditure (RMB billion)	66.8	69.7	69.7
Local Government Debt (RMB billion)	96.6	100.1	107.1

Source: Taizhou Municipal Government, CCXAP research

Xinghua City is a county-level city under the jurisdiction of Taizhou City and one of the top 100 counties in China according to the *2023 Study on High Quality Development Index for Small and Medium-sized Cities in China*. It has three leading industries including stainless steel, health food, and high-end equipment. Benefited by the ongoing development of its three pillar industries, Xinghua City achieves steady economic growth. In 2023, Xinghua City achieved a GRP of RMB115.5 billion with a YoY growth of 7.3%. The general budgetary revenue of the Xinghua City Government also demonstrated an increasing trend over the past three years, reaching RMB5.1 billion in 2023. However, Xinghua City has a relatively weak fiscal balance, with an average fiscal balance rate of 37.8% over the past three years. The local government relies on subsidies from higher level government and government fund income to achieve balance. As of end-2023, Xinghua City Government's outstanding direct debt increased to RMB13.4 billion, accounting for about 11.6% of GRP. In the first three quarters of 2024, Xinghua City's GRP reached RMB86.2 billion with a YoY increase of 6.0%, ranking second in Taizhou City in terms of growth rate.

Exhibit 4. Key economic and fiscal indicators of Xinghua City

	2021FY	2022FY	2023FY
GRP (RMB billion)	102.1	108.5	115.5
GRP Growth (%)	9.5	4.3	7.3
General Budgetary Revenue (RMB billion)	4.6	4.8	5.1
General Budgetary Expenditure (RMB billion)	12.5	12.9	13.0
Local Government Debt (RMB billion)	10.7	12.4	13.4

Source: Xinghua City Government, CCXAP research

Government's Willingness to Provide Support

Most important role in urban development and operation in Xinghua City, with large project reserves

TXSI is the most important construction and operation entity in Xinghua City, with strong regional franchise advantages in various activities such as grain sales, engineering construction, water supply, and affordable housing development. The Company's main business is carried out by its three core subsidiaries, namely Xinghua Urban Construction Investment Co., Ltd. ("XUCI"), Xinghua Transportation Industry Investment Co., Ltd. ("XTII"), and Xinghua Cultural Tourism Development Co., Ltd. ("XCTD"). We believe that TXSI's strategic role in local economic development and public welfare undertakings is irreplaceable in the next 12-18 months.

The Company mainly conducts infrastructure construction projects through agency construction model. Under the agent construction model, the Company signs agreements with related government units to undertake project financing and construction. After the project is completed, the government will allocate the project settlement funds to the Company in instalments, with a 20% markup on the total cost. For projects started after 2023, the construction funds will be financed directly by the government, and the Company will recognize the construction management fee as income, at a rate of 1.5% of the construction cost. As of 31 December 2023, the Company had completed several infrastructure construction projects, mainly including the construction and upgrading projects of roads, with a total investment of RMB9.6 billion and a collected payment of RMB3.8 billion. Meanwhile, the Company had 20 key construction projects under construction, with a total estimated investment of around RMB6.8 billion and an uninvested amount of RMB2.2 billion. The projects mainly are water conservancy and rural construction projects. As of the same date, the Company had no infrastructure construction projects under planning.

In addition, the Company is the only entity engaging in affording housing construction in Xinghua City. Affordable housing is developed by TXSI itself, with its construction funds invested and construction companies are selected for construction in a market-oriented manner. Upon completion of construction, the majority of the projects are marketed to citizens who meet the specific criteria. As of 31 December 2023, the Company completed 19 key affordable housing projects with a total investment of RMB5.0 billion, around 79.0% of which were sold with collected payment of RMB3.4 billion. At the same time, there were 5 affordable housing projects under construction, with a total estimated investment of RMB4.8 billion and an uninvested amount of RMB3.4 billion; and no affordable housing projects were under planning.

Exhibit 5. Key engineering construction and affordable housing projects as of 31 December 2023

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB billion)	(RMB billion)	(RMB billion)
Projects Under Construction				
- Engineering Construction Projects	20	6.8	4.6	2.2
- Affordable Housing Projects	5	4.8	1.4	3.4
Total	25	11.6	6.0	5.6

Source: Company information, CCXAP Research

Public-related activities make recurring contributions

TXSI is engaged in the grain sales and reserve business through its subsidiary, which is the most important grain trading enterprise in Xinghua City. While participating in the market-oriented grain business in Xinghua City, the Company manages the grain circulation in the city on behalf of the Grain Bureau of Xinghua to maintain market order and price stability. The Company executes the grain reserve and rotation business on behalf of the government, and the government provides storage subsidies and purchase subsidies for the Company's grain reserve business. The grain sales business model involves the centralized procurement of high-quality, low-priced grain products, then screening and selling them to the open market through its own sales outlets or entrusted partners. The profit is made by earning the price difference. The Company's suppliers and customers of grain are relatively dispersed with low reliance on its top 5 customers and suppliers. Grain procurement is mainly concentrated in the suburbs and surrounding areas of Xinghua City, as well as farmers and other suppliers, with a small portion sourced from neighboring areas and areas outside the province. Revenue from grain sales declined in 2023 mainly due to decreases in both prices and sale volume under a fluctuated market.

Moreover, TXSI is responsible for the water supply and sewage treatment services in Xinhua City, covering the entire city. This business has a regional monopoly advantage with strong stability and sustainability. The Company also operates bus service business covering the entire Xinghua City. As of the end of 2023, the Company had a total of 415 buses, including 166 urban buses, 249 urban and rural buses; and 132 operating lines, including 29 urban lines and 103 urban and rural lines.

Increasing exposure to commercial activities

TXSI also engages in commercial activities, such as self-operated construction projects, trading, and leasing. Based on our assessment, TXSI had a medium commercial exposure with its commercial business-related assets accounted for around 15% to 20% of its total assets as of end-2023. However, as TXSI is expanding its business scope to the construction of self-operated projects, such as industrial parks and commercial housing,

we expect that the exposure of the Company's commercial business will increase in the following years when the projects are completed.

The Company has started to carry out self-operated projects. As of 31 December 2023, there were 2 key self-operated projects under construction including a factory project and a commercial housing project, with a total estimated investment of around RMB373.0 million and an uninvested amount of RMB239.0 million. The Company mainly relies on leasing or sales to achieve fund balance. However, given the moderating macroeconomic growth, this business segment may face uncertainty in terms of its future cash inflow, and the initial project capital investment brings certain capital expenditure pressure to the Company.

TXSI takes part in the asset leasing business, fostering industrial development of Xinhua City. The Company had a diverse range of leasable assets including water areas, educational projects, parks, commercial properties, and parking spaces. In 2023, the Company has recognised a rental income of RMB900.0 million. However, the recovery of account receivables was slow. As of 31 December 2023, the Company's outstanding balance of receivables from its tenants of water areas totaled RMB2.7 billion.

TXSI participates in the commodity trading business with demand-driven business model, and does not keep its inventory. Its products mainly include cement, commercial concrete, and building materials. Most of the Company's trading business customers are large state-owned enterprises in the Jiangsu Province, which reduces the operating risk of the trading business to a certain extent. Since 2023, the Company expanded its business scope to scrap steel. The upstream suppliers are mostly individual industrial companies, and the downstream customers are foundries with scrap steel usage qualifications. The Company purchases inventory from upstream suppliers after receiving the purchase payment from downstream in order to reduce the occupation of the Company's funds.

Good track record of receiving government support

TXSI has a good track record of receiving support from the local government in terms of equity and asset injections, financial subsidies, and project payments, significantly increasing its capital reserves. In 2023, the local government transferred its holding and assets of Jiangsu Xingtai Expressway Co., Ltd. to the Company without compensation. From 2021 to 2023, the Company received ongoing financial subsidies totaling RMB5.3 billion from the local government, supporting its operation. In addition, as of 31 December 2023, the Company has received a total of RMB3.1 billion in completed infrastructure construction projects, covering around 57.4% of the investment. Considering TXSI's strong policy role and important position in Xinhua City, we expect the Company will continue to receive government support over the next 12 to 18 months.

Fast debt growth and moderate asset liquidity

Due to the merger of subsidiaries and the financing of construction projects, TXSI's total debt increased rapidly over the past three years. In 2023, the Company also reported fast debt growth owing to its infrastructure construction and self-operated projects, with a relatively high portion of short-term debt. The Company's total debt increased from RMB52.0 billion at end-2022 to RMB60.1 billion at end-2023. Its total capitalization ratio maintained a relatively high level at 65.0% at end-2023. Meanwhile, the short-term debt remained a relatively large portion of total debt, accounting for 45.8% as of 31 December 2023. At the same time, the cash to short-term debt ratio maintained at 0.1x at end-2023, indicating that its cash balance was insufficient to cover its short-term debt. Given its large capital needs from construction projects, we expect the debt leverage of the Company to remain at a relatively high level in the next 12 to 18 months.

TXSI maintained relatively weak asset liquidity. The Company's assets mainly consisted of inventories, receivables, and intangible assets, accounting for 67.1% of total assets at end-2023. Inventories were mainly development costs for infrastructure construction and lands. Other receivables were mostly payment receivables from the local government or other local state-owned companies. Intangible assets included aquaculture contracting rights, land use rights, and franchise rights for public parking spaces in Xinghua City. The relatively high proportion of illiquid assets may cause capital occupation to the Company. Furthermore, the Company's pledged assets amounted to RMB9.9 billion, accounting for 10.0% of total assets.

Access to different funding channels

TXSI mainly relies on bank borrowing to meet its capital expenditure needs, accounting for more than half of the total debt at end-2023. The Company has maintained a good relationship with various large domestic banks, including Agricultural Development Bank of China, China CITIC Bank Corporation Limited, and Bank of Jiangsu Co., Ltd., having sufficient stand-by liquidity. As of 30 June 2024, the Company obtained total credit facilities from banks of RMB56.8 billion and available credit facilities of RMB15.6 billion. Furthermore, TXSI has a proven track record of financing from the debt capital market. The Company and its subsidiaries, XUCI and XTII, are active in issuing different financial products in the domestic bond market, including commercial papers, MTNs, PPNs and corporate bonds. From 2023 to October 2024, the Company and its subsidiaries raised funds of RMB16.8 billion via several tranches of onshore bonds. For instance, the Company issued a 7-month PPN to raise RMB340.0 million with a coupon rate of 2.5% in October 2024. Besides, the Company decreased its exposure to non-standard financing, accounting for around 7.8% of total debt at end-2023.

Moderate exposure to external guarantees

TXSI has a moderate exposure to contingent liabilities as its external guarantees increased to RMB6.8 billion at end-2023 from RMB4.1 billion at end-2022, accounting for 21.0% of net assets. All of the external guarantees were provided to local state-owned enterprises. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks, which are negative to its credit quality. However, we estimate the contingent risk would be controllable, as most of these local state-owned enterprises are likely to be supported by the local government when necessary.

ESG Considerations

TXSI is exposed to environmental risks because it has undertaken the engineering construction business. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, as well as close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Xinghua City. Demographic changes, public awareness and social priorities shape the government's target for TXSI, or affect its propensity to support the Company.

In terms of corporate governance, TXSI has established a sound and effective internal control framework, and has also set up a corporate governance structure, with the shareholders, directors, supervisors, senior management teams and internal departments performing their duties collectively and efficiently. The Company is subject to oversight and reporting requirements to Xinghua SASAO, which has full control and supervision of the Company's operation.

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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