CCXAP assigns first-time long-term credit rating of BBB_g to Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd., with stable outlook.

Hong Kong, 24 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first time long-term credit rating of BBB_g to Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd. ("TXSI" or the "Company"), with stable outlook.

The BBB_g long-term credit rating of TXSI reflects its strategic importance in Xinghua City as well as the local government's strong capacity to provide support and extremely 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 support, which is based on the Company's (1) most important role in public-related activities in Xinghua City; (2) track record of receiving support; and (3) good access to funding. However, the rating is constrained by the Company's (1) high capital expenditure pressure associated with large project reserves; (2) relatively high short-term debt pressure; and (3) weak asset liquidity.

Corporate Profile

Established in 2016, TXSI is the most important construction and operation entity in Xinghua City, Taizhou City. As the main operator and developer in Xinghua City, the Company plays important roles in businesses, including grain sales, engineering construction, affordable housing sales as well as water and public transportation services business. In addition, the Company also undertakes commercial activities such as trading and leasing businesses. As of 31 December 2022, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Office of Xinghua Municipal Government ("Xinghua SASAO").

Rating Rationale

Credit Strengths

Most important role in various activities in Xinghua City. 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.

Track record of receiving support. TXSI has a track record of receiving support from the local government in terms of cash injections, asset injections, and financial subsidies. Since 2020, the Company has been transferred large amounts of assets, real properties, and equity interests of state-owned enterprises, significantly increasing its capital reserves.

Good access to funding. TXSI has sufficient stand-by liquidity and diversified funding channels. At present, the Company mainly obtains funds from bank financing. Furthermore, TXSI has a proven track record of financing from onshore debt markets.

Credit Challenges

High capital expenditure pressure associated with large project reserves. TXSI's engineering construction and affordable housing business is sustainable given its large project reserves. However, the proposed project is expected to commence in 2023, indicating the Company has large capital expenditure pressure.

Relatively high short-term debt pressure and weak asset liquidity. Due to the merger of subsidiaries and the financing of construction projects, TXSI's total debt increased rapidly in the past three years, with a relatively high portion of short-term debt. Given 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's asset liquidity was relatively weak, and its assets mainly consisted of inventories and other receivables.

Rating Outlook

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.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as a material reduction in debt burden or improved asset liquidity.

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 reduction in the importance of its policy role or government support.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies (July 2022)].

Regulatory Disclosures

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng
Senior Credit Analyst
+852-2860 7133
olivia_feng@ccxap.com

Elle Hu
Executive Director of Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656