

CCXAP affirms the long-term credit rating of Taixing City Investment Development Group Co., Ltd. at BBB_g, with stable outlook.

Hong Kong, 16 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed long-term credit rating of Taixing City Investment Development Group Co., Ltd. (“TXCI” or the “Company”) at BBB_g, with stable outlook.

The BBB_g long-term credit rating of TXCI reflects Taixing City Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Taixing City Government’s capacity to provide support reflects Taixing City’s relatively good comprehensive strength, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important policy roles in public-related activities in Taixing City; (2) track record of receiving government support; and (3) good access to diversified funding sources. However, the rating is constrained by the Company’s (1) moderate exposure to commercial business activities; (2) moderate debt management and weak asset liquidity; and (3) high exposure to contingent liabilities.

Corporate Profile

Established in 2019, TXCI is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Taixing City, Taizhou City. As the main operator and developer in Taixing City, the Company plays important roles in public-related businesses, including infrastructure construction, land consolidation, water supply, and affordable housing businesses. In addition, the Company also undertakes commercial activities such as construction contracting and real estate development. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Office of People’s Government of Taixing City (“Taixing SASAO”).

Rating Rationale

Credit Strengths

Important policy role in public-related activities in Taixing City. TXCI is the primary state-owned assets operation entity in Taixing City, with strong regional franchise advantages in various public-related activities such as infrastructure construction, land consolidation, water supply, and affordable housing development. As of 31 December 2022, the Company had completed key infrastructure construction projects with total investment of around RMB463.8 million, which significantly benefits people’s livelihood and promotes the urbanization development in Taixing City.

Track record of receiving government support. TXCI has a track record of receiving support from the local government in terms of cash injections, asset injections and financial subsidies. Since its establishment, TXCI has received cash and asset injections such as equity shares

and buildings from the local government, which has greatly improved its capital strength and increased operating assets. Considering TXCI's important position and tight relationship with the local government, we expect the local government will continue to support TXCI over the next 12 to 18 months.

Good access to diversified funding sources. TXCI has sufficient stand-by liquidity and diversified funding channels, including bank loans, bond issuances, and non-standard financing products. As of 30 September 2023, the Company's total credit facilities amounted to around RMB26.0 billion. Furthermore, TXCI has a proven track record of financing from both onshore and offshore debt markets. In addition, the Company maintained a manageable exposure to non-standard financing, accounting for less than 15% of its total debt as of 30 June 2023.

Credit Challenges

Moderate exposure to commercial business activities. TXCI also has been engaged in commercial activities, mainly including construction contracting and real estate development. Although the commercial activities generate supplementary revenue and profit for the Company, they may also pose certain operating risk to the company. We estimate that TXCI had moderate commercial exposure, accounting for 15% to 20% of its total assets.

Moderate debt management and weak asset liquidity. Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. As of mid-2023, its total debt increased to RMB38.5 billion from RMB31.4 billion as of mid-2022, while its total capitalization ratio increased to 58.4% from 53.6% during the same period. In addition, TXCI's asset liquidity was relatively weak, with a large number of inventories and other receivables.

High exposure to contingent liabilities. TXCI remained high exposure to contingent liabilities as its external guarantees amounted to RMB13.5 billion as of 30 September 2023, relative to 49.2% of total equity. The Company reduced the external guarantees provided to privately-owned enterprises and all existing external guarantees were provided to other state-owned enterprises in Taixing City. However, 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.

Rating Outlook

The stable outlook on TXCI's rating reflects our expectation that Taixing City Government's capacity to provide support will remain stable, and the Company will maintain its important position in public-related activities in Taixing City in the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Taixing City 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 a material reduction in external guarantees or improved debt management.



What could downgrade the rating?

The rating could be downgraded if (1) Taixing City 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 importance of its policy role or deteriorated debt management.

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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