

CCXAP assigns first-time long-term credit rating of BBB_g to Tai'an Taishan Holding Co., Ltd., with stable outlook.

Hong Kong, 30 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Tai'an Taishan Holding Co., Ltd. (“TSHC” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of TSHC reflects Tai'an Municipal Government's (1) very strong capacity to provide support, and (2) 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 Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength but moderate fiscal metrics. Tai'an Hi-tech Industrial Development Zone (“Tai'an HIDZ”) is a national-level Hi-tech Industrial Development Zone and plays an important role in industrial development and the transformation of growth drivers of Tai'an City.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) important role in local infrastructure construction and resettlement housing development in the Tai'an HIDZ; and (2) good track record of receiving support from the local government and its parent company. However, the rating is constrained by its (1) high exposure to commercial activities especially in property development; (2) relatively large short-term debt burden; (3) funding channels which are highly concentrated on regional banks with limited liquidity standby; and (4) medium contingent liabilities risk from external guarantees.

Corporate Profile

Established in 2008, TSHC is one of the major local infrastructure investment and financing companies (“LIIFCs”) in Tai'an City, mainly responsible for the investment, construction, and operation of Tai'an HIDZ. It is mainly responsible for the infrastructure construction, resettlement housing development, and heat supply in Tai'an HIDZ. Meanwhile, the Company is engaging in commercial activities including the construction and operation of industrial parks, property sales, financial investment, leasing, as well as trading. In March 2023, the management committee of Tai'an HIDZ transferred 100% of the equity it held in TSHC to Tai'an High Tech Construction Group Co., Ltd. (“THTC”). Meanwhile, the registered capital of TSHC was increased to around RMB1.6 billion from RMB1.3 billion. As of 31 December 2023, the State-owned Assets Supervision and Administration Commission of Tai'an Municipal People's Government (“Tai'an SASAC”) was the ultimate controller of the Company and held all its shares through THTC.

Rating Rationale

Credit Strengths

Important role in local infrastructure construction and resettlement housing development of Tai'an HIDZ. TSHC's parent company THTC is an important state-owned asset management entity in Tai'an City and mainly responsible for the investment, construction,



and operation of Tai'an HIDZ. As the most important subsidiary of THTC, TSHC is mainly engaged in infrastructure construction, resettlement housing development and heat supply in Tai'an HIDZ. The Company has a clear functional positioning and strong regional specialization in public-oriented business.

Good track record of receiving support from the local government and its parent company. TSHC has a good track record of receiving support from the local government and its parent company, THTC, including equity transfer, capital injection, financial subsidies, and debt waive. We believe that TSHC will receive ongoing support from the local government and its parent company THTC, given its important position in local economic and industrial development.

Credit Challenges

High exposure to commercial activities especially in property development. TSHC is also engaged in diversified commercial activities, such as industrial park construction and operation, property sales, financial investment, leasing, as well as trading. We consider the Company's exposure to commercial businesses high, especially exposure to property development during the downturn of China's real estate market.

Relatively large short-term debt burden. The Company demonstrated relatively high debt burden over the past three years due to the investment in infrastructure construction projects and self-operated projects. Moreover, the Company still bears relatively large short-term debt burden. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its debt burden would increase over the next 12-18 months. In addition, TSHC's asset liquidity was relatively weak. The Company provides money-lending to private-owned enterprises in Tai'an HIDZ. Considering that majority of the private-owned enterprises is in financial distress and has tight liquidity, we estimate the Company bears large recovery risk.

High concentration on regional banks with limit liquidity standby. TSHC has access to different financing channels such as bank loans, bond issuance and non-standard financing products. Bank loans and bond issuance are the major financing channels of TSHC. However, the Company's bank loans have high concentration on regional banks, especially in Bank of Tai'an. Moreover, the Company's liquidity standby is limited, which would affect its financial flexibility. In addition, TSHC has a relatively large exposure to non-standard financing products.

Medium risk of contingent liabilities from external guarantees. The Company bears medium exposure to contingent risk given its relatively large number of external guarantees. The majority of external guarantees was provided to local state-owned enterprises. At the same time, the Company also provided external guarantees to private-owned enterprises with total amount of RMB197 million. However, the Company provided external guarantees to other private-owned enterprises which incurred compensations in the past.

Rating Outlook

The stable outlook on TSHC's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Tai'an HIDZ, over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as increased strategic significance, reduced exposure to risky commercial activities or improved debt management and financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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, deteriorated debt management or weakened financing ability.

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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