CCXAP upgrades Taizhou Huaxin Pharmaceutical Investment Co., Ltd.’s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 13 June, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd. (“Huaxin” or the “Company”) to BBB_g+ from BBB_g, reflecting the improved comprehensive strength of Taizhou City, the good development prospect of Taizhou Medical High-Tech Industrial Development Zone (Gaogang Zone) (“Taizhou Medical Zone”), and Huaxin's good track record of receiving government supports.

The BBB_g+ long-term credit rating of Huaxin reflects Taizhou 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 Taizhou Municipal Government’s capacity to provide support reflects its good industrial base and ongoing economic growth.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) important policy role in Taizhou Medical Zone and Taizhou City; and (2) good track record of receiving government supports. However, the rating is constrained by its (1) high exposure to commercial activities; (2) high debt leverage and weak asset liquidity; and (3) large exposure to external guarantees with contingent liability risks.

Corporate Profile

Founded in 2005, Huaxin is one of the most important local infrastructure investment and financing companies (“LIIFCs”) in Taizhou Medical Zone in Jiangsu Province, undertaking infrastructure and resettlement housing construction and land development in the core area of the former Taizhou Pharmaceutical High-tech Zone. The Company is also engaged in sales of pharmaceutical and industrial products, sales of properties, and property leasing in Taizhou Medical Zone, which is crucial to the investment attraction and industrial development in the region. In July 2023, to optimize the layout and structure of state-owned capital, Taizhou Municipal Government transferred its 99.45% stake in Huaxin to the Taizhou Guotou Investment Group Co., Ltd. (“TZGI”), which is fully owned by the Taizhou State-owned Assets Supervision and Administration Commission (“Taizhou SASAC”), and the Company’s ultimate controller, Taizhou Municipal Government, remained unchanged. In December 2023, Taizhou Municipal Government increased the Huaxin's paid-in capital by RMB1.5 billion in cash through TZGI. As of 31 March 2024, TZGI owned 99.55% shares of Huaxin, and CDB Development Fund Co., Ltd. held the remaining 0.45%.

Rating Rationale

Credit Strengths

Important policy role in Taizhou Medical Zone and Taizhou City. Huaxin is one of the most important LIIFCs in Taizhou Medical Zone by assets and acts as the important policy role in developing the pharmaceutical industry on behalf of the city. Through strong shareholder background and capital strength, the Company is accordingly well positioned to be the primary developer of major projects within Taizhou Medical Zone. Given its important policy role and competitive position, we believe that the Company is unlikely to be replaced by other state-owned enterprises in the foreseeable future.

Good track record of receiving government supports. Huaxin has a continuous track record of receiving supports from the local government in terms of capital injections, financial subsidies, and project repayments. Given the important position of Huaxin and its close relationship with the local government, we expect the Company will continue to receive strong support from the local government over the next 12 to 18 months.

Credit Challenges

High exposure to commercial activities. Apart from public projects, Huaxin conducts diversified commercial activities covering property development, property leasing, sales and distribution of pharmaceutical products and sales of industrial products. The Company's exposure to commercial businesses is high which accounted for around 30% of its total assets, by our assessment. In addition, we expect Huaxin's commercial exposure to increase as the business expands and investments continue.

High debt leverage and weak asset liquidity. With the continuous financing of construction projects, Huaxin's debt leverage remains high, and its debt burden continues to increase. Over the next 12 to 18 months, we expect the Company to continue to rely on external financing to meet its future capital needs, and its debt leverage will remain relatively high. Huaxin's asset liquidity remains relatively weak, as its assets mainly consist of inventories, receivables, and investment properties, all of which has low liquidity

Large exposure to external guarantees, with medium contingent liability risks. Huaxin's credit profile is constrained by its large external guarantees. Nevertheless, all external guarantees are provided to state-owned enterprises in Taizhou City, which have low credit risks. Since there are no counter-guarantee measures, when a credit event occurs, the Company may face certain contingent liability risks.

Rating Outlook

The stable outlook on Huaxin's rating reflects our expectation that the local government's capacity to provide support will remain stable, and that the Company will maintain its vital position in the Taizhou Medical Zone and continue to receive ongoing government supports.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as an expanded policy role, a significant reduction in external guarantee exposure, reduced exposure to commercial activities, or improved asset liquidity and debt management.

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 a reduction in the importance of its policy role, a significant reduction in government payments, or materially 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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