

## Credit Opinion

24 November 2023

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Taizhou Xinghua State-owned Assets Investment Holding Co., Ltd. (“TXSI” or the “Company”) 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 provide 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.

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 public-related activities in Xinghua City
- Increasing exposure to commercial business activities
- Track record of receiving support
- Relatively high short-term debt pressure and weak asset liquidity
- Good access to funding
- Low exposure to contingent liabilities

## Rating Sensitivities

### 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.

## Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	62.3	82.6	90.2
Total Equity (RMB billion)	21.1	29.8	32.2
Total Revenue (RMB billion)	3.7	4.3	6.0
Total Debt/Total Capital (%)	63.7	62.0	61.8

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

Source: CCXAP research

## 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").

Exhibit 1. Revenue Structure in 2022

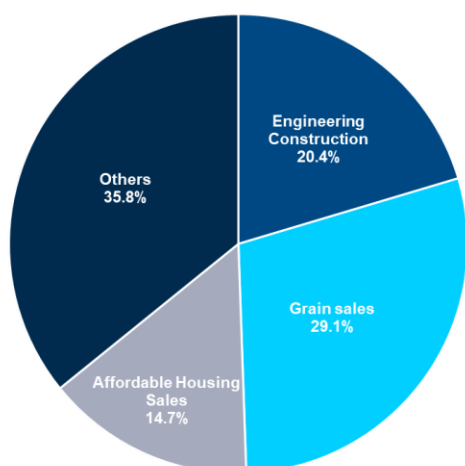
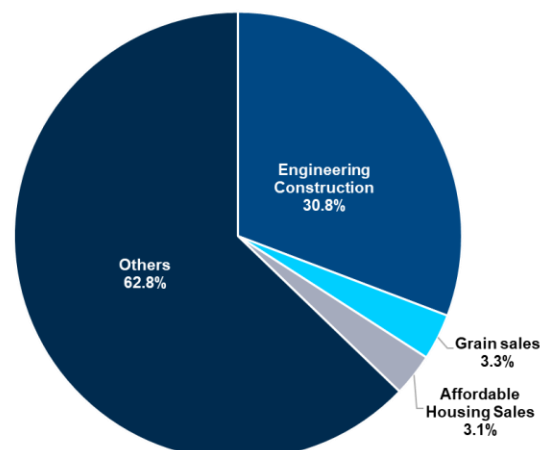


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the local government has a good capacity to provide support, based on its relatively good comprehensive strength, with stable economic and fiscal growth.

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. With the vigorous development of the industrial sector, Taizhou City has achieved sustained economic growth. In 2022, the Gross Regional Product ("GRP") of Taizhou City was RMB640.2 billion, a year-over-year ("YoY") increase of 4.4%, with GRP growth ranking 2<sup>nd</sup> in Jiangsu Province. However, affected by the tax refund policy, its general budgetary revenue decreased slightly from RMB42.0 billion in 2021 to RMB41.7 billion in 2022, with the proportion of tax income decreasing to 63.5%. Its fiscal balance is moderate, with a fiscal balance ratio averaging 60.8% for the past three years. In addition, as of end-2022, the Taizhou Municipal Government reported outstanding government debt of RMB100.1 billion, accounting for 15.6% of the GRP. In the first half of 2023, Taizhou's GRP was reported as RMB320.9 billion, with a YoY increase of 6.2%.

Exhibit 3. Key Economic and Fiscal Indicators of Taizhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	531.3	602.5	640.2
GRP Growth (%)	3.6	10.1	4.4
General Budgetary Revenue (RMB billion)	37.5	42.0	41.7
General Budgetary Expenditure (RMB billion)	62.8	66.8	69.7
Local Government Debt (RMB billion)	84.4	96.6	100.1

Source: Statistics Bureau of Taizhou City, CCXAP research

Xinghua City is a county-level city under the administration of Taizhou City and one of the top 100 counties in China according to the "China County High-Quality Development Report 2023". 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 2022, Xinghua City's GRP increased to RMB108.5 billion from RMB90.1 billion in 2020, with an average annual increase rate of 5.6% over the past three years. The general budgetary revenue of the Xinghua City Government also demonstrated an increasing trend over the past three years, reaching RMB4.8 billion in 2022 compared with RMB4.1 billion in 2020. However, due to the pandemic and tax refund policy, the proportion of Xinghua's tax revenue has fluctuated, falling from 77.5% in 2020 to 68.7% in 2022. At the same time, Xinghua City's fiscal balance rate was relatively weak, with an average fiscal balance rate of 38.8% in the past three years. As an important contributor to the local government's comprehensive fiscal strength, Xinghua City's government fund income has fluctuated as affected by the land market. As of end-2022, Xinghua City Government's outstanding direct debt amounted to RMB12.4 billion, accounting for about 11.4% of GRP.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Xinghua City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	90.1	102.1	108.5
GRP Growth (%)	3.0	9.5	4.3
General Budgetary Revenue (RMB billion)	4.1	4.6	4.8
General Budgetary Expenditure (RMB billion)	11.5	12.5	12.9
Local Government Debt (RMB billion)	9.2	10.7	12.4

Source: Statistics Bureau of Xinghua City, CCXAP research

#### **Government's Willingness to Provide Support 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. 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").

The Company's engineering construction projects can be subdivided into two primary segments based on the nature of the participation in construction projects and the provision of services, namely engineering construction services and infrastructure construction and management. From 2020 to 2022, the Company completed 14 key engineering construction projects with a total investment of around RMB5.4 billion. As of 31 December 2022, the Company had 25 key construction projects under construction or planning, with a total estimated investment of around RMB7.2 billion and an uninvested amount of RMB3.1 billion.

Affordable housing is developed by TXSI itself, with its own 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 2022, the Company completed 17 key affordable housing projects with a total investment of RMB4.1 billion. At the same time, there were 7 affordable housing projects under construction or planning, with a total estimated investment of around RMB4.9 billion and an uninvested amount of RMB3.4 billion.

**Exhibit 5. Key Engineering Construction and Affordable Housing Projects as of 31 December 2022**

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB billion)	(RMB billion)	(RMB billion)
Projects Under Construction				
-Engineering Construction Projects	21	6.9	4.1	2.8
-Affordable Housing Projects	4	2.7	1.5	1.2
Projects Under Planning				
-Engineering Construction Projects	4	0.3	-	0.3
-Affordable Housing Projects	3	2.2	-	2.2
<b>Total</b>	<b>32</b>	<b>12.1</b>	<b>5.6</b>	<b>6.5</b>

Source: Company information, CCXAP Research

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.

**Public-related activities make a significant contribution**

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 market 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. From 2020 to 2022, the Company has purchased RMB1.8 million and sold RMB2.1 million tons of grain.

The Company's water supply and sewage treatment services scope cover the entire Xinghua City. This business has a regional monopoly advantage with strong stability and sustainability. The Company also operates a bus service business covering the entire Xinghua City. As of the end of 2022, the Company had a total of 444 buses, including 179 urban buses, 265 urban and rural buses; and 132 operating lines, including 29 urban lines and 103 urban and rural lines.

**Increasing exposure to commercial business activities**

TXSI also engages in commercial business activities, mainly including trading and leasing businesses, which generate supplementary income for the Company. We estimate that TXSI had low commercial exposure, cause its commercial business-related assets accounted for around 15% to 20% of its total assets as of end-2022. However, The Company plans to carry out the construction of self-operated projects in 2024, such as industrial parks and breeding farms. We expect that the exposure of the Company's commercial business will increase in the following years when the projects are completed.

The Company's main trading commodities include cement, commercial concrete, and building materials. TXSI adopts a demand-driven business model for its trading business, and does not keep its own inventory. It settles with suppliers and customers according to the contract agreement. 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.

The Company is also engaged in the asset leasing business, and the leased assets are diverse, including water areas, educational projects, parks, commercial properties, and parking spaces. In 2022, the Company has confirmed a rental income of RMB883.0 million.

The Company plans to build self-operated projects. As of the end of June 2023, there were 6 self-operated projects under planning. After the completion of these projects, the Company mainly relies on factory building leasing, sale, or self-operating to obtain profits. 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 will bring certain capital expenditure pressure to the Company.

### **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. In December 2021, Xinghua SASAO transferred 100% of the equity of three municipal enterprises (XUCI, XTII, and XCTD) to the Company, significantly enhancing its capital strength and business status. From 2020 to 2022, the local government injected cash and assets of RMB13.5 billion into the Company. Considering TXSI's important position, we expect it will continue to be supported over the next 12 to 18 months.

### **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. The Company's total debt increased from RMB37.0 billion at end-2020 to RMB52.0 billion at end-2022, with a total capitalization ratio of 61.8% and short-term debt accounting for 39.9% in 2022. In addition, the liquidity profile was weak with a cash to short-term debt ratio of around 0.1x at end-2022, indicating that its cash balance was insufficient to cover its 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. As of 31 December 2022, its inventories accounted for 36.4% of total assets. In addition, the Company's other receivables mainly consist of transactions with the government or other state-owned enterprises, accounting for 15.0% of total assets at end-2022. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company. Furthermore, at end-2022, the Company had pledged assets accounted for 12.7% of total assets.

### **Good access to funding**

TXSI has sufficient stand-by liquidity and diversified funding channels. At present, the Company mainly obtains funds from bank financing. As of 31 December 2022, the Company's total credit facilities amounted to around RMB30.3 billion, of which the unutilized portion was around RMB8.6 billion. They were mainly provided by diversified large domestic banks such as the Bank of China and the Industrial and Commercial Bank of China.

Furthermore, TXSI has a proven track record of financing from onshore debt markets. The Company and its subsidiary, Xinghua City Urban Construction Investment Co., Ltd. have issued different financial products in the

domestic bond market, with a total outstanding amount of RMB13.4 billion at end-2022. Besides, the Company has a moderate exposure to non-standard financing, accounting for around 10% of total debt at end-2022.

### **Low exposure to contingent liabilities**

TXSI has low exposure to contingent liabilities as its external guarantees amounted to RMB4.1 billion, relative to 12.7% of total equity at end-2022. 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 most of these local state-owned enterprises are likely to be supported when necessary, and therefore contingent risk would be controllable.

## **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.

### **Structural Consideration**

TXSI's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its most important role in public-related activities in Xinghua City, thereby mitigating any differences in an expected loss that could result from structural subordination.

### **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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