

Credit Opinion

22 December 2023

| Ratings | |
|-------------------------|------------------|
| Category | Corporate |
| Domicile | China |
| Rating Type | Solicited Rating |
| Long-Term Credit Rating | A _g + |
| Outlook | Stable |

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Wuxi Construction and Development Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g+ to Wuxi Construction and Development Investment Co., Ltd., with stable outlook.

Summary

The A_g+ long-term credit rating of Wuxi Construction and Development Investment Co., Ltd. (“WXCD” or the “Company”) reflects the Wuxi Municipal Government’s very strong capacity to provide support and its extremely 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 Wuxi City’s status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita gross regional product (“GRP”) in Jiangsu Province.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in state-owned assets operation and infrastructure construction in Wuxi City; (2) solid track record of receiving government payments; and (3) strong access to diversified financing channels.

However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities mainly including financing leasing and forest products; and (2) moderate debt management and increased financing needs.

The stable outlook on WXCD’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company’s characteristics such as essential roles in state-owned assets operation and infrastructure construction in Wuxi City, are expected to remain stable over the next 12-18 months.

Rating Drivers

- Essential role in state-owned assets operation and infrastructure construction in Wuxi City
- Medium risk exposure to commercial activities
- Solid track record of receiving government payments
- Moderate debt management and increased financing needs
- Strong access to diversified financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 materially lower exposure to commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as significantly increased exposure to risky commercial activities or deteriorated in financing abilities.

Key Indicators

| | 2020FY | 2021FY | 2022FY | 2023Q3 |
|------------------------------|--------|--------|--------|--------|
| Total Asset (RMB billion) | 68.3 | 79.0 | 87.9 | 92.4 |
| Total Equity (RMB billion) | 25.6 | 26.3 | 27.9 | 30.9 |
| Total Revenue (RMB billion) | 4.0 | 4.3 | 4.4 | 3.4 |
| Total Debt/Total Capital (%) | 55.6 | 60.4 | 62.5 | 62.2 |

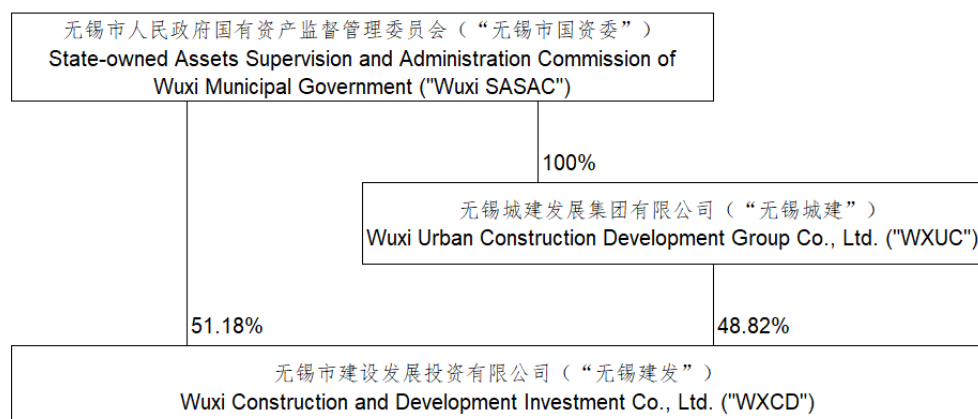
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

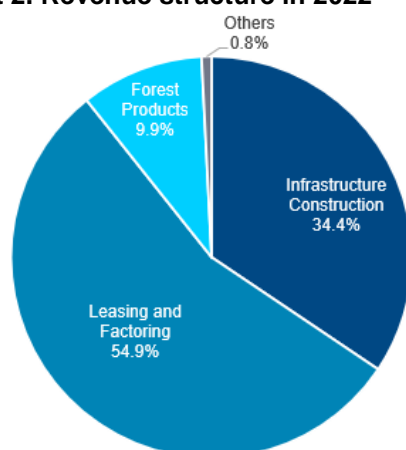
Established in June 1991, WXCD is a large state-owned enterprise in terms of assets for investment and urban operation in Wuxi municipal. In January 2022, the State-owned Assets Supervision and Administration Commission of Wuxi Municipal Government ("Wuxi SASAC") transferred 49% of its equity interest in the Company to Wuxi Urban Construction Development Group Co., Ltd. ("WXUC"), which is wholly owned by Wuxi SASAC. As of 30 September 2023, the Wuxi SASAC and WXUC held 51.18% and 48.82% stake of the Company respectively, and Wuxi SASAC's status as the ultimate owner and controller remained unchanged. The Company mainly undertakes the construction of urban infrastructure projects such as roads, water conservancy and environmental greening. Meanwhile, the Company is also engaged in other commercial activities including financial leasing, commercial factoring and production and sales of forest products.

Exhibit 1. Shareholding chart as of 30 September 2023



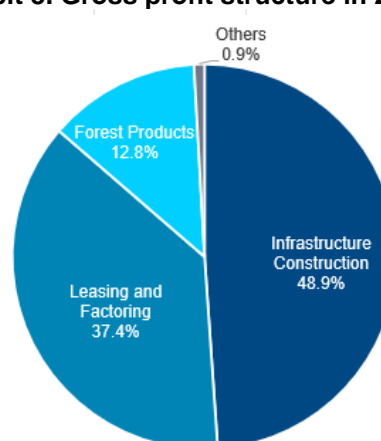
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Wuxi Municipal Government has a very strong capacity to provide support to the Company, given its status as a prefectural-level city with strong economic fundamentals and fiscal profile. It also has a high per capita GRP of RMB 198,404 in Jiangsu Province.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemicals, and textile enterprises, and is the second largest province in China by GRP, after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country. In the first three quarters of 2023, Jiangsu Province achieved GRP of RMB9.3 trillion with a YoY increase of 5.8%.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2022, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 3.0%. Wuxi

City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry, which support the economic development and fiscal strength of the city. Wuxi City's fiscal profile is characterized by high fiscal sufficiency and a strong revenue-generating ability. During the past three years, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of above 80%. As of 31 December 2022, the local government's outstanding debt amounted to RMB187.4 billion, accounting for 12.6% of the GRP, which is one of the lowest among the province. In the first three quarters of 2023, Wuxi City achieved a GRP of RMB1.1 trillion with a YoY increase of 5.8%.

Exhibit 4. Key economic and fiscal indicators of Wuxi City

| | 2020FY | 2021FY | 2022FY |
|---|---------|---------|---------|
| GRP (RMB billion) | 1,237.0 | 1,400.3 | 1,485.1 |
| GRP Growth (%) | 3.7 | 8.8 | 3.0 |
| General Budgetary Revenue (RMB billion) | 107.6 | 120.1 | 113.3 |
| General Budgetary Expenditure (RMB billion) | 121.5 | 135.8 | 136.6 |
| Local Government Debt (RMB billion) | 142.1 | 160.8 | 187.4 |

Source: Statistics Bureau of Wuxi City, CCXAP research

Government's Willingness to Provide Support

Essential role in state-owned assets operation and infrastructure construction in Wuxi City

Wuxi City is one of the well-developed cities in Jiangsu Province and there are several state-owned enterprises ("SOEs") under the Wuxi Municipal Government with different positions to provide essential urban services and promote economic development. WXCD is an important entity for infrastructure construction and industrial services in Wuxi City with a large asset scale of RMB92.4 billion as of 30 September 2023. WXUC, one of WXCD's shareholders, is a comprehensive urban and rural developer and operator, mainly responsible for urban and rural construction projects, affordable housing construction and other functions in the city.

WXCD is an essential state-owned assets investment and operation and municipal infrastructure construction entity in Wuxi municipal. As of 31 March 2023, the Company had completed 132 agent construction projects with a total investment of RMB32.6 billion, including renovation, expansion and extension projects on the urban road network, as well as the comprehensive water conservancy projects, to enhance the road network system and the surrounding environment of the Wuxi City. Under the agent construction model, WXCD signs agreements with Wuxi Municipal People's Government and is responsible for the project planning, investment management, fund management, organizing construction, auditing and acceptance according to the requirements of the local government. Generally, WXCD will entrust specialized engineering units or departments to carry out the construction. The local government will pay the Company based on the construction costs plus the project management fee, which is normally equivalent to 1.0% of the construction cost.

However, with the continuous improvement of Wuxi City's municipal infrastructure, the investment in infrastructure projects has slowed down in recent years. As of 31 March 2023, the Company mainly had 2 projects under construction with a total investment of RMB5.8 billion and no projects under planning. Overall, we expect WXCD to maintain its role in undertaking infrastructure projects in Wuxi City according to the local government's planning in the next 12-18 months, given its track record of undertaking project construction and position as a large state-owned enterprise in Wuxi City.

Medium risk exposure to commercial activities

WXCD also participates in diversified commercial activities such as financing leasing, commercial factoring and forest products business. Most of these businesses are based on the construction of industrial carriers around urban services, and assisting in attracting investments in Wuxi City, which are related to public policy businesses. We estimate the Company's commercial risk is moderate, reflecting the Company's prudent measures in managing such businesses.

Under the guide of the local government, WXCD is an important state-owned enterprise providing financial services, including financial leasing business and factoring business, through its two subsidiaries, Wuxi Caitong Financial Leasing Co., Ltd. ("Caitong Leasing") and Wuxi Caixin Commercial Factoring Co., Ltd. ("Caixin Factoring"). The financial leasing business developed fast over the past three years and became the largest income contributor of the Company in 2022 along with the enlarged asset scale. The overall macroeconomic downturn has led to an increase in credit risk for some customers and a fluctuation in asset quality. The Company has been active in the collection and disposal of risky projects since 2022 and special-mentioned assets decreased to around RMB526 million, accounting for 1.7% of lease receivable. All of the special-mentioned assets related to the real estate industry have credit enhancement measures such as guarantees or pledges. Additionally, the revenue from the factoring business also increased steadily over the past three years with a high margin. From 2020 to 2022, the Company achieved commercial factoring revenue of RMB159 million, RMB226 million and RMB230 million respectively. However, Caixin Factoring's concentration is relatively high with the top five customers accounting more than 80% by the end of 2022.

WXCD has been engaging in the forestry products business through its subsidiary, Kangxin New Material Co., Ltd. ("Kangxin", stock code: 600076.SH) since 2019. Kangxin is a listed company that mainly develops high-quality wood composite materials, silviculture and high-quality seeding cultivation business. Kangxin is a leading enterprise in the industrialization of forestry industry and has developed different products. However, its leading product, container floor, has a strong cyclical nature and is susceptible to the fluctuations in international shipping market, container transportation, and manufacturing industries. In 2021, the revenue from forest products increased by 77.1% to RMB1.3 billion; while the revenue decreased by 65.7% YoY to RMB438 million in 2022.

Solid track record of receiving government payments

WXCD has a solid track record of obtaining government supports in terms of asset injection, capital injection and continuous subsidies provision. For example, in 2022, Wuxi SASAC injected cash of RMB80.0 million into the Company, materially enhancing its capital strength. From 2020 to the first quarter of 2023, the Company had received a total of around RMB182 million in subsidies. In addition, the Company has received timely project payments from the Finance Bureau of Wuxi City based on the repayment schedule. The payments for the entrusted construction projects to the Company amounted to around RMB8.7 billion during the same period.

As one of the key state-owned enterprises, WXCD plays an important role in infrastructure construction and industrial services in Wuxi City, and we expect that it will receive ongoing support from the local government in the next 12-18 months.

Moderate debt management and increased financing needs

WXCD has had rapid debt growth over the past three years mainly due to investment in commercial activities. As of 30 September 2023, the Company's total debt increased to RMB44.2 billion from RMB32.1 billion at the end of 2020. At the same time, its capitalization ratio, measured by total debt to total capital, also grew to 62.2% from 55.6% over the same period. Additionally, the Company's debt structure has improved during the past

three year, with its proportion of short-term debt decreasing to 29.2% at the end of September 2023 from 45.2% at end-2020. As the Company is expected to continue to rely primarily on external financing, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

WXCD has high-quality assets with high profitability related to equity investment and financing leasing. As of 30 September 2023, the equity investments mainly include Bank of Jiangsu Co., Ltd. and Wuxi Rural Commercial Bank Co., Ltd. In 2022, the Company received a total dividend income of RMB320.0 million from them. However, the asset liquidity is moderate with non-current assets accounting for more than 55.0% of the total assets. In addition, the Company's inventories were mainly composed of the costs of the construction project, accounting for around 22.9% of total assets.

Strong access to diversified financing channels

WXCD had a cash balance of RMB2.0 billion as of 30 September 2023, which just covered around 15.0% of its short-term debt. We expect WXCD to be able to refinance most of its short-term debt because of its status as one of the largest SOEs in Wuxi City and good access to diversified funding.

WXCD has strong banking relationships and good access to high-quality debt funding which can partially relieve the pressure on debt repayment and capital expenditure. The Company maintains good relationships with diversified large domestic banks such as the China Agricultural Development Bank, Industrial Bank Co., Ltd. and Postal Savings Bank of China Co., Ltd. As of 30 September 2023, the Company had total credit facilities of RMB31.9 billion, with an unused amount of RMB15.7 billion. The Company also has good access to both domestic and offshore debt market to meet its financing needs. For example, the Company itself issued USD300 million offshore bond in 2021 with coupon rate of 1.95%; and raised a total of RMB5.5 billion by issuing 7 tranches of onshore bonds, with the coupon rates ranging from 2.3% to 3.36%, during the first three quarters of 2023. As of 30 September 2023, the Company has manageable exposure to non-standard financing, with exposure accounting for less than 5% of total debt. As an essential urban construction entity in Wuxi City, the Company is expected to benefit from the good financial environment of the city, which is one of the well-developed cities in China with strong economic strengths and good financial environment.

ESG Considerations

WXCD faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company is also exposed to social risks as a its role of public services provider. Demographic changes, public awareness and social priorities shape government's target for WXCD, or affect the government's propensity to support the Company.

WXCD's governance considerations are also material as the Company is subject to oversight by the Wuxi City Government and must meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

Exhibit 5. Peer Comparison

| | Wuxi Urban Construction Development Group Co., Ltd. | Wuxi Construction and Development Investment Co., Ltd. |
|------------------------------|--|---|
| Long-Term Credit Rating | A _g + | A _g + |
| Shareholder | Wuxi SASAC (100%) | Wuxi SASAC (51.18%) and WXUC (48.82%) |
| Positioning | Key entity in urban and rural construction and the sole entity for affordable housing in Wuxi City | Key entity for infrastructure construction, and industrial services in Wuxi City |
| Total Asset (RMB billion) | 67.1 | 87.9 |
| Total Equity (RMB billion) | 36.5 | 27.9 |
| Total Revenue (RMB billion) | 1.8 | 4.4 |
| Total Debt/Total Capital (%) | 37.2 | 62.5 |

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: Company information, CCXAP research

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