

Credit Opinion

16 January 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Taixing City Investment Development Group Co., Ltd.

Surveillance credit rating report

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

Summary

The BBB_g long-term credit rating of Taixing City Investment Development Group Co., Ltd. (“TXCI” or the “Company”) 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.

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.

Rating Drivers

- Important policy roles in public-related activities in Taixing City
- Moderate exposure to commercial business activities
- Moderate debt management and weak asset liquidity
- Track record of receiving government support
- Good access to diversified funding sources
- High exposure to contingent liabilities

Rating Sensitivities

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.

Key Indicators

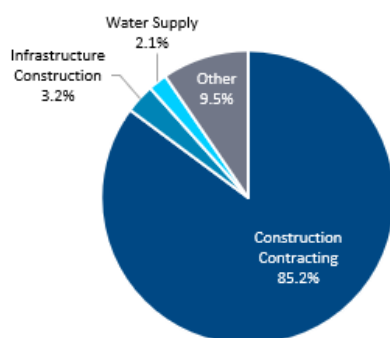
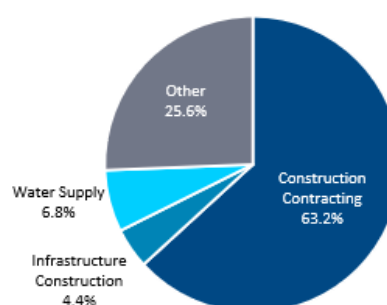
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	59.9	66.3	69.7	74.5
Total Equity (RMB billion)	26.8	27.0	27.4	27.5
Total Revenue (RMB billion)	8.5	10.0	8.2	3.3
Total Debt/Total Capital (%)	49.4	53.4	55.5	58.4

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

Source: CCXAP research

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").

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 Taixing City Government has a strong capacity to provide support, based on its relatively good comprehensive strength, with fast economic growth and good fiscal stability.

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%, ranking 2nd in Jiangsu Province in terms of growth rate. Due to the tax refund policies, Taizhou Municipal Government's tax revenue declined from RMB31.7 billion in 2021 to RMB26.4 billion in 2022, resulting in a decrease in general budgetary revenue from RMB42.0 billion to RMB41.7 billion. As of the first three quarters of 2023, Taizhou City achieved a GRP of RMB497.4 billion, an increase of 6.8% YoY, higher than the national and provincial average growth rate. Taizhou Municipal Government's fiscal balance is moderate, with a fiscal balance ratio averaging 60.6% for the past three years. As of 31 December 2022, the Taizhou Municipal Government reported outstanding direct debt of RMB100.1 billion, which increased by 3.6% YoY and accounted for 15.6% of the GRP.

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	70.4
Local Government Debt (RMB billion)	84.4	96.6	100.1

Source: Statistics Bureau of Taizhou City, CCXAP research

Located in the center of Jiangsu Province and the lower reaches of the Yangtze River, Taixing City is a county-level city under the administration of Taizhou City and one of the three pilot counties which are directly administered by the Jiangsu Provincial Government. Owing good natural conditions with rich mineral reserves and a natural harbor, Taixing City serves as an important port city and transportation hub in Jiangsu Province and the Yangtze River Delta Region. Taixing City has relatively good comprehensive strength, ranking 29th among China's Top 100 counties in 2023, according to CCID consulting. Benefiting from the ongoing development of its three pillar industries, namely mechanical and electrical, chemical and medicine industries,

Taixing City achieves fast economic growth. Taixing City's GRP ranked 1st among all districts or counties among Taizhou City over the past three years. In 2022, Taixing City recorded a GRP of RMB136.7 billion, increasing by 5.3% YoY. In the first half of 2023, Taixing City's GRP achieved RMB66.1 billion, an increase of 6.2% YoY. During the past three years, the average fiscal balance ratio (general budgetary revenue to general budgetary expenditure) was 75.9%, which still stayed at a relatively high level. In 2022, the Taixing City Government's general budgetary revenue decreased by 3.3% to RMB9.0 billion, due to the reduction in tax revenue resulted by the government tax refund policy. Meanwhile, the percentage of tax revenue to the general budgetary revenue dropped to 69.1%, a decrease from the level of over 80% in the past three years. As of end-2022, Taixing City Government's outstanding direct debt amounted to RMB26.8 billion, accounting for around 19.6% of GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Taixing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	112.7	127.3	136.7
GRP Growth (%)	3.9	9.9	5.5
General Budgetary Revenue (RMB billion)	8.5	9.3	9.0
General Budgetary Expenditure (RMB billion)	10.8	11.8	12.8
Local Government Debt (RMB billion)	23.3	27.5	26.8

Source: Statistics Bureau of Taixing City, CCXAP research

Government's Willingness to Provide Support

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. The Company has consolidated several state-owned enterprises in Taixing City since its establishment and conducts its businesses mainly through its subsidiaries. As of 31 December 2022, the Company had completed key infrastructure construction projects with a total investment of around RMB463.8 million, which significantly benefits people's livelihood and promotes the urbanization development in Taixing City.

TXCI is the main infrastructure construction entity in Taixing City, mainly responsible for projects related to social undertakings, urban roads and water conservancy construction. Commissioned by local government and relevant departments, it invests in and develops urban infrastructure projects mainly under the agent construction model, and receives project costs plus a rate of return ranging from 10%-20% as revenue after completion and inspection of the projects. As of 31 December 2022, the Company had 13 key infrastructure construction projects under construction or planning, with a total estimated investment of around RMB8.9 billion and an uninvested amount of RMB2.4 billion. TXCI's infrastructure construction business is sustainable given its large project reserves.

Exhibit 5. Key Projects Under Construction or Planning as of 31 December 2022

Project type	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB billion)	amount (RMB billion)	amount (RMB billion)
Project under construction				
Infrastructure construction	9	8.2	6.5	1.7
Affordable housing	1	1.3	0.8	0.5
Project under planning				
Infrastructure construction	4	0.7	-	0.7
Total	14	10.2	7.3	2.9

Source: Company information, CCXAP Research

TXCI runs water supply business in Taixing City with monopoly advantages, providing water supply and water facility installation services. As of the end of 2022, the Company owned 2 water plants with a daily water supply capacity of 210,000 tons, supplying water to 479.0 thousand households. The water supply business shows sound development momentum, given the stable increasing number of customers and revenue.

TXCI also develops affordable housing in Taixing City, mainly responsible for the development and sale of housing to specific groups at prices under government guidance. As of the end of 2022, the Company completed key affordable housing projects with a total investment of RMB1.6 billion, most of which were sold out. At the same time, there was one affordable housing project under construction, with a total estimated investment of around RMB1.3 billion and uninvested amount of RMB424 million.

As the main developer and operator of Taixing City, TXCI will focus on urban renewal projects in the future including both primary and secondary land development such as housing demolition, relocation of residents, land clearance, resettlement housing, and commercial real estate development. With the ongoing development of land consolidation business, TXCI owned large amount of land reserves with a value of around RMB19.2 billion as of mid-2023, which in turn can ensure the sustainable development of urban renewal projects.

Moderate exposure to commercial 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.

TXCI is engaged in the construction contracting business through one of its wholly-owned subsidiaries, namely, Taixing Yijian Construction Group Co., Ltd. (“Taixing Yijian”), which holds a premium construction qualification and is the leading engineering and construction company in Jiangsu Province. It mainly provides construction contracting services as a general contractor for real estate development projects in Taixing City and other regions/cities in China such as Guangdong Province and Shanghai City. The client is required to pay certain proportion of construction fees and expenses before the beginning of the project and pay monthly pursuant to the construction progress by each month's end. Upon completion of the project, 70%-80% of the total costs incurred shall be paid by the client, and the remaining amount shall be paid within one year after the acceptance and hand-over of the project. The relatively diversified suppliers and clients indicate low concentration risk. The business is sustainable given large number of contracted construction projects with an aggregated contract amount of around RMB16.7 billion as of end-2022. The construction contracting business is the major income source of the Company, generating around 85.2% of total revenue and around 63.2% of gross profit in 2022.

TXCI also undertakes the commercial real estate development business in Taixing City. As of end-2022, the Company had completed two commercial real estate projects and most of them were sold out. The uncertainty exists in the construction contracting and commercial real estate development business as it is highly subject to the real estate market which is under a downturn period.

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. In 2020, the Company received a total of RMB4.8 billion cash injections, including a capital injection of RMB3.0 billion as its paid-in capital from the local government. In 2022, the Company received a total of RMB183.0 million asset injections from the local government. These injections included RMB44.0 million for forest assets, RMB55.0 million for buildings and RMB84.0 million for 100% equity transfer of Taixing Qingyun Tourism Development Co., Ltd.

During 2020 to 2023H1, the Company received a total of around RMB1.7 billion in financial subsidies, mainly related to its infrastructure construction, affordable housing and water supply businesses. In addition, the Company is expected to continuously receive project repayments given its project reserves.

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.

Exhibit 6. Track Record of Government Support from 2020 to 2023H1

(RMB million)	2020	2021	2022	2023H1
Cash Injections	4,816	320	-	-
Asset Injections	-	76	183	-
Financial Subsidies	463	515	468	253
Total	5,279	911	651	253

Source: Company information, CCXAP Research

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. Meanwhile, the Company remained a relatively high short-term debt burden with short-term debt increasing by 33.7% to RMB15.4 billion, accounting for 39.9% of total debt. The cash to short-term debt ratio of around 0.5x at mid-2023, indicating that its cash balance could not fully cover its short-term debt. The financial leverage remained at a relatively high level and we expect that the financial leverage will remain at a relatively high level, considering ongoing investment in projects under construction in the next 12-18 months.

In addition, TXCI's asset liquidity was relatively weak, with a large number of inventories and other receivables. As of 30 June 2023, its inventories accounted for 47.4% of total assets, mainly consisting of land use rights and costs from the infrastructure construction projects. In addition, the Company's other receivables mainly consist of transactions with the government or other state-owned enterprises, accounting for 21.0% of total assets at

mid-2023. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company. Moreover, the Company had pledged a number of assets for loans, such as cash and investment properties, with a total amount of RMB7.7 billion, accounting for around 10.3% of its total assets.

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, which may partially release capital expenditure pressure and liquidity profile. As of 30 September 2023, the Company's total credit facilities amounted to around RMB26.0 billion, of which the unutilized portion was around RMB15.3 billion. They were mainly provided by diversified large domestic banks such as the Bank of China and Industrial and Commercial Bank of China.

Furthermore, TXCI has a proven track record of financing from both onshore and offshore debt markets. The Company and its subsidiary, Taixing Zhongxing State-owned Asset Management and Investment Group Co., Ltd. ("Taixing Zhongxing") have issued different financial products in the bond market such as commercial papers ("CP"), medium-term notes ("MTN") and private placement notes ("PPN"). In 2023, the Company and its subsidiary Taixing Zhongxing had raised RMB15.7 billion in the onshore bond market. In addition, Taixing Zhongxing has a track record of accessing the offshore bond market. In 2022, Taixing Zhongxing issued a three-year offshore bond with a coupon rate of 4.8% to raise RMB830 million for repayment of offshore debt. 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.

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. Mutual guarantees between local state-owned enterprises are common in Taixing City. However, in case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which is negative to its credit quality.

ESG Considerations

TXCI is exposed to environmental risks because it has undertaken the infrastructure 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 Taixing City. Demographic changes, public awareness and social priorities shape the government's target for TXCI, or affect the government's propensity to support the Company.

In terms of corporate governance, TXCI 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 Taixing SASAO, which has full control and supervision of the Company's operation.

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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