

## Credit Opinion

15 March 2024

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

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## Taixing Jinjiang Investment Co., Ltd

### Surveillance credit rating report

### CCXAP upgrades Taixing Jinjiang Investment Co., Ltd's long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Taixing Jinjiang Investment Co., Ltd ("TXJI" or the "Company") to BBB<sub>g</sub> from BBB<sub>g-</sub>, reflecting the increasing comprehensive strength of Taixing City and the Company's important position in the regional development of Jiangsu Taixing Economic and Technological Development Zone ("Taixing ETDZ").

The BBB<sub>g</sub> long-term credit rating of TXJI reflects Taixing City 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 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 role in the economic and industrial development of Taixing City, especially in Taixing ETDZ; and (2) track record of receiving government support.

However, the rating is constrained by the Company's (1) moderate exposure to commercial business activities; (2) increasing debt burden and moderate asset liquidity; and (3) relatively high proportion of non-standard financing.

The stable outlook on TXJI'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 the economic and industrial development of Taixing ETDZ.

## Rating Drivers

- Important role in the development of Taixing ETDZ
- Moderate exposure to commercial business activities
- Track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Relatively high proportion of non-standard financing

## 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 exposure to commercial business activities, improved debt management and financing ability.

### 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 reduced strategic significance, or decreased government payments, or deteriorated debt management.

## Key Indicators

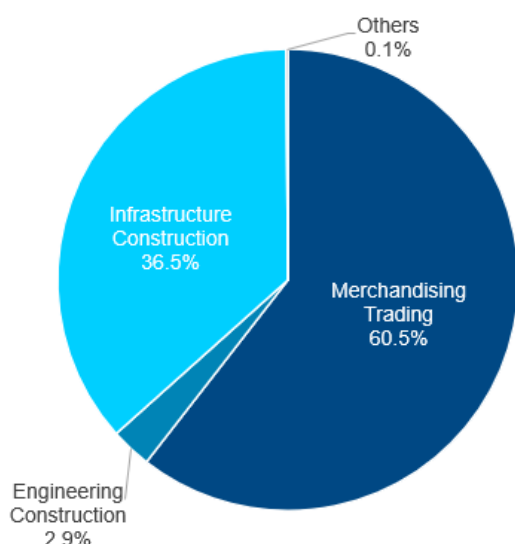
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	6.6	19.4	22.5	24.9
Total Equity (RMB billion)	4.1	11.7	12.0	12.0
Total Revenue (RMB billion)	0.5	1.4	1.9	1.0
Total Debt/Total Capital (%)	9.8	29.3	37.4	45.7

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

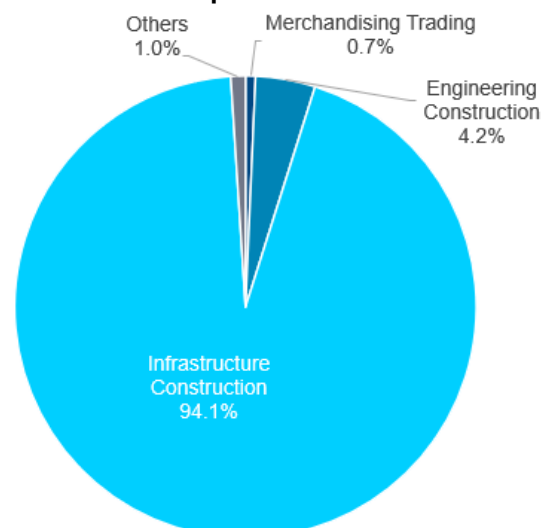
Source: Company data, CCXAP research

## Corporate Profile

Established in 2017 with the approval of the People's Government of Taixing City and funded by the Management Committee of Taixing ETDZ, TXJI is an important local infrastructure investment and financing company ("LIIFC") in Taixing City, especially in Taixing ETDZ. The Company is mainly responsible for the primary land development, infrastructure construction, resettlement housing construction in the southern area and Daily Chemical Industry Park of Taixing ETDZ. The Company also participates in different commercial activities, mainly including industrial park construction and operation, financial investment, as well as merchandising trading business. As of 30 September 2023, Taixing Port Group Co., Ltd. ("Taixing Port Group") and Taixing Chengxing State-owned Assets Management Investment Co., Ltd. ("Taixing Chengxing") hold 85% and 15% shares of the Company, respectively. The Company was ultimately controlled by the State-owned Assets Supervision and Administration Commission of the People's Government of Taixing City ("Taixing SASAC").

**Exhibit 1. Revenue structure in 2022**

Source: Company information, CCXAP research

**Exhibit 2. Gross profit structure in 2022****Exhibit 3. Shareholding chart as of 30 September 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

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

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, Jiangsu Province's total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP of the same period was RMB150,487, ranking first among all provinces in the country.

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 2023, the GRP of Taizhou City was RMB673.2 billion, a YoY increase of 6.8%. Taizhou Municipal Government's general budgetary revenue increased from RMB42.0 billion in 2021 to RMB44.0 billion in 2023. Its fiscal balance is relatively good, with a fiscal balance ratio averaging 70% for the past three years. As of end-2023, the Taizhou Municipal Government reported outstanding government debt of RMB107.1 billion, accounting for 15.9% of the GRP.

#### Exhibit 4. Key economic and fiscal indicators of Taizhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	602.5	640.2	673.2
GRP Growth (%)	10.1	4.4	6.8
General Budgetary Revenue (RMB billion)	42.0	41.7	44.0
General Budgetary Expenditure (RMB billion)	66.8	70.4	69.7
Local Government Debt (RMB billion)	96.6	100.1	107.1

Source: Taizhou Municipal Government, 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. Taixing City has one provincial-level Economic Development Zone and one provincial-level High-tech Zone, and it has three pillar industries, namely mechanical and electrical, chemical and medicine industries. Taixing City has relatively good comprehensive strength, ranking 26<sup>th</sup> among top 100 counties in China for high-quality development in 2023, according to research results of the China County High Quality Development Index Research Group. Taixing City's GRP has ranked 1<sup>st</sup> in Taizhou City for years, and it has achieved fast economic growth during the past three years. In 2023, Taixing City achieved GRP of RMB146.0 billion with a YoY increase of 7.0%. Meanwhile, its general budgetary revenue increased to RMB9.7 billion in 2023 from RMB9.0 billion in 2022, along with its tax revenue increased to RMB7.0 billion. In addition, it has good fiscal stability, with tax revenue accounting for around 75% of the general budgetary revenue in the past three years. As of end-2023, Taixing City Government's outstanding direct debt amounted to RMB26.7 billion, accounting for 18.3% of its GRP.

#### Exhibit 5. Key economic and fiscal indicators of Taixing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	127.3	136.7	146.0
GRP Growth (%)	9.9	5.3	7.0
General Budgetary Revenue (RMB billion)	9.3	9.0	9.7
General Budgetary Expenditure (RMB billion)	11.8	12.8	13.7
Local Government Debt (RMB billion)	27.5	26.8	26.7

Source: Taixing City Government, CCXAP research

Note: GRP and GRP growth in 2023 were estimated by Taixing City Government.

Taixing ETDZ was established in 1991, and was approved as a provincial development zone in November 1992. The total planning area is 68 square kilometers, and the core area is 20 square kilometers. It has formed high-end and special fine chemicals, new chemical materials, biological pharmaceuticals, high-end equipment (marine ship engineering) manufacturing and other industrial clusters. There are more than 130 enterprises

from more than 20 countries and regions settling in Taixing ETDZ, including 18 of the world's top 500 companies, such as Taizhou Union Chemical Industry Co., Ltd. and Jiangsu Yanchang Zhongran Chemical Co., Ltd. Taixing ETDZ has been rated as a high-quality development chemical park by the China Petroleum and Chemical Industry Federation for years and ranked 4<sup>th</sup> among 90 provincial-level economic development zones of Jiangsu Province in the comprehensive assessment of Jiangsu Province's economic development zones in 2022. Taixing ETDZ plays an important role in the industrial upgrading and economic development of Taixing City and Taizhou City.

### **Government's Willingness to Provide Support**

#### **Important role in the economic and industrial development of Taixing ETDZ**

The development of Taixing ETDZ is supportive of the long-term sustainable development of TXJI. There are two LIIFCs in the development of Taixing ETDZ, namely Taixing Chengxing and TXJI. Taixing Chengxing is mainly responsible for the infrastructure construction in the northern area of Taixing ETDZ, such as sewage pipelines and pipe networks. TXJI focuses on the primary land development, infrastructure construction, resettlement housing construction in the southern area and Daily Chemical Industry Park of Taixing ETDZ.

TXJI adopts the entrusted construction mode and engineering construction mode for infrastructure construction projects. Under entrusted construction mode, the local government authorizes Taixing Binjiang Pipe Gallery Construction Co., Ltd. ("Binjiang Construction") as the entrusted party to sign the entrustment agreement with TXJI. As of 30 September 2023, the Company had completed a series of infrastructure projects. Meanwhile, it had 6 key infrastructure construction projects under construction or planning, with a total investment amount of around RMB38.6 million. The Company also conducts engineering construction business through its subsidiary with relevant construction qualifications. There are two types of project contracts, one for undertaking the Company's own projects and one for undertaking external construction projects. Normally, TXJI obtains the external construction projects through public bidding. As of 30 September 2023, the Company had a total contract value of RMB942.0 million on hand. The majority of engineering construction projects was the Company's internal project construction.

TXJI has signed entrusted agreement with the local government for primary land development in the southern part and Daily Chemical Industry Park of Taixing ETDZ. The Company carries out the primary land development through self-financing, and the local government will pay the proceeds after the transfer of the relevant land parcels.

TXJI also shoulders the responsibilities of resettlement housing construction in Taixing ETDZ. TXJI receives payments based on the actual costs plus a certain markup in return from the local government after examination of the projects. As of 30 September 2023, the Company had 2 resettlement housing projects under construction with a total investment of RMB1.6 billion.

#### **Moderate exposure to commercial business activities**

TXJI also engages in commercial business activities, mainly including industrial park construction and operation, financial investment, as well as merchandising trading business. We estimate that TXJI had moderate commercial exposure, accounting for around 15% to 20% of its total assets.

To promote local investment attraction and industrial development, the Company participates in industrial park construction and operation through self-operation mode. Under self-operation mode, TXJI would achieve fund balancing through leasing and operating revenue from industrial parks. As of 30 September 2023, the Company

had completed and operated one industrial park, namely Daily Chemical Industrial Park Standard Factory Project, with an occupancy rate of around 75%. Meanwhile, the Company had one project under construction, namely Pilot Test Incubation Industrial Park Project, with an estimated investment of RMB500.0 million. This project focuses on transformation of high-tech innovation achievements in chemical industrials and new materials, which is highly related to pillar industry in Taixing ETDZ. It also helps resettled enterprises quickly achieve large-scale industrialization and commercial production, which is beneficial to local industrial development and the competitiveness of Taixing ETDZ. However, the relatively large initial investment and long payback period of industrial park projects will bring relatively large financial pressure on the Company.

TXJI also involves in the financial investment business to attract investment and promote industrial optimization and upgrading in Taixing ETDZ through fund investments and equity investments. The Company's investments mainly focus on high-end equipment manufacturing industry, biomedical and high-performance medical device industry, chemical and new material industry, as well as supporting facilities and services in industrial park. As of 30 September 2023, TXJI had a total of 6 fund investment projects, with a paid-in investment scale of RMB583.5 million. Meanwhile, TXJI had 6 equity investment projects, with a book value of RMB133.6 million. However, since most of the equity investment projects were in the initial stage of operation, they had not yet brought dividend income to the Company.

The Company conducts its merchandising business through its subsidiary Taixing Economic Development Zone Xinggang Trading Company Limited ("Xinggang Trading"), and Xinggang Trading mainly engages in the sales of ethylene glycol. The merchandising business segment has contributed significantly to total revenue, accounting for 60.5% in 2022. However, the gross margin level is low at only 0.1% at the same time. In addition, the Company has a high reliance on its top 3 customers and suppliers, which may adversely affect the stability of the business.

#### **Track record of receiving government support**

TXJI has a track record of receiving support from the local government in terms of asset injections, project payments and financial subsidies. During the past three years, TXJI's capital reserve has sharply increased to RMB9.6 billion on 30 September 2023 from RMB2.4 billion from end-2020 owing to the continuous asset injections from the local government. During the same period, TXJI received financial subsidies, which totally amounted to RMB248.4 million. Apart from that, TXJI started to receive payments from the local government for the completed infrastructure construction projects from 2023, which is conducive to the improvement of the Company's liquidity profile. Considering TXJI's important position and tight relationship with the local government, we expect the local government will continue to support TXJI over the next 12 to 18 months.

#### **Increasing debt burden and moderate asset liquidity**

TXJI's total debt increased rapidly in the past three years because of the investment of construction projects. The Company's total debt significantly increased from RMB444.5 million at end-2020 to RMB10.1 billion as of 30 September 2023, with a total capitalization ratio of 45.7%. Moreover, the Company faced certain short-term debt pressure. TXJI's short-term debt was RMB3.5 billion, accounting for around 34.5% of the total debt. Given large capital needs from infrastructure construction and self-operated projects, we expect the debt burden of the Company would further increase in the next 12 to 18 months.

TXJI's asset liquidity is moderate, and its assets mainly consist of inventories and accounts receivables. As of 30 September 2023, its inventories accounted for 18.5% of total assets, mainly consisting of land use rights and costs from the infrastructure construction projects. In addition, the Company's accounts receivables mainly

consisted of transactions with the government or other state-owned enterprises, accounting for 8.0% of total assets. Furthermore, as of 30 September 2023, the Company had pledged assets of RMB1.9 billion for loans, accounting for 7.7% of total assets. All of these are considered low liquidity assets, the low liquidity asset may undermine the Company's financing flexibility, which is credit negative.

### **Relatively high proportion of non-standard financing**

TXJI's funding ability was limited, with relatively high reliance on non-standard financing products such as financial leasing, trust, and factoring, which accounted for more than 50% of the total debt as of 30 September 2023. These non-standard financing products generally have high financing cost and short tenor, increasing TXJI's refinancing pressure and financial burden. The average financing cost of the Company was around 7%. Nevertheless, the Company has actively expanded its financing channels in the capital market in recent years. As of 30 September 2023, its total bank credit facilities amounted to RMB4.5 billion, of which the unutilized portion was around RMB927.5 million. They were mainly provided by diversified large domestic banks such as Industrial and Commercial Bank of China and Agricultural Bank of China. Furthermore, TXJI has continued to widen its funding channels and has a presence in offshore debt markets in 2022. The Company has issued 2 offshore bonds, with outstanding amount of USD30 million and EUR30 million in 2022, respectively. The Company plans to use bank loans and bond issuance to replace the non-standard financing products gradually. However, the high portion of non-standard financing products is expected to sustain in the short term.

### **ESG Considerations**

TXJI is exposed to environmental risks because it has undertaken the infrastructure construction and 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.

In terms of social awareness, TXJI has played a crucial role in social welfare by involving infrastructure construction and engineering construction projects.

In terms of corporate governance, TXJI's governance considerations are also material as the Company is subject to local government oversight and 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 \(July 2022\)](#).

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