

Credit Opinion

2 September 2024

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

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Chuzhou Economic and Technological Development General Corporation

Surveillance credit rating report

CCXAP affirms Chuzhou Economic and Technological Development General Corporation's long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Chuzhou Economic and Technological Development General Corporation (“CETD” or the “Company”) reflects the local government’s (1) strong capacity to provide support; and (2) 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 Chuzhou City’s economic importance in Anhui Province, and Chuzhou ETDZ’s status as the national-level ETDZ in Chuzhou City, with increasing economic strength and good fiscal profile.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) key position as the primary infrastructure construction and state-owned assets operation entity in Chuzhou ETDZ; (2) good track record of receiving government payments; and (3) access to diversified fundings.

However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) relatively high debt burden driven by ongoing investments in construction projects; and (3) moderate asset quality and liquidity profile.

The stable outlook on CETD’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its important role in the development of Chuzhou ETDZ.

Rating Drivers

- Key position as the primary infrastructure construction and state-owned assets operation entity in Chuzhou ETDZ
- Good track record of receiving government payments
- Moderate exposure to commercial activities
- Relatively high debt burden driven by ongoing investments in construction projects
- Moderate asset quality and liquidity profile
- Access to diversified fundings

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 improved debt management.

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 decrease in government payments or increase in exposure to commercial activities.

Key Indicators

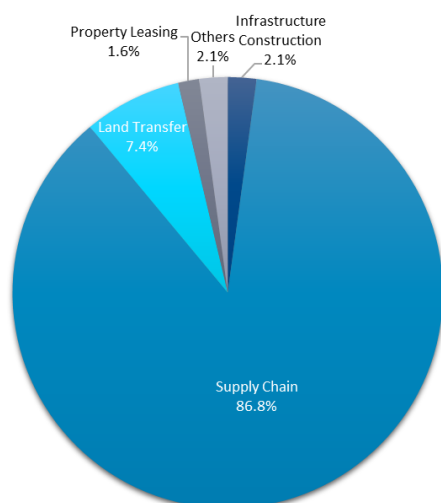
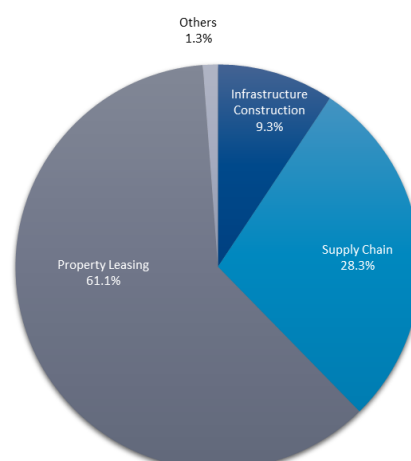
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	42.1	50.3	54.2	52.3
Total Equity (RMB billion)	10.0	16.6	16.7	16.4
Total Revenue (RMB billion)	9.0	11.7	13.0	1.5
Total Debt/Total Capital (%)	69.1	66.6	63.8	63.6

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

Source: Company information, CCXAP research

Corporate Profile

Founded in 1993, CETD is wholly owned and ultimately controlled by the Management Committee of Chuzhou ETDZ. The Company is the most important local infrastructure investment and financing company ("LIIFC") in Chuzhou ETDZ, responsible for the local public policy activities such as infrastructure construction and primary land development. It is also engaged in commercial activities such as supply chain, property leasing, industrial investment businesses.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a strong capacity to provide support given its status as the national-level ETDZ in Chuzhou City, with increasing economic strength and good fiscal profile.

Located in the eastern part of Anhui Province, Chuzhou City is the central city of Nanjing Metropolitan Circle and Hefei Economic Circle. Chuzhou City has relatively good economic and fiscal strengths, ranking first-tier among all prefecture-level cities in Anhui Province. It actively develops eight industrial lines, including photovoltaics, semiconductors, equipment manufacturing, new energy batteries, medical equipment, smart home appliances, new chemicals, healthy food industry. Moreover, Chuzhou City is rich in mineral resources with 39 types of discovered minerals and 134 mining deposits and sites, reserves of which occupies an important position in East China and even in the whole country. In 2023, its gross regional product ("GRP") increased to RMB378.2 billion from RMB361.0 billion in 2022, with a year-over-year ("YoY") growth rate of 6.4%, ranking third by GRP among all prefecture-level cities in Anhui Province and growing faster than the provincial average level. In the first half of 2024, its GRP amounted to RMB197.2 billion, up 5.3% YoY. The general budgetary revenue of Chuzhou Municipal Government also increased to RMB29.8 billion in 2023 from RMB27.7 billion in 2022. Chuzhou Municipal Government's fiscal balance is moderate but improving, with the ratio of general budgetary revenue to general budgetary expenditure being 55.9% in 2023, compared to 54.7% in 2022. However, Chuzhou Municipal Government's debt profile is relatively weak. As of end-2023, its government debt balance amounted to RMB129.0 billion, accounting for 34.1% of GRP and 160.2% of its total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Chuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	336.2	361.0	378.2
GRP Growth (%)	9.9	5.5	6.4
General Budgetary Revenue (RMB billion)	25.1	27.7	29.8
General Budgetary Expenditure (RMB billion)	46.2	50.6	53.4
Local Government Debt (RMB billion)	86.9	105.9	129.0

Source: Chuzhou Municipal Government, CCXAP research

Chuzhou ETDZ was established in June 1992 and approved as a national-level Economic and Technological Development Zone in April 2011, and a provincial-level High-Tech Industrial Development Zone in June 2012. It has formed four leading industries including smart home appliances and electronic information, advanced equipment manufacturing, green food, and photovoltaic new energy. In 2023, the comprehensive strength of Chuzhou ETDZ ranked 49th among national-level ETDZs in China. The importance of Chuzhou ETDZ in Chuzhou City's industrial development has increased in recent years, with fast economic growth rate. Chuzhou ETDZ's economic and fiscal strength has improved in recent years. In 2023, the total industrial output value of Chuzhou ETDZ has exceeded RMB130 billion. Moreover, the fixed assets investment and the value added of industrial enterprises above designated size increased by 8% YoY and 9.5% YoY, respectively. In 2023, its general budgetary revenue increased to RMB5.5 billion from RMB5.4 billion in 2021, with tax revenue accounting for 87.6%, indicating good fiscal stability. In addition, Chuzhou ETDZ has a good fiscal balance, its average ratio of general budgetary revenue to general budgetary expenditure was 113.2% over the past three years. Chuzhou ETDZ makes a relatively large contribution to Chuzhou City's fiscal revenue, as its general budgetary revenue and tax revenue accounted for 18.5% and 28.7% of Chuzhou City in 2023, respectively.

Exhibit 4. Key Economic and Fiscal Indicators of Chuzhou ETDZ

	2021FY	2022FY	2023FY
GRP (RMB billion)	43.7	46.4	48.1
GRP Growth (%)	12.5	8.8	7.0
General Budgetary Revenue (RMB billion)	5.4	5.5	5.5
General Budgetary Expenditure (RMB billion)	4.5	5.5	4.5
Local Government Debt (RMB billion)	3.0	3.7	3.7

Source: Chuzhou ETDZ Government, Company information, CCXAP research

Government's Willingness to Provide Support

Key position as the primary infrastructure construction and state-owned assets operation entity in Chuzhou ETDZ

The Company plays a vital role in public policy businesses, such as conducting infrastructure construction projects in the Chuzhou ETDZ, with strong regional franchise advantages. As the primary infrastructure construction platform in the Chuzhou ETDZ, the Company has undertaken a number of infrastructure construction, resettlement housing construction, land transfer and factories construction within the region, making great contributions to the local social and economic development, benefiting investment attraction and improving related industrial chains in Chuzhou ETDZ. Considering its essential role in regional development, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

As the largest LIIFC in Chuzhou ETDZ, CETD plays an important role in undertaking public policy projects, including relocation housing development, municipal road construction and land transfer business through its subsidiaries, including Chuzhou Tongchuang Construction Investment Co., Ltd. ("Tongchuang"), in Chuzhou ETDZ. However, as the Management Committee of Chuzhou ETDZ changes the development plans for local infrastructure construction by undertaking some agency construction projects on its own, we expect the number of agency projects of the Company will decline slightly.

The Company is mainly entrusted by the Management Committee of Chuzhou ETDZ to carry out resettlement housing development and municipal road construction businesses through agent construction model, where the Company is responsible for project financing and is entitled to a payment equal to the project costs incurred

plus a premium at a pre-fixed percentage of such costs after the projects have been completed, inspected and accepted. As of 31 March 2024, the Company had mainly completed 20 resettlement housing development projects, with an invested amount of RMB3.4 billion and a received repayment of RMB1.7 billion, and 44 major municipal road construction projects, with a total investment of around RMB1.2 billion and a received repayment of RMB536.0 million. However, the sustainability of the infrastructure construction business is moderate due to adjustment of the Management Committee of Chuzhou ETDZ's planning. As of 31 March 2024, the Company mainly had 2 resettlement housing development projects under construction or planning with an estimated total investment of RMB700 million and an uninvested amount of around RMB239 million. The Company also had 3 municipal road construction projects under construction or planning with an outstanding investment of RMB318 million.

The Company's land transfer business involves land acquisition and land transfer. The Company first acquires land parcels through public market or government injection, then transfers such land parcels to the Management Committee of Chuzhou ETDZ according to its request. The cost of acquiring the land is equal to the income from transferring it to the Management Committee of Chuzhou ETDZ, resulting in no gross profit for the land transfer business. However, the local government will provide subsidies to the Company to compensate for its financing costs and tax for land use during the period of holding the land. As of 31 March 2024, the Company owned 34 land parcels, with an area of 1.5 million square meters and a book value of RMB6.5 billion. However, the land transfer business is subject to conditions in the local land market and policies in Chuzhou ETDZ.

Moderate exposure to commercial activities

The Company's commercial activities include supply chain, property leasing such as equipment and vehicles, sales of plant, loan services, industrial investment and self-operated projects construction. We estimate that the Company's commercial exposure is moderate with the assets of commercial activities accounting for 25% to 30% of its total assets. Although, the commercial activities can provide supplementary income to the Company. They also bring certain capital expenditure pressure at the same time.

The supply chain business involves the provision of supply chain and trading services for the industrial enterprises and some state-owned enterprises in Chuzhou ETDZ, with trading products mainly consisting of electrolytic copper, coal, wood and rare earth. Although the supply chain business is the Company's largest revenue generator, which accounted for 86.8% of total revenue in 2023, its profitability remains low with a gross profit margin of 0.5%. However, there is a high concentration risk regarding to upstream suppliers and downstream customers as the top five suppliers accounted for 88.0% of the total procurement and the sales from the top five customers accounted for 77.5% of the total sales in 2023. The supply chain business provides certain account period (generally less than 2 months) to the customers which may enlarge the Company's risk exposure to the credit quality of its customers.

The Company conducts leasing business through leasing its self-operated properties or facilities to generate income, including factories, buildings, and facade shops. The main lessees are enterprises in Chuzhou ETDZ. The Company also has some self-operated property leasing projects. As of 31 March 2024, the Company had 12 property leasing projects under construction, including industrial parks, standard factories, and dormitory, with a total investment of RMB9.2 billion and an uninvested amount of RMB3.4 billion, indicating high capital expenditure pressure. The Company is expected to achieve fund balancing through future operating income, such as leasing income. However, the investment recovery cycle is long, making it more difficult to achieve fund balancing in short period of time. The leasing income amounted to RMB86.0 million, RMB204.4 million and

RMB17.7 million from 2022 to 24H1, respectively, making limited contributions to the Company due to its small operating scale.

Positioned as an important industrial investment entity to promote the development of pillar industries in Chuzhou ETDZ, the Company engages in industrial investment business by ways of fund investment, direct lending, and equity investment. As of 30 June 2024, the Company had invested in 17 industrial funds, with a total invested amount of RMB2.3 billion and 21 equity investment projects, with a total invested amount of RMB2.2 billion, focusing on automobiles, new energy and new materials industries, indicating certain industrial concentration risks. The Company also provides loans to enterprises in the Chuzhou ETDZ through direct lending and entrusted loans to obtain interests, providing supplementary income to the Company. The direct lending is provided to other state-owned enterprises in the Chuzhou ETDZ and entrusted loans are provided to SMEs settled in the Chuzhou ETDZ with loan rates ranging from 4% to 5%. Overall, as the investment cycle is long and the dividend income is susceptible to the industry policies and market conditions, there is uncertainty in the cash collection and investment return.

Good track record of receiving government payments

The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, and capital injections. From 2022 to 2023, the local government injected RMB6.0 billion in cash into the Company and converted special construction funds of RMB500 million into capital reserves, greatly enhancing its capital strength. From 2022 to 2024H1, the Company continuously received government subsidies with a total amount of around RMB1.3 billion and special bond funds of RMB714 million, to support its operations and debt repayments. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

Relatively high debt burden driven by ongoing investments in construction projects

Due to the ongoing financing for construction projects, the Company's total debt has been growing for the past three years. The Company's total debt increased to RMB28.7 billion on 30 June 2024 from RMB28.1 billion at end-2022. At the same time, its capitalization ratio decreased to 63.6% from 66.6% mainly due to capital injection from local government, but it still maintained at a high level. In addition, the Company has certain short-term debt repayment pressure. As of 30 June 2024, its short-term debt was RMB1.1 billion, accounting for around 36.7% of total debt. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 0.2x, indicating that its cash reserve could not fully cover the short-term debt. We expect its scale of debt to continue to increase over the next 12-18 months given the large capital needs of self-operated projects.

Moderate asset quality and liquidity profile

CETD's asset quality and liquidity profile is moderate. As of 30 June 2024, the account receivables, inventories and other receivables totally accounted for 61.5% of total assets. The total receivables mainly consist of government-related receivables and receivables generated from supply chain business, while inventories mainly consist of land assets and costs for agency construction projects, all with low liquidity. On top of that, the Company's long term equity investment and other non-current financial assets, resulting from equity investment and fund investment, accounted for around 9.5% of its total assets, and investment properties accounted for around 9.4% of its total assets, generating supplementary income and cash flow. Overall, we expect the Company's liquidity risk to be manageable, given its good access to funding.

Access to diversified fundings

CETD has good access to financing channels, mainly including bank loans and bond financing. However, the proportion of bond financing in the debt structure is relatively high, accounting for over 65% of total debts, which exposed the Company to higher uncertainties from the volatility of the capital market and changes in policy. The Company's current bond financing channels are relatively smooth. From January 2022 to June 2024, the Company and its subsidiaries raised RMB17.4 billion in the onshore debt market by issuing various types of bonds, including corporate bonds, medium-term notes, commercial papers, and private placement notes. Also, in 2023, the Company issued 2 tranches of offshore bonds to raise RMB960 million, further diversifying its financing channels. As of 30 June 2024, about 31.3% of the Company's debt financing was provided by domestic banks with total credit bank facilities of RMB22.9 billion and an unused portion of around RMB9.3 billion, a relatively sufficient liquidity buffer. Furthermore, the Company's exposure to non-standard financing, mainly including financial leasing and debt financing, is manageable, accounting for below 5% of total debts.

ESG Considerations

The Company is exposed to environmental risks due to undertaking infrastructure construction and relocation housing projects. Such risks could be mitigated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase. It is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by governmental authorities in the PRC. In 2019, Tongchuang issued a non-public green corporate bond in the onshore market.

In terms of social awareness, the Company has played a crucial role in the social welfare of Chuzhou by undertaking relocation housing and municipal road construction projects.

In terms of corporate governance, the Company has established an effective internal control system, and regularly organizes annual trainings for its employees to ensure that the internal control system for its infrastructure construction business, supply chain, leasing businesses and other operational activities is effective. The Company is subject to monitoring and reporting requirements of the Chuzhou ETDZ Management Committee, which has overall control and oversight of the Company's operations. It implements the general manager responsibility system and does not have a board of directors or a board of supervisors. The general manager is responsible for the operation and management of the Company.

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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