

Credit Opinion

20 February 2024

Ratings

Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Tai'an Tianze Investment Operation Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Tai'an Tianze Investment Operation Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Tai'an Tianze Investment Operation Group Co., Ltd. ("TATZ" or the "Company") reflects the Tai'an Municipal 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 local government's capacity to provide support reflects Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength, but constrained by its moderate fiscal metrics.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) essential role as the primary urban developer and operator of the Wenhe Scenic Spot; and (2) good track record of receiving government supports.

However, the rating is constrained by the Company's (1) medium and increasing exposure to commercial activities; (2) fast debt growth with relatively large short-term debt pressure; and (3) moderate asset liquidity.

The stable outlook on TATZ'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 Tai'an City, especially in the Wenhe Scenic Spot over the next 12-18 months.

Rating Drivers

- Essential role as the primary urban developer and operator of the Wenhe Scenic Spot
- Medium and increasing exposure to commercial activities
- Good track record of receiving government supports
- Fast debt growth with relatively large short-term debt pressure
- Moderate asset liquidity
- Access to different financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as increased strategic significance or improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance or higher exposure to risky commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	13.4	15.9	22.2	24.4
Total Equity (RMB billion)	3.0	3.3	7.5	10.0
Total Revenue (RMB billion)	0.1	0.7	1.2	0.7
Total Debt/Total Capital (%)	74.2	75.8	60.5	54.0

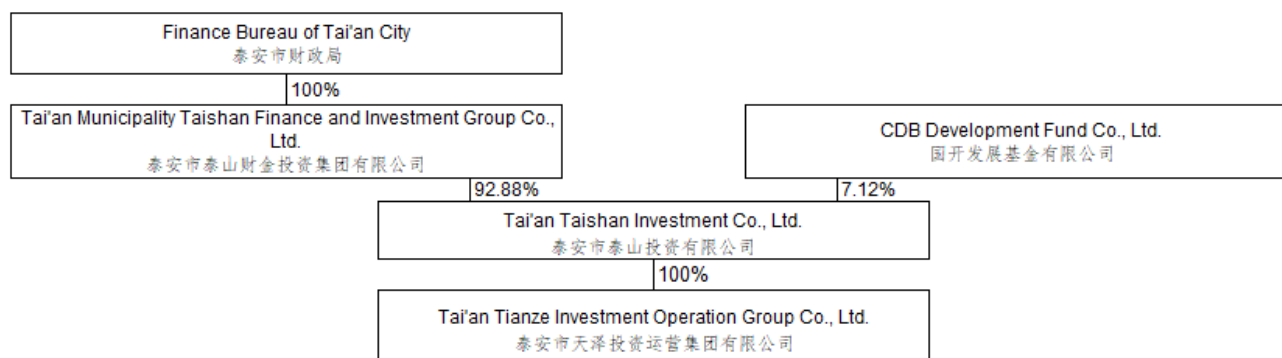
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

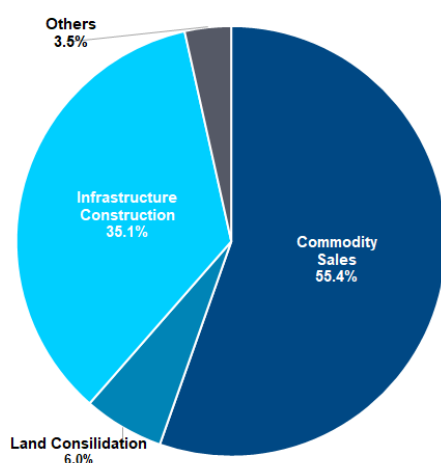
Established in 2018, TATZ is one of the major local infrastructure investment and financing companies ("LIIFCs") in Tai'an City, mainly responsible for the investment, construction, and operation of Wenhe Scenic Spot in Yuliai Mountain. It undertakes major public infrastructure and welfare projects in the region, including infrastructure construction, land consolidation, and green maintenance and cleaning in the Wenhe Scenic Spot. Meanwhile, the Company has developed some commercial activities, including self-operation construction projects, commodity sales, hotel management, and leasing. As of 30 June 2023, the Company was directly and wholly owned by Tai'an Taishan Investment Co., Ltd ("TTIC"), and the Finance Bureau of Tai'an City was the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 30 June 2023



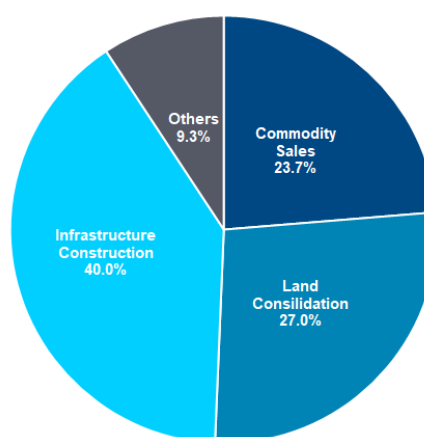
Source: Company data, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company data, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has very strong capacity to provide support given Tai'an Municipal Government's status as an important tourism city in East China, with increasing economic strength, but constrained by its moderate fiscal metrics.

Shandong Province is the third largest province in terms of gross regional product ("GRP") in China over the past three years, with a solid industrial foundation in logistics, shipbuilding and marine technology, chemical, automotive and agri-food. Tai'an City is a prefecture-level city located in the middle of Shandong Province. It serves as an important transportation hub of Shandong Province which connects to a number of national economic and industrial development zones. Meanwhile, as a national historical and cultural city in Shandong Province, Tai'an City was designated by the State Council as one of China's Top Tourism Cities. After years of development, Tai'an City has established 10 pillar industries, including new generation information technology, high-end equipment and intelligent manufacturing, new material, medical and health care, clean energy and eco-friendly industry, cultural tourism, modern high-efficient agriculture, high-end chemistry, modern logistics, and textile garment.

Tai'an City's economic strength continuous increased over the past three years. Its GRP increased to RMB319.8 billion in 2022 from RMB299.7 billion in 2021, with a year of year ("YoY") increase of 4.3%. However, the fiscal

profile of Tai'an City was moderate. The general budgetary revenue of Tai'an Municipal Government decreased to RMB22.3 billion in 2022 from RMB23.1 billion in 2021 due to the tax rebate and fee reduction policy. Its tax revenue also decreased to RMB15.7 billion from RMB17.3 billion. The fiscal balance of Tai'an Municipal Government remained moderate. In 2022, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 50.4% and the fiscal stability ratio (tax revenue/general budgetary revenue) was 70.6%. As of end-2022, its government debt balance amounted to RMB83.2 billion, accounting for 26.0% of GRP. In 2023, Tai'an City's GRP was recorded at RMB332.4 billion, a YoY increase of 6.4%.

Exhibit 4. Key economic and fiscal indicators of Tai'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	276.7	299.7	319.8
GRP Growth (%)	3.5	6.1	4.3
General Budgetary Revenue (RMB billion)	22.9	23.1	22.3
General Budgetary Expenditure (RMB billion)	43.5	42.8	44.2
Local Government Debt (RMB billion)	63.8	72.3	83.2

Source: Tai'an Municipal Government, CCXAP research

Wenhe Scenic Spot is located in the southeast of the urban area in Tai'an City. It is a national wetland park, a national water conservancy scenic area, and a national AAAA tourist attraction. The total planned area of the scenic area is 471 square kilometers. Supported by its rich historical culture, red culture, and ecological resources, Wenhe Scenic Spot has formed 5 major industries include leisure vacation, medical and health care, cultural and museum exhibitions, sports events, and ecological agriculture. From January to October 2023, Wenhe Scenic Spot has accumulatively received around 670 thousand tourists.

Government's Willingness to Provide Support

Essential role as the primary urban developer and operator of the Wenhe Scenic Spot

TATZ is one of the major LIIFCs in Tai'an City, mainly responsible for the investment, construction, and operation of Wenhe Scenic Spot. It is also the sole infrastructure construction and operation entity in Wenhe Scenic Spot, which is in charge of infrastructure construction, land development and consolidation, and green maintenance and cleaning. The Company has a clear functional positioning and strong regional specialization in public-oriented business.

TATZ carries out various infrastructure construction projects mainly through agent construction model. Under the agent construction model, TATZ signs entrusted construction contracts with the management committee of Wenhe Scenic Spot and takes responsibility for fundraising and construction work of the projects. The local government would make payments based on the construction costs plus a certain markup (generally 15% to 18%) in return. As of 30 June 2023, the Company had 6 key infrastructure construction projects under construction, mainly involving shantytown renovation projects, expressway projects, roads, as well as health care industrial park, with a total investment of RMB9.6 billion and uninvested amount of RMB3.0 billion. At the same time, there were 8 infrastructure construction projects under planning, with a total investment of RMB2.4 billion. The relatively large-scale of infrastructure construction projects in the pipelines may bring certain capital expenditure pressure to the Company. Meanwhile, the government payment for construction projects is relatively slow, which may further increase TATZ's capital expenditure pressure.

The Company is the sole entity to conduct land consolidation and land quota trading business in Wenhe Scenic Spot. The land quota trading mainly includes the balance of cultivated land and the reclamation of abandoned

industrial and mining land. In recent years, the Company mainly generated sales revenue through sale of land quotas obtained through external purchases. As of 30 June 2023, the Company had completed land quota trading of 1,267 mu. At the same time, the Company's had 211.3 mu of land index on hand for sale. Meanwhile, TATZ also had the 5 land consolidation projects under consolidation and 7 projects under planning, with uninvested amount of RMB79 million. However, there has been a certain lag in the payment of land index trading revenue for TATZ in recent years.

Medium and increasing exposure to commercial activities

The Company's commercial activities include sales, engineering construction, leasing, as well as hotel management. The Company's commercial activities may pose higher operational and business risks than its public-policy businesses. Based on our assessment, TATZ's exposure to commercial activities is moderate with the commercial assets accounting for around 25% of the total assets.

TATZ's commodity sales business developed rapidly in recent years with the revenue increasing to RMB666 million in 2022 from RMB78 million in 2020, accounting for 55.4% of total revenue in 2022. However, the profit margin remains at a low level at around 3.15% in 2022. The main products of the trading business include sand and gravel, zinc ingots, and wood. The Company mainly adopts demand-on-purchase mode, which means the Company only make procurement with upstream suppliers when orders from downstream customers are made. However, the top 5 supplies and customers of trading business accounted for 86.1% and 70.2% of the total procurement and total sales in 2022, respectively, demonstrating relatively high concentration risks. Moreover, some customers are private-owned enterprises with delay payment periods granted by the Company. With the continuous expansion in commodity sales business, the Company may face more recovery risk.

According to the strategic plan of TATZ, the Company would carry out a series of self-operation projects in the future, such as new industrial park, energy storage project, and ecological intelligent parking lot, with a preliminary estimated total investment amount of more than RMB5.0 billion. The Company plan to achieve fund balance through operating revenue, such as leasing and sales of factory and office buildings, and sales of electricity. The large investment amount of self-operation projects may further enlarge the Company's capital expenditure pressure. Moreover, the sand and gravel resources transferred from the Management Committee of Wenhe Scenic Spot in 2022 has not incurred any revenue. There are some uncertainties on the future returns of the Company's sand and gravel mining business.

Good track record of receiving government supports

The Company has a good track record of receiving support from the local government to support its operation in the form of equity transfer, cash and asset injections, and fiscal and operating subsidies. TATZ received capital injection in cash of RMB200 million from the Management Committee of Wenhe Scenic Spot in 2021. From 2020 to 2023H1, the Company received assets injection with total value of RMB4.8 billion from the local government, including sand and gravel resources, parking lot operating rights, reservoir resources, as well as some equity shares of local state-owned companies, enhancing its capital strength. Apart from that, during the first half year of 2023, TTIC converted the loans provided to TATZ's subsidiary into equity investment under the guidance of the local government, which increased TATZ's capital reserve by RMB812 million and decreased its debt burden. From 2020 to 2023H1, the local government provided fiscal and operating subsidies of around RMB147 million to the Company. Given the importance of TATZ to local economic and industrial development, we believe the Company will continue to receive support from the local government.

Fast debt growth with relatively large short-term debt pressure

The Company showed fast debt growth due to the continuous investment in infrastructure construction projects. As of 30 June 2023, TATZ's total debt increased to RMB11.8 billion from RMB8.6 billion as of end-2020. TATZ's total capitalization ratio, as measured by total debt to total capital, was recorded at 54.0% as of the same date. However, the Company bears relatively large short-term debt pressure. As of 30 June 2023, the short-term debt was RMB5.7 billion, accounting for 48.3% of the total debt. TATZ's cash to short-term debt ratio was relatively low at 0.2x, which could not fully cover the short-term debt. Considering the large uninvested amounts of construction projects, we expect the Company would continue to rely on external financing such as bank loans and its debt burden would further increase over the next 12-18 months.

In addition, TATZ's asset liquidity was relatively weak. As of 30 June 2023, TATZ's inventories, intangible assets, and other receivables accounted for 85% of the total assets. Majority of these assets were considered low liquidity. Inventories accounted for more than half of the total assets, which were mainly construction costs of infrastructure construction projects.

Access to different financing channels

TATZ has access to different financing channels such as bank loans and non-standard financing products. The Company maintains good and long-term relationships with large domestic banks such as China Development Bank, Agricultural Development Bank of China, and Bank of Tai'an. As of 30 June 2023, the Company had total bank facilities of RMB7.4 billion, with the available portion of around RMB1.3 billion. As the major LIIFC in Tai'an City, the Company obtained project loans from policy banks and regional commercial banks to support its infrastructure construction projects, which could partially relieve the Company's financial pressure. Moreover, the Company received loans from its shareholder TTIC, the outstanding amount of shareholder borrowing was RMB2.3 billion. Meanwhile, TATZ has a certain exposure to non-standard financing products, while the Company plans to replace high-cost non-standard financing with bank loans and issuing bonds with lower costs.

ESG Considerations

TATZ faces environmental risks because it has undertaken major 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 bears social risks as it implements public policy initiatives by building public infrastructure in Wenhe Scenic Spot. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

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

Structural considerations

TATZ's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important role in the development of Wenhe Scenic Spot, 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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