

Lianhe Global has assigned ‘A’ global scale Long-term Issuer Credit Rating with Stable Outlook to Wuxi Construction and Development Investment Corporation Limited

HONG KONG, 11 January 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A’ global scale Long-term Issuer Credit Rating to Wuxi Construction and Development Investment Corporation Limited (“WCDI”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Jiangsu’s Wuxi municipal government would provide strong support to WCDI if needed. This mainly considers the Wuxi government’s full ownership of WCDI, the high strategic importance of WCDI to Wuxi in the municipal infrastructure construction and landscaping construction, and the strong linkage between the Wuxi government and WCDI, including strategic alignment ongoing operational and financial support. In addition, the Wuxi government may face significant negative impact on its reputation and financing activities if WCDI encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that WCDI’s strategic importance would remain intact while the Wuxi government will continue to ensure WCDI’s stable operation.

Key Rating Rationales

Wuxi Government’s Full Ownership: The Wuxi municipal government has 100% ownership of WCDI via the State-owned Assets Supervision and Administration Commission of Wuxi (“Wuxi SASAC”), which is appointed by the government to supervise state-owned entities. Wuxi SASAC is the only shareholder of WCDI and subsequently increased its registered capital to c. RMB18.4 billion at end-June 2020 from the initial registered capital of c. RMB12 billion.

High Strategic Importance: WCDI is one of Wuxi’s major LGFVs and has undertaken various businesses including comprehensive development of urban construction, landscaping construction, financial leasing and investment to support the economic development in Wuxi. In the future planning of the Wuxi government, WCDI will continue to be responsible for city construction-related projects.

WCDI is mainly responsible for municipal infrastructure construction and engineering contracting such as transportation and environmental projects. According to the investment project plan issued by Wuxi municipal government, WCDI accepts commissioned construction. Major completed projects include Comprehensive Environment Project of Lihu, reconstruction of Taihu Road, Xinhua Road, Jincheng East Road etc.

Government Supervision and Strategic Alignment: The Wuxi municipal government and Wuxi SASAC have strong control and supervision over WCDI, including control of the board

of directors, senior management appointments, major strategic, investment and financing planning. WCDI's business operation and development have been aligned with the government's economic and social policies. As one of the national economic central cities and one of the key construction cities determined by Jiangsu Provincial Government, as well as the major transportation hub in East China, Wuxi has devoted to optimize its economic structure and strengthen the transportation connections to promote urban development.

Ongoing Government Support: WCDI has received moderately strong support from the government such as government subsidies, capital injections and financial support. The Wuxi government has purchased a considerable amount of the completed infrastructure projects from WCDI during the past three years. WCDI is expected to continue receiving repayment amount from the government in the future from the projects under development.

Strong Economy and Fiscal Strength Underpin Wuxi: Ongoing economic development and urbanization have supported Wuxi's GDP growth rate which was 7.4% and 6.7% in 2018 and 2019, respectively. Despite the impact of COVID-19, Wuxi's GDP growth rate recovered to 0.8% from negative in 1H-2020. The service industry has become the main GDP growth driver with the tertiary industry (the service sector) accounting for the largest, at 53.8%, of Wuxi's 1H 2020 GDP, followed by the secondary industry's (comprising manufacturing and construction) 45.4%.

Wuxi's aggregate fiscal revenues are mainly derived from stable budgetary revenue with tax revenue accounting for above 80% between 2017-2019 and stable government fund income. Subsidies from higher government authorities have been relatively small due to its high self-sufficiency rate. Wuxi's debt ratio (i.e. total government debt divided by aggregate revenue) was at a moderate level of 57.7% at end-2018 and 60.1% at end-2019, respectively. Its budget deficit has been relatively low in the recent years due to its moderate budgetary expenditure.

Moderately Weak Financials: WCDI's earnings generation capability has been weak given its focus on contracting construction and limited commercial-oriented activities. WCDI's financial leverage (total liabilities to assets) was stable in the recent years which slightly decreased to 58.5% at end-2019 from 61.9% at end-2018. WCDI has access to financing channels such as bank loans, syndicated loans and issued bonds etc. to support its debt repayment and business operation. RMB12.1 billion of its outstanding debt will be due within one year as of end-June 2020, compared with WCDI's monetary assets of RMB6.4 billion and available credit lines of RMB6.7 billion.

Rating Sensitivities

We would consider downgrading WCDI's rating if (1) there is perceived weakening in support from Jiangsu's Wuxi government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Wuxi government's ownership of WCDI, or (3) there is a downgrade in our internal credit assessment on the Wuxi municipal government.

We would consider upgrading WCDI's rating if there is an upgrade in our internal credit assessment on the Wuxi municipal government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this WCDI's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst

Ben Yau

Director

(852) 3462 9586

ben.yau@lhratingsglobal.com

Committee Chairperson

Alex Kung

Senior Director

(852) 3462 9577

alex.kung@lhratingsglobal.com

Business Development Contact

Joyce Chi

Managing Director

(852) 3462 9569

joyce.chi@lhratingsglobal.com

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