

Wuxi Construction and Development Investment Corporation Limited

Initial Issuer Report

Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	18 March 2021

Key Figures of Wuxi and WCDI

(RMB billion)	2018	2019
Wuxi		
GDP	1,143.9	1,185.2
GDP growth rate (%)	7.4	6.7
Budgetary revenue	101.2	103.6
Government fund	73.1	79.7
Transfer payment	12.0	11.7
Budgetary expenditure	105.6	111.8
WCDI		
Assets	55.5	62.6
Equity	21.1	26.0
Revenue	2.8	3.0

Source: Wuxi Bureau of Statistics, Wuxi Finance Bureau, WCDI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A’ global scale Long-term Issuer Credit Rating to Wuxi Construction and Development Investment Corporation, Ltd. (“WCDI” or “the company”). The Outlook is Stable.

Summary

The Issuer Credit Rating reflects a high possibility that Jiangsu's Wuxi 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 encounters 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.

Rating Rationale

Wuxi Government's Full Ownership: The Wuxi 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.

High Strategic Importance: WCDI is one of Wuxi's major state-owned entities 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 the Wuxi government, WCDI accepts commissioned constructions. 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 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 designated 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.

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Applicable Criteria

China Local Government Financing Vehicle Criteria (16 July 2018)

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

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 and 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 Financial: WCDI's earnings generating 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 and slightly improved 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 operations. A total of 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 government.

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

Operating Environment

Strong Urban economic strength and sustained growth

Wuxi is a prefecture-level city in Jiangsu Province and is one of the central cities in China's Yangtze River Delta approved by the State Council. It is one of the 15 national economic centre cities and one of the key construction cities designated by Jiangsu Provincial Government. Meanwhile, it is a major transportation hub in East China, and has formed a three-dimensional transportation network composed of railway, highway, waterway and aviation supporting facilities. Wuxi was named the 3rd best prefecture city in Mainland China, the 17th best tourist destination city, and one of the 30 most innovative cities in 2018.

The sustained economic growth contributed to the urban economic strength of Wuxi. Wuxi's GDP was ranked 3rd in Jiangsu Province while Jiangsu's GDP was ranked 2nd in China (only after Guangdong Province) in 2019. The GDP growth rate of Wuxi was 6.7% in 2019, compared with 6.1% for Jiangsu Province and China. The added value of the secondary industry (comprising manufacturing and construction) increased by 7.6% year-on-year and the added value of the tertiary industry (the service sector) increased by 6.0% year-on-year. The service industry has become the main GDP growth driver with the tertiary industry accounting for the largest at 53.8% of Wuxi's 1H 2020 GDP, followed by the secondary industry's 45.4%.

Wuxi's population has steadily grown with a total population of 6.6 million and an urban population of 5.1 million at end-2019. GDP per capita of Wuxi was RMB180,000 (ranked 2nd) and disposable income per capita was RMB54,847, which was ranked 10th among 337 cities in China in 2019. Jiangsu's GDP per capita was RMB123,000 and disposable income per capita was RMB41,400 in the same period.

Wuxi's GDP and Fixed Asset Investment

(RMB billion)	2017	2018	2019	1H2020
GDP	1,051.2	1,143.9	1,185.2	551.6
-Primary industry (%)	1.3	1.1	1.0	0.8
-Secondary industry (%)	47.2	47.8	47.5	45.4
-Tertiary industry (%)	51.5	51.1	51.5	53.8
GDP growth rate (%)	7.4	7.4	6.7	0.8
Fixed asset investment	496.8	343.5	359.6	184.7
Fixed asset investment growth rate (%)	4.7	5.8	6.1	4.8
Population (million)	6.6	6.6	6.6	-

Source: Wuxi Bureau of Statistics

A Moderate Debt Level on Strong Fiscal Revenue

Wuxi's aggregate fiscal revenues are mainly derived from stable budgetary revenue with tax revenue accounting for above 80% between 2017 and 2019. The self-sufficiency rate of Wuxi was relatively high while subsidies from the higher government authorities have been relatively small. We expect ongoing economic development to support persistent growth in Wuxi's budgetary revenue, while land transfer planning remains a key factor affecting the government fund income.

Wuxi's debt ratio (i.e. total government debt divided by aggregate revenue) was at a moderate level of 57.8% at end-2018 and 60.5% at end-2019, respectively. Its budget deficit has been relatively low in the recent years due to its moderate budgetary expenditure. At end-2019, Wuxi had RMB120.5 billion of outstanding debt, including RMB50.5 billion of general obligations and RMB70.0 billion for special projects.

Wuxi's Fiscal Condition			
(RMB million)	2017	2018	2019
Budgetary revenue	93,000	101,228	103,633
Budgetary revenue growth rate (%)	6.3	8.8	2.4
Tax revenue	75,240	86,051	87,021
Tax revenue (% of budgetary revenue)	80.9	85.0	84.0
Government fund income	56,417	73,131	79,733
Transfer payment	14,060	12,042	11,672
Aggregate revenue	168,663	187,149	199,312
Budgetary expenditure	98,770	105,602	111,758
Budget deficit ¹ (%)	-6.2	-4.3	-7.8

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%
 Source: Wuxi Finance Bureau and Lianhe Global's calculations

Ownership Structure and Profile

Full State Ownership with Strong Government Supervision

WCDI, formerly Wuxi Construction and Development Investment Corporation, was established in 1991. Under the No.23 [2012] of the Wuxi Municipal People's Government and the No.10 [2012] of the State-owned Assets Supervision and Administration Commission of Wuxi ("Wuxi SASAC") in June 2012, WCDI had reorganized and increased its capital to RMB14.5 billion. At end-June 2020, the registered capital of WCDI was RMB18.4 billion. The Wuxi SASAC is the only shareholder with 100% ownership of WCDI, and the Wuxi government is the ultimate controller.

WCDI had 17 wholly-owned or controlled subsidiaries at end-2019, with operations across various businesses, including comprehensive development of urban construction (transportation facilities, road network and utilities), real estate development and operation, engineering construction and management, landscaping construction, investment, leasing, sales of building materials and trading businesses, etc. As one of the major state-owned infrastructure construction and investment entities in Wuxi, WCDI has played an important role in the urban development of Wuxi and has received ongoing support from the Wuxi government in the form of capital injection and financial subsidies.

Strategic Importance and Government Linkage

High Strategic Importance of WCDI to the Local Government and Economy

WCDI is one of the Wuxi's major state-owned entities and has undertaken various businesses including municipal infrastructure construction, financial business, forest products and other businesses that is appointed by the government to support the urban development of Wuxi. In the future planning of the Wuxi government, WCDI will continue to be responsible for city construction-related projects.

Strong Linkage with Wuxi Government

Wuxi SASAC has strong control and supervision over WCDI, including control of the board of directors, senior management appointments, major strategic, investment, and financing planning. In addition, the Wuxi SASAC will review the audit report of WCDI's operation by external auditor. WCDI's business operation and development have been aligned with the government's economic and social policies.

Ongoing Government Support

WCDI has received assets and capital injections from the Wuxi government and related government entities. The other supports comprised subsidies and project repurchases from the government. The subsidies include tax benefits, industry support fund, and the subsidies from the other finance bureau. The Wuxi government purchased a considerable amount of the completed infrastructure projects from WCDI during the past three years. WCDI is expected to continue receiving repayment from the projects under development from the government in the future.

Business Profile

Major LGFV Responsible for Comprehensive Infrastructure Construction and Environmental Projects in Wuxi

WCDI is a state-owned entity under the Wuxi government with total assets of RMB66.8 billion at end-June 2020. WCDI's business focuses on the municipal infrastructure and landscape construction, supplemented by financial leasing and factoring, etc. The main revenue sources are municipal engineering contracting revenue and financial business. There was a new revenue source of forest products in 2019 as a result of the acquisition of Kangxin New Materials Co., Ltd. ("Kangxin"; stock code: 600076.SH). With franchise advantages in project execution and financing, WCDI has developed good capability to take on major municipal infrastructure constructions.

As one of Wuxi's major construction and investment platforms, Wuxi's economic condition and future planning have a significant impact on WCDI's development. Ongoing demands for urban infrastructure construction and urban renewal of Wuxi have provided a favourable environment for WCDI. In 2019, WCDI realized total revenue of RMB2,999 million (RMB1,881 million in 1H2020). Engineering contracting income stayed steady at RMB1,903 million, accounting for the biggest share at 63.5% of the total revenue. Financial leasing was the second largest at RMB785 million, followed by the forest products at RMB155 million. The contribution components of the total revenue were generally unchanged in 1H2020.



Municipal Infrastructure Construction and Engineering Contracting

WCDI is mainly responsible for the municipal infrastructure construction and engineering contracting such as transportation and environmental projects. According to the investment project plan issued by the Wuxi government, WCDI accepts commissioned construction.

The sources of project funds are self-funded (including government fund injections, subsidies and operating income) and external financing (mainly bank borrowings).

There are temporarily no planned projects at end-June 2020. Wuxi will focus on urban renewal for the Fourteenth Five-Year Plan and WCDI is expected to continue its participation.

Financial Leasing and Factoring

The financial leasing and factoring businesses of WCDI started in 2015 and 2016, respectively. WCDI has a series of systems for risk management and control. At end-September 2020, there was no impairment exposure in the leasing and factoring businesses.

Forest Products

WCDI's operating income was supplemented by the new business resulting from the acquisition of a listed company, Kangxin, in 2019. This acquisition was approved by SASAC and it was a strategic investment of the company because of business coordination. Kangxin is mainly engaged in the research and development, production and sale of wooden materials (such as container floor) and forest products (such as seedlings and various greening products). Due to the impact of COVID-19, market demand has declined and the revenue from forest products is expected to be adversely affected.

Other Businesses

Commissioned by the Wuxi government, WCDI is also responsible for the managing of public advertising facilities and charging of public parking. In addition, WCDI has assets that can be leased with rental income generating capability. WCDI has diversified (other) businesses but their scales are small and thus do not have significant impact on its total revenue.

Financial Profile

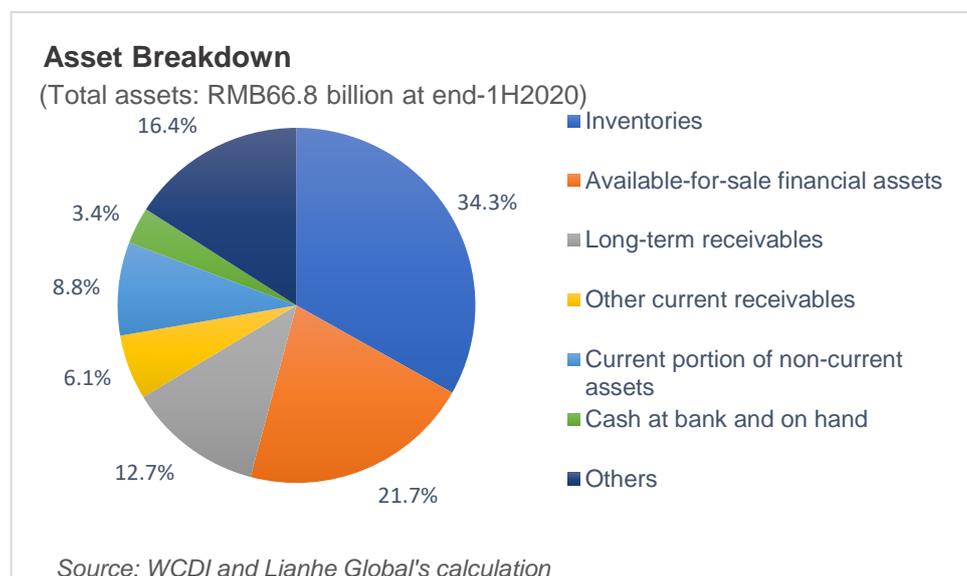
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2017	2018	2019	1H2020
Total Asset	54,031	55,459	62,649	66,776
Equity	21,646	21,148	26,009	26,279
Debt	25,754	26,366	26,806	30,410
Debt / (Debt + Equity) (%)	54.3	55.5	50.8	53.4
LT Debt	20,464	19,743	17,979	17,594
LT Debt / (LT Debt + Equity) (%)	48.6	48.3	40.9	40.1

Source: WCDI and Lianhe Global's calculations

WCDI's total assets increased by 13.0% to RMB62.6 billion at end-2019 from RMB55.5 billion at end-2018, mainly as a result from the acquisition of Kangxin. Inventories accounted for most of WCDI's assets as the main business of WCDI is engineering contracting. At end-2019, WCDI had RMB23.5 billion of inventories (37.5% of total assets), mainly comprising road and bridge engineering, Lihu Wan development, Xiyi road development and biological assets. Available-for-sale financial assets accounted for 21.6% of total assets at end-2019, mainly comprising of external equities and bond investments. Long-term receivables, mainly

financial leasing, accounted for 10.4% and 12.7% of the total assets at end-2019 and at end-June 2020, respectively.



WCDI's financial leverage (total liabilities to assets) was stable in the recent years and slightly improved to 58.5% at end-2019 from 61.9% at end-2018, mainly due to the increase in total assets. Total liabilities increased by 6.8% which mainly consisted of advances from the Wuxi government (21% of total liabilities, mainly project advance payments), long-term borrowings (22%) and debentures payables (27%).

Operation and Profitability

(RMB million)	2018		2019		1H2020	
	Revenue	Gross Margin	Revenue	Gross Margin	Revenue	Gross Margin
Engineering	2,204.5	0.5%	1,903.0	0.5%	908.6	0.5%
Financial Leasing	492.3	56.9%	785.3	50.3%	451.5	39.6%
Forest Products	-	-	154.7	35.2%	447.5	17.2%
Factoring	107.1	45.1%	138.4	49.5%	65.3	45.6%
Advertising	1.0	33.7%	1.0	37.5%	0.1	-30.0%
Parking fee	0.3	100.0%	0.3	100.0%	0.2	100.0%
Others	12.1	58.4%	16.1	63.8%	8.0	55.5%

Source: WCDI and Lianhe Global's calculations

The revenue structure of WCDI remained largely unchanged between 2017 and 2018, with engineering contracting income being the main source of revenue. The growth rate of revenue remained stable in 2018 and 2019 (6.35% and 6.44%, respectively). Engineering contracting revenue was the largest at RMB908.6 million for 1H2020, followed by financial leasing at RMB451.5 million. After the acquisition of Kangxin, forest products revenue has also become the third important source of income.

Cash Flow

WCDI's net cash flow from operation was sizable in 2017 due to the cash collection from Wuxi Finance Bureau of RMB7.9 billion. WCDI invests in equity such as Sunan International

Airport and Wuxi Metro. The large ongoing capital expenditure has resulted in negative cash flow from WCDI's investments.

Cash Flow (RMB million)	2017	2018	2019	1H2020
Cash Inflows from Operation	8,411.5	4,446.9	5,076.3	2,436.1
Cash Outflows from Operation	1,399.3	882.7	1,420.4	1,329.2
Net CF from Operation	7,012.2	3,564.2	3,655.9	1,106.9
Cash Inflows from Investment	6,261.9	35,281.6	29,113.2	9,488.2
Cash Outflows from Investment	11,368.4	40,078.7	30,352.6	12,162.5
Net CF from Investment	-5,106.5	-4,797.1	-1,239.4	-2,674.2
Cash Inflows from Financing	7,708.7	6,918.8	6,138.8	5,677.8
Capital Contribution	122.4	-	260.0	-
Borrowings	7,586.3	6,918.8	5,766.8	4,549.3
Bonds	-	-	-	1,000.0
Cash Outflows from Financing	9,185.4	7,162.0	8,184.3	4,473.8
Net CF from Financing	-1,476.7	-243.2	-2,045.5	1,204.1
Net Increase in Cash and cash equivalent	421.9	-1,454.0	398.9	-363.3

Source: WCDI's annual and interim reports

Debt Servicing Capability

WCDI's interest coverage (EBITDA over Interest) was weak at an average of 0.67x at end-2017 and end-2018, but it was improved to 1.2x at end-2019.

WCDI has access to multiple channels of financing, including bank loans, syndicated loans and bonds etc., to support its debt repayments and business operation. The total debt over EBITDA ratio stayed high during 2017 to 2019. At end-June 2020, WCDI's total outstanding debt was RMB30.4 billion, while the long-term debt accounted for the majority at 58%. The company had monetary assets of RMB6.4 billion (including receivables but excluding restricted cash), and unused credit facilities of RMB6.7 billion, compared with its outstanding debt of RMB12.1 billion due within one year at end-June 2020.

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