

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taizhou Huaxin Pharmaceutical Investment Co., Ltd.

HONG KONG, 23 September 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Taizhou Huaxin Pharmaceutical Investment Co., Ltd. (“THPI”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Taizhou municipal government would provide moderately strong support to THPI if needed, in light of its majority ownership of THPI, THPI’s strategic position as the major development and operation entity of the Taizhou Medical New & Hi-tech Industrial Development Zone (the “Hi-tech Zone”) and the strong linkage between the Taizhou municipal government and THPI including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Taizhou municipal government may face negative impact on its reputation and business and financing activities should THPI encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that THPI’s strategic importance will remain intact while the Taizhou municipal government will continue to ensure THPI’s stable operation.

Key Rating Rationales

Strong Linkage with the Taizhou Municipal Government: The Taizhou municipal government holds 99.37% stake in THPI and it is the ultimate shareholder. The rest is held by CDB Development Fund Co., Ltd. (“CDB Development Fund”). THPI’s linkage with the local government is strong as it is majority owned by the Taizhou municipal government. The Taizhou municipal government or the Taizhou SASAC plans to repurchase the equity stake held by the CDB Development Fund, which was 0.63% at end-June 2021.

Strategic Importance of THPI to Taizhou City and Hi-tech Zone: THPI is the flagship urban developer in the Hi-tech Zone and the platform for supporting the pharmaceutical industry in Taizhou. THPI is the largest LGFV by asset size in Taizhou at end-June 2021. However, THPI’s main business is focused on pharmaceutical areas, which present certain commercial elements in the operations, and its primary policy roles are in the Hi-tech Zone, which would constrain its strategic positioning in Taizhou vis-à-vis traditional LGFVs which focus on providing city-level public goods services.

Strong Government Supervision and Strategic Alignment: The Taizhou municipal government has strong control and supervision over THPI, including control of the board of directors and the supervisory committee, and approvals of senior managers and major operating and financing plans. THPI’s strategic planning and development have been aligned with the local government’s economic and social policies, aiming to develop Taizhou and the national development zone. In addition, the government will assign auditors to audit THPI’s financial and operating data on a periodic basis.

Ongoing Government Support: THPI has received supports from the local government for its business operation, including capital injections, government subsidies, and allocation of land resources or assets. THPI's registered capital was increased to RMB6.3 billion after the RMB1 billion capital injection from the Taizhou SASAC in 2020. THPI has consistently received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. THPI received a total of RMB1.3 billion of government subsidies between 2018 and 1H2021. We believe THPI is likely to continue to receive government support in time of operational and/or financial subsidies.

Moderately Weak Financials: THPI's financial leverage (total liabilities to assets) was moderately high, increasing from 59.5% at end-2018 to 63.6% at end-June 2021. THPI mainly relies on external financing to support its capital expenditure. In view of its projects under construction and development, we expect THPI's capital expenditure needs will continue. THPI had a bank credit line of RMB30.3 billion of which approximately RMB8.93 billion was available at end-June 2021. Available bond issuance quota was RMB3.37 billion and cash was RMB5.2 billion at end-June 2021, comparing with its debt to be due within one year of c. RMB14.0 billion. The average financing cost of THPI was 6.64% at end-June 2021. In addition, THPI provided RMB9.6 billion of external guarantees to third parties, mainly other state-owned enterprises in Taizhou, accounted for c. 32% of THPI's net asset at end-June 2021.

Economy and Fiscal Strength Underpin Taizhou: Taizhou's GDP was RMB531.3 billion in 2020 and RMB286.0 billion in 1H2021, represented a year-over-year growth of 3.6% and 19.1%, respectively. Taizhou's aggregate fiscal revenue maintained steady growth in the past three years with continuing transfer payment received from higher level governments. Taizhou's debt ratio (total government debt divided by aggregate revenue) decreased from 81.9% at end-2019 to 76.0% at end-2020.

Rating Sensitivities

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

We would consider upgrading THPI's rating if (1) there is strengthened support from the Taizhou municipal government, or (2) an upgrade in our internal credit assessment on the Taizhou 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 THPI'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.

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