

Wuxi Construction and Development Investment Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	11 January 2022

Key Figures of Wuxi and WCDI

(RMB billion)	2019	2020
Wuxi		
GDP	1,185.2	1,237.0
GDP growth rate (%)	6.7	3.7
Budgetary revenue	103.6	107.6
Government fund	79.7	98.8
Transfer payment	11.7	18.0
Budgetary expenditure	111.8	121.5
WCDI		
Assets	62.6	68.3
Equity	26.0	25.6
Revenue	3.0	4.0

Note: WCDI's financial data for 2019 has been adjusted according to its announcement in the 2020 annual report.

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

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'A' global scale Long-term Issuer Credit Rating of Wuxi Construction and Development Investment Co., Ltd. ("WCDI"); Issuer Rating Outlook Stable.

Summary

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 municipal government's full ownership of WCDI, the high importance of WCDI to Wuxi in the municipal infrastructure construction and landscaping construction, and the strong linkage between the Wuxi municipal government and WCDI, including management supervision, ongoing operational and financial support. In addition, the Wuxi municipal government may face significant negative impact on its reputation and financing activities if WCDI were to encounter any operational and financial difficulties.

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

Rating Rationale

Wuxi Municipal 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.

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 municipal government, WCDI will continue to be responsible for city construction-related projects, such as municipal infrastructure construction and engineering contracting such as transportation and environmental projects.

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.

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. WCDI is expected to continue receiving repayment from the projects under development from the government in the future. WCDI is also expected to benefit from infrastructure projects in the near future with the development of the Lihu area.

Strong Economy and Fiscal Strength Underpin Wuxi: Wuxi's GDP was ranked 3rd in Jiangsu Province while Jiangsu's GDP was ranked 2nd in China in 2020 (only after Guangdong Province). The GDP growth rate of Wuxi in 2020 was 3.7%, compared with Jiangsu Province's and China's

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Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

3.7% and 2.3%, respectively. With the economy recovering, the year-over-year GDP growth rate of Wuxi reached 10.7% in the first nine months of 2021.

Wuxi's aggregate fiscal revenues are mainly derived from stable budgetary revenue with tax revenue accounting for above 80% in the past three years. Subsidies received from higher government authorities have been relatively small due to WCDI's high self-sufficiency rate. Wuxi's debt ratio (i.e. total government debt divided by aggregate revenue) was at a moderate level of 60.5% at end-2019 and 62.8% at end-2020. Its budget deficit has been relatively modest in the recent years due to its moderate budgetary expenditure.

Moderately Weak Financials: WCDI's earnings generating capability has been weak given its focus on contracting construction. WCDI's financial leverage (total liabilities to assets) slightly increased from 58.5% at end-2019 to 62.5% at end-2020. 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 RMB13.8 billion of WCDI's outstanding debt will be due within one year at end-September 2021, compared with WCDI's monetary assets of RMB4.1 billion and available credit lines of RMB10.5 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 municipal 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 (1) there is strengthened support from the Wuxi municipal government, or (2) there is an upgrade in our internal credit assessment on the Wuxi municipal government.

Company Profile

WCDI, formerly Wuxi Construction and Development Investment Corporation, was established as a fully state-owned entity in 1991. WCDI increased its paid-in capital to c. RMB18.5 billion after it received RMB40.6 million capital injection from Wuxi SASAC in September 2020. On a consolidated basis, WCDI consolidated four more subsidiaries, which were newly-established and directly or indirectly wholly-owned by WCDI, and had 21 wholly-owned or controlled subsidiaries at end-September 2021. The Wuxi SASAC is the only shareholder with 100% ownership of WCDI and the Wuxi municipal government is the ultimate controller.

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