

# Taizhou Hailing City Development Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	24 March 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Taizhou Hailing City Development Group Co., Ltd. (“THCD”). The Outlook is Stable.

### Summary

The Issuer Credit Rating reflects a high possibility that Taizhou municipal government would provide moderately strong support to THCD if needed. This mainly considers the Taizhou municipal government’s full ownership of THCD, the high strategic importance of THCD to Taizhou and Hailing District in land development and consolidation, infrastructure construction and maintenance, and the strong linkage between the Taizhou municipal government (via the Hailing district government) and THCD, 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 financing activities should THCD encounter any operational or financial difficulties.

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

### Rating Rationale

**Taizhou Municipal Government’s Full Ownership:** The Taizhou municipal government has 100% ownership of THCD via the State-owned Assets Supervision and Administration Commission of Taizhou Municipal Government (“Taizhou SASAC”), which is appointed by the government to supervise state-owned entities. At end-2021, the Taizhou SASAC is the only shareholder of THCD. After capital injection, the paid-in capital of THCD increased from c. RMB3,732 million to RMB5,058 million in 2019.

**Strategic Importance to Taizhou and Hailing District:** We believe that the Taizhou municipal government is willing to extend support to THCD in view of its strategic important role as one of the major state-owned infrastructure construction entities of Taizhou and Hailing District to support the local economic and urban development. THCD has played an important role in the urban development as it is engaged in primary land development and consolidation, infrastructure construction and resettlement housing sales, and has a monopoly position in Hailing District. THCD is the major urban developer and the important platform for supporting the economic development in Hailing District.

**Government Supervision and Strategic Alignment:** The Taizhou municipal government has strong control and supervision (via the Hailing district government) over THCD, including the control of the board of directors, senior management appointments, and major strategic, investment and financing planning. THCD’s business operation and development have been aligned with the government’s economic and social policies.

**Ongoing Government Support:** THCD has received support from the government such as capital injections, land resources, government subsidies and financial support. The Taizhou municipal government and the Hailing district government have also purchased a considerable amount of the completed land development projects and infrastructure projects from THCD during the past few years. THCD is expected to continue receiving repayment

### Key Figures of Taizhou and THCD (RMB billion)

	2019	2020
<b>Taizhou</b>		
GDP	513.3	531.3
GDP growth rate (%)	6.4	3.6
Budgetary revenue	36.6	37.5
Government fund	36.3	55.0
Transfer payment	19.3	17.9
Budgetary expenditure	59.4	62.8
<b>THCD</b>		
Assets	43.4	44.7
Equity	15.8	16.0
Revenue	1.4	3.7

Source: Taizhou government, Finance Bureau of Taizhou, THCD and Lianhe Global’s calculations

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### Applicable Criteria

[China Local Government Financing Vehicle Criteria \(31 December 2021\)](#)



from the governments in the future from the projects completed and projects under development.

**Moderately Weak Financials:** THCD's earnings generation capability has been weak given its focus on land development and contracting construction. THCD's financial leverage (total liabilities to assets) was high at 64.9% at end-September 2021. Apart from the financial support from the government, THCD has access to financing channels such as bank loans, bond issuance and other financing channels to support its debt repayment and business operation. THCD had unrestricted cash of c. RMB3.0 billion, available credit line amount of c. RMB13.1 billion and available bond issuance amount of c. RMB2 billion at end-September 2021, compared with its debt to be due within one year of c. RMB8.9 billion.

**Economy and Fiscal Strength Underpin Taizhou:** Taizhou's GDP was RMB531.3 billion in 2020 and RMB286.0 billion in the first half of 2021, representing a year-over-year growth of 3.6% and 19.1%, respectively. Taizhou's aggregate fiscal revenue maintained a steady growth in the past three years with continuing transfer payment received from the 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 THCD'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 THCD, or (3) there is a downgrade in our internal credit assessment on the Taizhou municipal government.

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

## Operating Environment

### Stable Economy with Sustained Growth of Taizhou City

Taizhou is a prefecture-level city in Jiangsu Province and it is also an important trade port city in China's Yangtze River Delta approved by the State Council. It is located in East China and the middle of Jiangsu Province. Taizhou administers 3 county-level cities (Xinghua, Jingjiang and Taixing), 3 districts (Hailing, Gaogang and Jiangyan) and 2 development zones (Hi-tech Zone and Agriculture Development Zone). It has a land area of 5,787 square kilometers and a residential population of 4.5 million with an urbanization rate of 68% in 2020, according to the 7th National Census.

Hailing District ("Hailing") is the main urban area of Taizhou and administers 10 streets and 4 towns. It has a land area of 370 square kilometers and a residential population of 0.58 million with an urbanization rate of 92.4% in 2020, according to the 7th National Census. Hailing realized RMB62 billion GDP in 2020, with a year-over-year increase of 3.5% at comparable prices.

Taizhou realized RMB531.3 billion GDP in 2020 and RMB286.0 billion in the first half of 2021, representing a year-over-year growth of 3.6% and 19.1%, respectively. Taizhou's economic growth was mainly fueled from the secondary and tertiary industries in the past few years. GDP per capita was stable in recent years between c. RMB110,000 and RMB115,000 level.

#### Taizhou's GDP and Fixed Asset Investment

(RMB billion)	2018	2019	2020
GDP	510.8	513.3	531.3
-Primary industry (%)	5.5	5.7	5.8
-Secondary industry (%)	47.6	49.2	47.8
-Tertiary industry (%)	46.9	45.1	46.4
GDP growth rate (%)	6.7	6.4	3.6
Fixed asset investment	395.7	419.4	420.2
Fixed asset investment growth rate (%)	9.2	6.0	0.2
Population (million)	4.6	4.6	4.5

Source: Taizhou government's website and Lianhe Global's calculation

### Moderate Fiscal Condition of Taizhou City

Taizhou's fiscal strength maintained steady growth in the past three years. Its budgetary revenue grew by 6.4%, 2.4% and 2.6% in 2018, 2019 and 2020, respectively. However, tax revenue as a percentage of budgetary revenue declined from c. 80% to 75% at the same time, mainly because of various government policies implementation, including tax and interest cuts in responses to the pandemic. The revenue from government-managed fund increased in 2020, mainly due to a 55% increase in land use rights revenue. Taizhou's financial self-sufficiency rate is relatively low, but it continues to receive higher government subsidies. Taizhou's fiscal debt ratio (total government debt outstanding / aggregate revenue) is slightly higher than the average provincial level given its relatively weak fiscal strength. Taizhou's government debt increased from RMB75.9 billion at end-2019 to RMB84.4 billion at end-2020, mainly due to the increase in special debt.

#### Taizhou's Fiscal Condition

(RMB billion)	2018	2019	2020
Budgetary revenue	35.7	36.6	37.5

Budgetary revenue growth rate (%)	6.4	2.4	2.6
Tax revenue	28.6	27.9	28.2
Tax revenue (% of budgetary revenue)	80.0	76.3	75.2
Government fund income	33.3	36.3	55.0
Transfer payment	15.2	19.3	17.9
<b>Aggregate revenue</b>	<b>84.4</b>	<b>92.7</b>	<b>111.0</b>
Budgetary expenditure	53.2	59.4	62.8
Budget deficit <sup>1</sup> (%)	-49.1	-62.5	-67.3

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Finance Bureau of Taizhou and Lianhe Global's calculations

## Ownership Structure and Profile

### Full State Ownership with Strong Government Supervision

THCD was established under the approval of Taizhou Municipal Government and Hailing District People's Government of Taizhou City ("Hailing district government") with an initial registered capital of RMB100 million in April 2006. In October 2010, 100% equity of THCD was transferred to Finance Bureau of Hailing District ("Hailing Finance Bureau") under the Document No.149 [2020] issued by the Hailing district government. In May 2019, the shareholder of THCD was changed to State-owned Assets Supervision and Administration Office of Hailing District People's Government of Taizhou City ("Hailing SASAO") under the approval of the Hailing district government. In July 2020, under the approval of the Taizhou government, the shareholder of THCD was changed to State-owned Assets Supervision and Administration Commission of Taizhou Municipal Government ("Taizhou SASAC"). At end-2021, the Taizhou SASAC was the only shareholder with 100% ownership and was the ultimate controller of THCD. The registered capital and paid-in capital of THCD increased to RMB5,058 million in 2019 after several capital injections.

## Strategic Importance and Government Linkage

### Strategic Importance of THCD to Taizhou City and Hailing District

We believe that the Taizhou municipal government is willing to extend support to THCD in view of its strategic important role as one of the major developers of Taizhou City and Hailing District to support the local economic and urban development. THCD is the major urban developer and important platform for supporting the economic development in Hailing District.

### Strong Linkage with the Taizhou Municipal Government

THCD's linkage with the local government is strong as it is wholly owned by the Taizhou municipal government through the Taizhou SASAC.

The Taizhou municipal government has strong control and supervision (via the Hailing district government) over THCD, including control of the board of directors, senior management appointments and major strategic, investment and financing plans. THCD's strategic planning and development have been aligned with the local government's economic and social policies, aiming to develop Taizhou and Hailing District.

## Ongoing Government Support

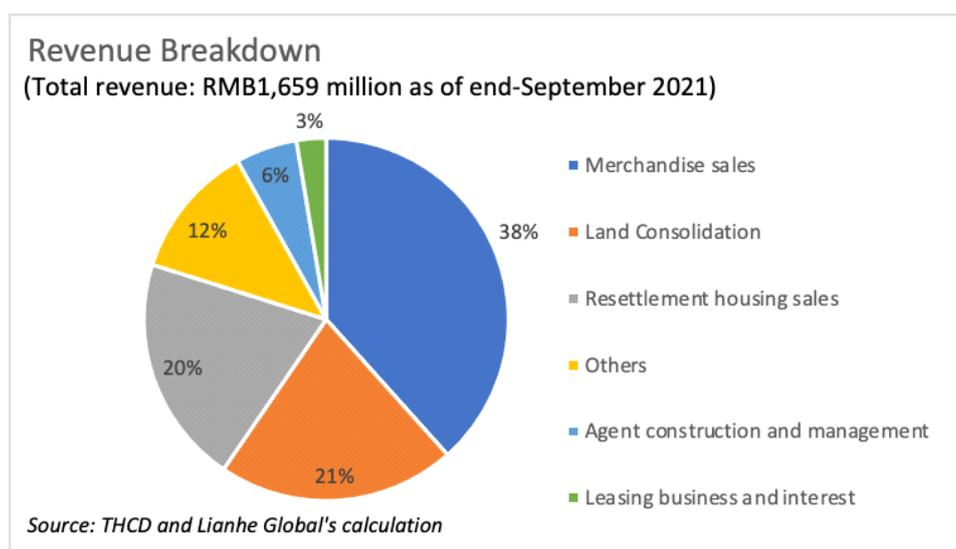
THCD has received supports from the local governments for its business operation, which including but not limited to capital injections, government subsidies, allocation of land resources or assets and guidance from the local governments in its daily management.

THCD has received financial subsidies from the local governments mainly for supporting projects related to public infrastructure or special projects. THCD received a total of RMB326.2 million of government subsidies between 2018 and nine months ended September 2021. We believe THCD is likely to receive timely government support in the form of operational and/or financial subsidies.

## Business Profile

### One of the Major LGFVs Responsible for Land Consolidation and Infrastructure Construction in Hailing District of Taizhou City

As one of the major state-owned entities in Taizhou, especially in Hailing District, THCD has played an important role in the urban development of Taizhou as it is engaged in primary land development and consolidation, infrastructure construction and resettlement housing sales, and has a monopoly position in Hailing District. THCD's revenue structure mainly consists of land development and consolidation, resettlement housing sales, merchandising sales and construction income. Other businesses include agent construction, financial leasing and guarantee, etc. THCD achieved revenue of c. RMB1,248 million, RMB1,361 million, RMB3,739 million and RMB1,659 million in 2018, 2019, 2020 and nine months ended September 2021, respectively. The substantial increase in revenue in 2020 was mainly due to the increase in the saleable area and sales of the resettlement houses, as well as the expansion of merchandising sales business segment.



## Land Development and Consolidation

According to the regional development planning issued by the Hailing district government, THCD signs the land consolidation agreement with the Hailing district government, the entrusting party. It is agreed that when the land parcel entrusted have been sold, the Hailing Finance Bureau will repurchase the land parcel with investment cost plus a percentage of certain profit margin. Normally, the repurchase period will take three to five years. THCD realized land consolidation income of c. RMB626.9 million, RMB917.6 million, RMB1,519.1 million and RMB350.2 million, accounted for c. 50.2%, 67.4%, 40.6% and 21.1% of total revenue in 2018, 2019, 2020 and nine months ended September 2021, respectively.

THCD had 12 completed lands, 59 lands under development and 6 proposed lands at end-September 2021. In view of a number of projects under development and proposed projects, THCD is expected to continue to have capital expenditure pressure. The scale of land assets is large and the cost of land consolidation continues to increase. As the progress of land transfer is greatly affected by the land transfer planning of the Hailing district government and the prosperity of real estate market, there is some uncertainties in the progress of repurchase.

### Resettlement Housing Sales

THCD is the only state-owned entity responsible for investing and construction of resettlement housing in Hailing District. This business is operated by Taizhou Hailing Real Estate Development Co., Ltd., a subsidiary of THCD, which has two business models: agent construction and self construction. The entrusting party of agent construction is the Hailing district government. THCD signs an agreement and the Hailing district government will buy back the resettlement houses after completion. There is no entrusting party in terms of self construction. It is directly sold to specific resettlement households in accordance with relevant government policies. THCD realized the sales revenue from resettlement houses of c. RMB222.7 million, RMB202.5 million, RMB1,283.0 million and RMB337.9 million, accounted for c.17.8%, 14.9%, 34.3% and 20.4% in 2018, 2019, 2020 and nine months ended September 2021, respectively.

There were 19 completed projects that have not been repurchased or sold, 2 projects under development and 2 proposed projects of THCD as of end-September 2021. THCD's resettlement housing business has regional franchise advantages in Hailing District. There will be a certain amount of repurchase by the Hailing district government and sales in the future.

### Infrastructure Construction

The infrastructure construction business is mainly operated by THCD itself. It is mainly responsible for the district level infrastructure construction entrusted by the Hailing district government, and the municipal infrastructure construction projects such as shantytown reconstruction, road and bridge construction, water conservancy infrastructure construction and greening projects authorized by the Taizhou government. The revenue was mainly from agent construction and management fees, which was c. RMB364.0 million, RMB186.4 million, RMB142.2 million and RMB90.5 million in 2018, 2019, 2020 and nine months ended September 2021, respectively. Gross margin of this business remained at c. 40% to 45%, but its contribution to total revenue continued to decline in the past three years. There were 12 infrastructure construction projects under development and no proposed project at end-September 2021.

### Merchandising Sales

THCD expanded its merchandising sales business in 2020, which was operated by its subsidiaries. The revenue from this business was c. RMB4.7 million, RMB569.3 million and RMB637.3 million, accounting for c. 0.3%, 15.2% and 38.4% of the total revenue in 2019, 2020 and nine months ended September 2021, respectively. THCD conducts this business segment to increase its cash flow position. The main products sold in this business segment are mainly building materials, steel, fruits, flowers, daily necessities, etc.

### Other Businesses

THCD is involved in other businesses including engineering construction, leasing, interest income, advertising, guarantee business, etc. With the diversification of THCD's businesses, the revenues generated from other non-main businesses increased in 2020. THCD has transferred out the guarantee business and there was no more revenue from this business segment since 2021.

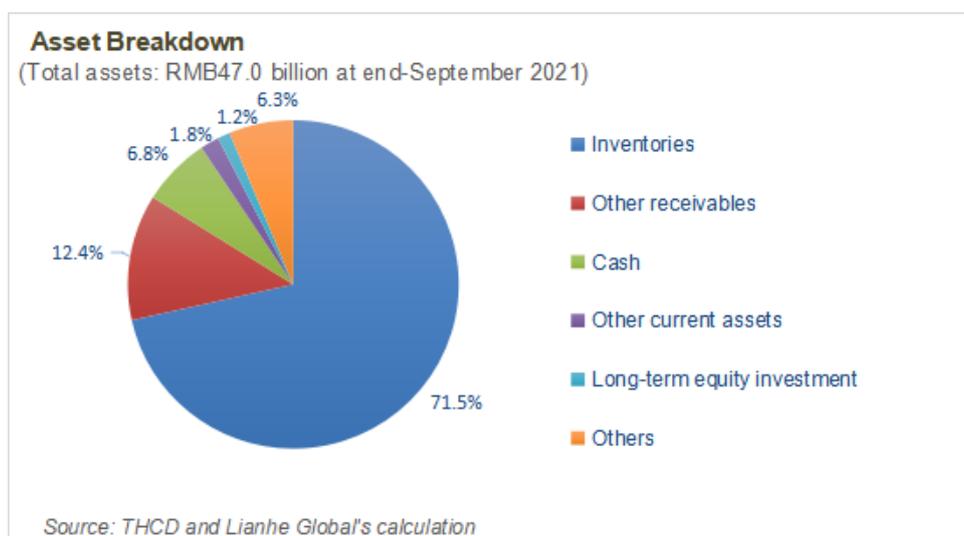
## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>3Q2021</b>
Total Asset	43,061	43,381	44,684	47,045
Equity	13,195	15,794	15,958	16,510
Debt	19,581	20,827	21,611	24,324
Debt / (Debt + Equity) (%)	59.7	56.9	57.5	59.6
LT Debt	16,706	17,733	15,170	15,395
LT Debt / (LT Debt + Equity) (%)	55.9	52.9	48.7	48.3

*Source: THCD, THCD's financial reports, and Lianhe Global's calculations*

In terms of asset structure, current assets of THCD accounted for the majority of its total assets, accounting for c. 95% at end-September 2021. At end-September 2021, the total assets of THCD were RMB47.0 billion, mainly including inventories, other receivables and cash. Inventories mainly include lands and development cost of construction projects. Other receivables are mainly current accounts with local state-owned enterprises under the control of government departments in Taizhou, with high concentration and strong repayment ability. The amount of non-current assets of THCD increased slightly and was relatively stable in the past few years, mainly including investment in equity instruments, investment properties, fixed assets and other non-current assets. Overall, THCD's asset structure and quality remained generally unchanged during the past few years.



THCD's financial leverage (liabilities/assets) and total debt capitalization ratio were 64.9% and 59.6% at end-September 2021, respectively. The liabilities mainly comprised long-term loans, bonds payable, and other account payables, etc. Among them, current liabilities accounted for 49.8% of total liabilities and non-current liabilities accounted for 50.2% of total liabilities. The total debt of THCD mainly include bank borrowings, bonds, and other non-traditional loans. Total debt kept increasing and the debt burden had been increasing in recent years.

## Cash Flow

Cash Flow (RMB million)	2018	2019	2020	9M2021
Cash Inflows from Operation	6,148	6,399	5,520	2,057
Cash Outflows from Operation	5,333	8,261	7,982	2,946
<b>Net CF from Operation</b>	<b>815</b>	<b>-1,862</b>	<b>-2,462</b>	<b>-889</b>
Cash Inflows from Investment	270	0	24	183
Cash Outflows from Investment	410	553	275	536
<b>Net CF from Investment</b>	<b>-140</b>	<b>-553</b>	<b>-250</b>	<b>-353</b>
Cash Inflows from Financing	7,874	20,783	9,175	8,523
Capital Contribution	1,900	3,030	34	500
Borrowings	5,579	17,353	8,739	8,020
Others	395	400	401	3
Cash Outflows from Financing	7,816	20,353	10,006	7,072
<b>Net CF from Financing</b>	<b>58</b>	<b>430</b>	<b>-831</b>	<b>1,451</b>
Net Increase in Cash and cash equivalent	738	-1,985	-3,543	209

Source: THCD's financial reports

## Debt Servicing Capability

THCD had a total credit line of c. RMB27.8 billion and unused credit line of c.RMB13.1 billion at end-September 2021. THCD had unrestricted cash of c. RMB3.0 billion and available bond issuance amount of c. RMB2.0 billion, compared with its debt to be due within one year of c. RMB8.9 billion. THCD has access to multiple financing channels including bank borrowings, bonds issuance, trust loan and other financing channels. Bank loans accounted for c. 32% while bonds and non-traditional financings (mainly trust loans and finance leases) accounted for c. 49% and c. 6%, and other financing accounted for c.13% of total debt, respectively, at end-September 2021. The average financing cost of THCD was c. 6%.



**Debt Maturity Profile at end-September 2021**

<b>(RMB million)</b>	<b>Amount</b>	<b>Percentage</b>
Due within one year	8,928.8	36.7%
Due in 1-2 year	4,915.8	20.2%
Due in 2-3 year	775.2	3.2%
Due above 3 years	9,703.8	39.9%
<b>Total</b>	<b>24,323.7</b>	<b>100.0%</b>

Source: THCD



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