

# Tianjin Binhai Construction and Investment Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Government
	Financing Vehicle
Date	6 July 2022

Lianhe Global has assigned 'A-' global scale Long-term Issuer Credit Rating with Stable Outlook to Tianjin Binhai Construction and Investment Group Co., Ltd. ("TBCIG").

### Summary

The Issuer Credit Rating reflects a high possibility that the Tianjin Municipal People's Government ("Tianjin government") would provide strong support to TBCIG if needed, in light of its 100% ownership of TBCIG, TBCIG's strategic position as the major development and operation entity of Tianjin Binhai New Area ("Binhai New Area") and the strong linkage between the Tianjin government and TBCIG including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Tianjin government may face a significant negative impact on its reputation and business and financing activities should TBCIG encounter any operational or financial difficulties.

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

### Rating Rationale

**Tianjin Government's Full Ownership:** The Tianjin government has 100% ownership of TBCIG via the State-owned Assets Supervision and Administration Commission of the Tianjin government ("Tianjin SASAC"), which is appointed by the Tianjin government to supervise state-owned entities. TBCIG was established with an initial registered capital of RMB100 million in 2006. After several capital injections and equity transfers, both the registered capital and paid-in capital of TBCIG were enlarged to RMB30 billion at end-March 2022.

**High Strategic Importance to Binhai New Area:** TBCIG is the largest LGFV in Binhai New Area in terms of asset size at end-2021. It is responsible for various businesses including infrastructure construction, highway toll, affordable housing, finance leasing, as well as environmental protection to support the economic and urban development in Binhai New Area.

In addition, Binhai New Area was the largest district in Tianjin, accounting for c. 40% of the municipality's GDP in 2021. In the future planning of the Tianjin government, TBCIG will continue to play a significant role as an integrated city operator in Binhai New Area.

**Government Supervision and Strategic Alignment:** The Tianjin government has strong control and supervision over TBCIG, including the control of the board of directors, senior management appointments, and major strategic, investment and financing planning. TBCIG's business operation and development have been aligned with the government's economic and social policies in Binhai New Area.

**Ongoing Government Support:** TBCIG has received strong support from the government such as government subsidies, capital injections and financial supports. The Tianjin government purchased a considerable amount of the completed infrastructure projects from TBCIG in the past, but the overall cash collection from the government is slower than

### Key Figures of Tianjin and TBCIG

(RMB billion)	2020	2021
<b>Tianjin</b>		
GDP	1,408	1,569
GDP growth rate (%)	1.5	6.6
Budgetary revenue	192	214
Government fund	91	112
Transfer payment	73	54
Budgetary expenditure	315	315
<b>TBCIG</b>		
	<b>2020</b>	<b>2021</b>
Assets	203.4	210.9
Equity	72.9	73.3
Revenue	7.1	10.7

Source: Tianjin Municipal Government, Finance Bureau of Tianjin, TBCIG and Lianhe Global's calculations

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### Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

expected with a significant size of outstanding receivables. Thus, TBCIG is expected to continue receiving repayments from the government in the future for the completed projects. We believe TBCIG is likely going to receive timely government support in the form of operational and/or financial subsidies.

**Moderately Weak Financials:** TBCIG's earnings generation capability has been moderately weak given its large portion of revenue from the low-margin material trading business. Besides, TBCIG's financial leverage (total liabilities to assets) was c. 65% at end-2021. Apart from the financial support from the government, TBCIG has access to multiple financing channels including bank borrowings, bond issuance and other financing channels to support its debt repayment and business operation. TBCIG's liquidity was moderately tight with total cash of c. RMB8.8 billion, of which c. RMB4.5 billion was unrestricted, and a total credit line of RMB117.0 billion, of which RMB51.3 billion was available, as compared with the debt to be due within one year of c. RMB38.9 billion at end-March 2021.

**Moderate Economic and Fiscal Strength of Tianjin:** In 2021, Tianjin realized RMB1,569.5 billion GDP, representing a year-over-year growth rate of 6.6%. While this marked the sixth consecutive year of slower growth than the national rate, the gap is narrowing. Fixed-asset investment and large-scale industrial output followed the same trend and expanded by 4.8% and 8.2%, respectively, in 2021. Tianjin's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, with a stable industrial structure. In addition, Tianjin's whole-year GDP amount was ranked 11th among all cities in China in 2021 with GDP per capita of c. RMB114,312.

With a relatively high base of fiscal revenue, Tianjin's budgetary revenue increased to RMB214.1 billion in 2021, representing a year-over-year growth rate of 11.3%. As the major contribution to the budgetary revenue, Tianjin's tax revenue maintained at c. 68%-78% of its budgetary revenue in the past few years. However, Tianjin's government-managed fund revenue had relatively volatile growth rates of 23.3%, -36.3% and 23.5% in 2019, 2020 and 2021, respectively. The fiscal deficit of Tianjin improved slightly in 2021, due to the stabilized budgetary expenditure along with the growth of budgetary revenue. Despite the relatively high fiscal revenue, Tianjin's debt level increased to RMB788.2 billion at end-2021 from RMB636.8 billion at end-2020, which led to a rising fiscal debt ratio, as measured by total government debt outstanding over aggregate revenue, to 189.7% at end-2021 from 112.5% at end-2019.

## Rating Sensitivities

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

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

## Operating Environment

### Moderate Economy with Stable Growth of Tianjin

As one of China's largest industrial and commercial centers, Tianjin is a coastal municipality in northern China, skirted by the Bohai Gulf to the east and bordering Beijing and Hebei.

With nearly 14 million inhabitants, Tianjin is China's seventh most populous city. Tianjin, along with Beijing, Chongqing and Shanghai, is one of China's four directly administrated municipalities that have the same administrative ranking as provinces. The municipality is one of China's nine national central cities, and is designed by the State Council to be northern China's gateway to foreign investment, as well as an international transportation hub, modern manufacturing base, and economic center of the Bohai Economic Rim region.

Tianjin's economic growth began to accelerate in 1984 when it became one of the 14 coastal cities that the State Council opened to foreign investment. Until 2016, Tianjin's economic growth was among the fastest of China's large cities; the main engines of growth were traditional manufacturing industries and heavy industries, such as petrochemicals, aerospace, textiles, car manufacturing, mechanical industries and metal working. However, since 2016, these industries have become less productive while they still dominate the local economy. In addition, other municipalities, such as Beijing and Shanghai, and some nearby functional zones, such as Xiongan in Hebei, have attracted more talent and capital than Tianjin since then. As a result, Tianjin faced deceleration in local economic expansion, and recorded the lowest GDP growth among China's provinces in 2017 and 2018. Although the local economy picked up in 2019, the recovery was disrupted by the pandemic in 2020, as well as the drop in oil prices given the large share of the oil industry in the local economy.

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

(RMB billion)	2019	2020	2021
GDP	1,410.4	1,408.3	1,569.5
-Primary industry (%)	1.3	1.5	1.4
-Secondary industry (%)	35.2	34.1	37.3
-Tertiary industry (%)	63.5	64.4	61.3
GDP growth rate (%)	4.8	1.5	6.6
Fixed asset investment	1,212.2	1,248.6	1,308.6
Fixed asset investment growth rate (%)	13.9	3.0	4.8
Population (million)	1,561.8	1,386.6	1,373.0

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

### Moderate Fiscal Conditions of Tianjin

With a relatively high base of fiscal revenue, Tianjin's budgetary revenue increased to RMB214.1 billion in 2021, representing a year-over-year growth rate of 11.3%. As the major contribution to the budgetary revenue, Tianjin's tax revenue maintained at c. 68%-78% of its budgetary revenue in the past few years. However, Tianjin's government-managed fund revenue had relatively volatile growth rates of 23.3%, -36.3% and 23.5% in 2019, 2020 and 2021, respectively. The fiscal deficit of Tianjin improved slightly in 2021, due to the stabilized budgetary expenditure along with the growth of budgetary revenue. Despite the relatively high fiscal revenue, Tianjin's debt level increased to RMB788.2 billion at end-2021 from RMB495.9 billion at end-2019, which led to a rising fiscal debt ratio, as measured by total government debt outstanding over aggregate revenue, to 189.7% at end-2021 from 112.5% at end-2019.

<b>Tianjin's Fiscal Conditions</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Budgetary revenue	241.0	192.3	214.1
Budgetary revenue growth rate (%)	14.4	-10.2	11.3
Tax revenue	163.4	150.0	162.2
Tax revenue (% of budgetary revenue)	67.8	78.0	75.8
Government fund income	143.0	91.2	112.7
Transfer payment	53.4	73.8	54.6
Aggregate revenue	440.7	370.5	415.5
Budgetary expenditure	355.6	315.1	315.0
Budget deficit <sup>1</sup> (%)	-47.5	-63.9	-47.1

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

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

## Ownership Structure and Profile

### Full State Ownership with Strong Government Supervision

TBCIG is a wholly state-owned company established in 2006 by the Tianjin SASAC. The initial registered capital was RMB100 million. After several capital injections, TBCIG's registered capital and paid-in capital were both RMB30 billion, at end-March 2022. Tianjin SASAC is the only shareholder and controller of the company, and authorizes the State-owned Assets Supervision and Administration Commission of Tianjin Binhai New Area People's Government ("Binhai New Area SASAC") to exercise supervision and management functions.

### Strategic Importance and Government Linkage

#### Strategic Importance of TBCIG to Binhai New Area

TBCIG is the largest LGFV in Binhai New Area in terms of asset size at end-2021. It is responsible for various businesses including infrastructure construction, highway toll, affordable housing, finance leasing, as well as environmental protection to support the economic and urban development in Binhai New Area.

In addition, Binhai New Area was the largest district in Tianjin accounting for c. 40% of the entire municipality's GDP in 2021. In the future planning of the Tianjin government, TBCIG will continue to play a significant role as an integrated city operator in Binhai New Area.

#### Strong Linkage with the Tianjin Government

TBCIG's linkage with the local government is strong as it is wholly owned by the Tianjin government through the Tianjin SASAC.

The Tianjin government has strong control and supervision over TBCIG, including control of the board of directors, senior management appointments, and major strategic, investment and financing planning. TBCIG's strategic planning and development have been aligned with the local government's economic and social policies, aiming to develop the Tianjin Binhai New Area. In addition, the Tianjin government has a solid assessment system on TBCIG.

## Ongoing Government Support

With an initial registered capital of RMB100 million in 2006, both of TBCIG's paid-in capital and registered capital increased to RMB30 billion at end-March 2022, after several capital injections by Tianjin SASAC. Per TBCIG's management, TBCIG has received financial supports with a total amount of RMB22.2 billion from the Tianjin government and the Binhai New Area government since 2018, including RMB15.1 billion of government appropriations, RMB1.6 billion of government repurchase funds, RMB4.9 billion of government subsidies, as well as RMB564 million of other cash support. Specifically, TBCIG received government subsidies of RMB1,370.6 million, RMB823.5 million and RMB2,351.9 million in 2019, 2020 and 2021, respectively.

TBCIG is expected to receive RMB6.76 billion of cash as government support in 2022, including RMB5 billion of construction funds for government investment projects (RMB1.3 billion from government fiscal budget income and RMB3.7 billion from government bond issuance), RMB1.2 billion of government-related cash collection, RMB360 million of tax rebates, RMB100 million of enterprise development fund, RMB100 million of other subsidies.

## Business Profile

### The Flagship LGFV responsible for infrastructure construction and operation in Binhai New Area

TBCIG is the flagship LGFV carrying out urban infrastructure construction and operation in Binhai New Area, mainly responsible for the infrastructure construction, highway toll, affordable housing, finance leasing, as well as environmental protection projects in Binhai New Area. With strong regional competitive advantages, TBCIG's operation has been relatively stable in recent years. Material trading, real estate and highway toll are the main sources of its revenue. From 2019 to 2021, TBCIG's total revenue were RMB6.0 billion, RMB7.2 billion and RMB10.7 billion, respectively. The significant increase in TBCIG's revenue in 2021 was mainly due to the increase in material trading business and other businesses. TBCIG is transforming into an integrated city operator, covering infrastructure development, industrial investment, healthcare and education, from an urban developer providing public-service functions.



### **Infrastructure Construction**

TBCIG has had no new government procurement project since 2015. TBCIG's investments in government procurement projects are nearly in completion and there will be no new government purchase project. No revenue has been recognized from this segment since 2017. Moreover, the overall cash collection for government procurement projects is slower than expected with a significant size of outstanding receivables. In particular, between 2019-2021, TBCIG only received RMB24 million of cash collection from the government in 2019. Given the existing well-developed infrastructure in Binhai New Area, there is uncertainty in the future operation related to government procurement projects.

### **Highway Toll**

As the third-largest segment of TBCIG, the highway toll business is operated by Tianjin Haibin Avenue Construction Development Co., Ltd. [天津海滨大道建设发展有限公司], a subsidiary of TBCIG which has a franchise in the operation of Haibin Avenue Highway. The major operating asset is the Tianjin Section of Qinbin Highway ("Haibin Avenue Highway") [秦滨高速天津段(原海滨大道)] with an operating history of 25 years. As an important section of the Qinbin highway to link Northern Hebei with Southern Hebei through Tianjin, Haibin Avenue Highway acts as the major contribution to TBCIG's highway toll revenue.

Apart from Haibin Avenue Highway, another highway, Tianjin Beltway has been operating since October 2020, which is expected to boost the highway toll revenue of TBCIG. Besides, TBCIG has another highway under construction, namely Jinshi Highway [津石高速(海滨大道至长深高速)], most of which has been operating since January 2022.

From 2018 to 2020, the highway toll revenue decreased year-on-year with a high gross profit margin of around 50%. In 2020, affected by the decline in highway passengers and the toll-free policy during the pandemic, the segment revenue dropped by 17%, while the gross margin decreased to 47.3%. In 2021, as the pandemic was under control, both the revenue and gross margin had been recovered to RMB936 million and 50.1%, respectively. Given the full operation of Tianjin Beltway and the opening of Jinshi Highway, we expect the segment revenue to grow continuously with a high gross margin in the future.

### **Real Estate**

Focused on affordable housing and commercial housing in Binhai New Area, TBCIG's real estate business had exhibited uneven revenues at RMB1.70 billion, RMB2.24 billion and RMB2.18 billion in 2019, 2020 and 2021, respectively. The gross margin of the segment also varies greatly due to the change in the proportion of revenue from affordable housing.

The real estate business is mainly operated by TBCIG itself and its subsidiaries Tianjin Binhai New Area Construction Investment Real Estate Development Co., Ltd. [天津滨海新区建投房地产开发经营有限公司]. The affordable housing and commercial housing were the two major sources of income, together accounting for over 98% of the revenues from real estate segment in 2020 and 2021.

There are uncertainties in the sustainability of the real estate business due to the lack of land reserves and planned constructions. TBCIG has no land reserve nor any investment plan for affordable housing, while 99.84% of the completed affordable houses have already been sold out at end-March 2022. In terms of commercial housing, apart from one planned construction project with a total GFA of c. 101,700 square meters, which is expected to be

completed in 2024, TBCIG has no other land reserve. Therefore, we believe that there are uncertainties in the future operation related to the real estate segment.

### **Material Trading**

With an annual compound growth rate of 59.9%, TBCIG's material trading business grew rapidly in 2019-2021 and has become the largest revenue segment of TBCIG since 2020. While it was the largest contributor to TBCIG's total revenue among all segments, the segment had a very low and downward trending gross margin of 1.45% in 2021, which acted as a drag to TBCIG's gross margin. Operated by Binhai New Area Material Supply Co., Ltd. [天津滨海新区物资供应有限公司], the material trading mainly involves thread, wire, screw, billet, plate, wire mesh, steel strand and iron ore to supply TBCIG's construction projects.

### **Other Businesses**

Other business segments of TBCIG mainly includes environmental protection business, finance leasing and rail transit construction. Environmental protection business includes waste incineration power generation and sewage treatment, etc. Leasing business mainly includes leasing municipal projects to relevant government units. Rail transit business mainly includes the construction of B1 railway and Z2 railway.

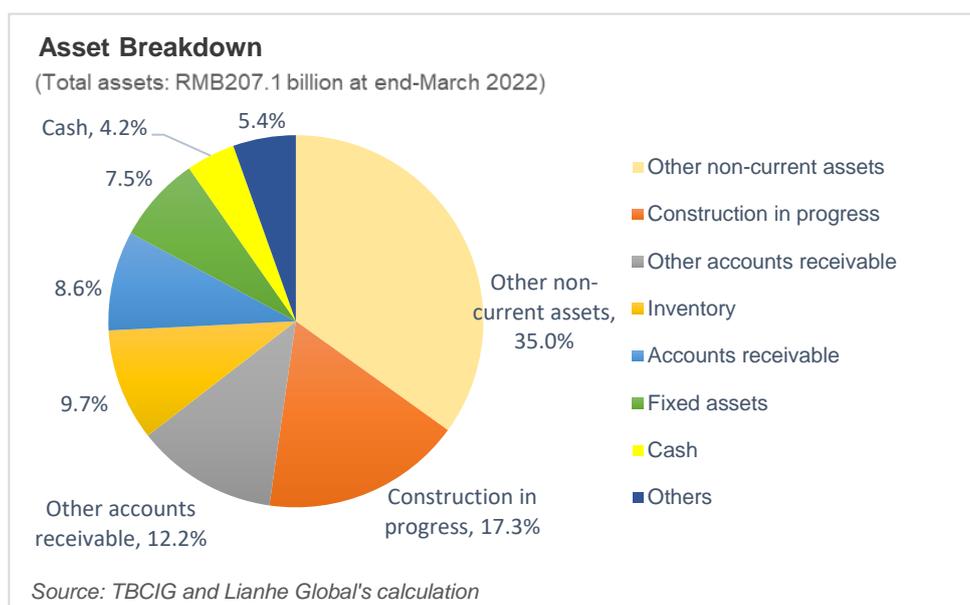
## **Financial Profile**

### **Balance Sheet Structure and Quality**

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>1Q2022</b>
Total Asset	199,366	203,400	210,980	207,094
Equity	80,953	72,965	73,344	73,661
Debt	94,034	103,372	107,702	104,182
Debt / (Debt + Equity) (%)	53.7	58.6	59.5	58.6
LT Debt	69,508	67,499	73,938	64,720
LT Debt / (LT Debt + Equity) (%)	46.2	48.1	50.2	46.8

*Source: TBCIG's financial reports and Lianhe Global's calculations*

TBCIG's total assets showed a slow growth trend in the past three years, with growth rates of 2.0%, 3.7% in 2020 and 2021, respectively. The growth trend was interrupted in the first quarter of 2022 with the total assets declined to RMB207.1 billion, mainly due to the deconsolidation (or disposal) of one of its subsidiaries at a consolidation of RMB2.9 billion. At end-March 2021, TBCIG's other non-current assets mainly consist of not-for-profit infrastructure projects, not-for-profit agent construction projects and land use right of reed field. Other accounts receivable together with accounts receivable accounted for 59.0% of TBCIG's current assets at end-March 2021, of which over 70% were receivables from the Finance Bureau of Tianjin Binhai New Area with a total amount of RMB34.1 billion. Per TBCIG, the government-related receivables are treated as local government implicit debts and expected to be collected gradually before 2028 via implicit debt repayment schedule conducted by the Tianjin Binhai New Area government. In terms of the asset structure, although TBCIG's revenue streams are mainly from non-public services and goods related activities, public-service-related assets account for c. 65% of TBCIG's total assets, at end-2021.



## Cash Flow

<b>Cash Flow</b> (RMB million)	<b>2019</b>	<b>2020</b>	<b>2021</b>
Cash Inflows from Operation	8,605	11,041	14,559
Cash Outflows from Operation	7,281	7,670	10,365
<b>Net CF from Operation</b>	<b>1,324</b>	<b>3,371</b>	<b>4,194</b>
Cash Inflows from Investment	4,563	980	1,195
Cash Outflows from Investment	6,781	4,867	6,284
<b>Net CF from Investment</b>	<b>-2,219</b>	<b>-3,887</b>	<b>-5,089</b>
Cash Inflows from Financing	29,985	43,596	52,632
Capital Contribution	-	-	2,681
Borrowings	25,217	42,472	47,133
Others	4,768	1,124	2,818
Cash Outflows from Financing	30,571	46,708	55,203
<b>Net CF from Financing</b>	<b>-586</b>	<b>-3,112</b>	<b>-2,571</b>
Net Increase in Cash and cash equivalent	-1,488	-3,628	-3,469

Source: TBCIG's financial reports

### Debt Servicing Capability

TBCIG's liquidity was moderately tight with total cash of c. RMB8.8 billion, of which c. RMB4.5 billion was unrestricted, and a total credit line of RMB117.0 billion, of which RMB51.3 billion was available, as compared with the debt to be due within one year of c. RMB38.9 billion at end-March 2021. TBCIG has access to multiple financing channels including bank borrowings, bond issuance and other financing channels.

#### Debt Maturity Profile at end-2021

(RMB million)	Amount	Percentage
2022	33,387	31.0%
2023	17,530	16.3%
2024	11,583	10.7%
2025	9,342	8.7%
2026 and thereafter	35,847	33.3%
<b>Total</b>	<b>107,689</b>	<b>100.0%</b>

Source: TBCIG and Lianhe Global's calculations

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