

Tonglu Newtown Development Investment Co., Ltd

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	28 November 2022

Key Figures of Tonglu and TNDI

(RMB billion)	2020	2021
Tonglu		
GDP	37.6	41.4
GDP growth rate (%)	2.1	9.5
Budgetary revenue	3.4	3.8
Government fund	7.7	4.8
Transfer payment	2.7	2.7
Budgetary expenditure	5.6	6.1
TNDI		
Assets	12.7	21.2
Equity	5.0	8.7
Revenue	0.2	0.1

Source: Public information, TNDI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Tonglu Newtown Development Investment Co., Ltd (“TNDI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Tonglu County (“Tonglu government”) would provide moderately strong support to TNDI if needed, in light of its 100% ownership of TNDI, TNDI’s strategic importance as the sole state-owned entity for infrastructure construction and operation in Tonglu County Economic and Development Zone (“Tonglu EDZ”), and the linkage between the Tonglu government and TNDI, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Tonglu government may face negative impact on its reputation, business and financing activities if TNDI encounters any operational and financial difficulties.

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

Rating Rationale

Tonglu Government’s Ownership and Supervision: The Tonglu government, through the Tonglu County State-owned Assets Supervision and Administration Commission, Hangzhou City (“Tonglu SASAC”), holds 100% equity of TNDI. It is the ultimate controller of the company. The Tonglu government supervises the company, including control and supervision over the management, decisions on strategic development and investment and financing plans etc. In addition, the Tonglu government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Tonglu and Strategic Alignment: As an important state-owned entity in Tonglu County (“Tonglu”), TNDI is the sole infrastructure construction and operation entity in Tonglu EDZ, mainly responsible for the construction of municipal projects, as well as industrial parks and supporting facilities construction in the area with franchise advantages. TNDI is also responsible for the related demolition and relocation projects and restricted-price housing (mainly resettlement housing) projects in the region, so as to promote the economic and social development and enhance the comprehensive service capability of Tonglu, especially the Tonglu EDZ and the surrounding areas. TNDI’s business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: TNDI received support from the Tonglu government, including equity injection, asset injection, operation subsidy and policy support. Meanwhile, as the sole state-owned entity for infrastructure construction and operation in Tonglu EDZ, TNDI has certain advantages in project and resource acquisition. The Tonglu government also continued to inject various assets and equity to the company, while TNDI also enjoys a variety of policy support. TNDI had received a total subsidy amount of c. RMB7.2 million from 2020 to the first nine months of 2022. We believe TNDI is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure construction.

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Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

TNDI's Financial Matrix and Liquidity Position: TNDI's total assets showed a significant growth trend in the past years and reached RMB2.23 billion at end-September 2022, mainly due to the increase of inventory and intangible assets. TNDI's financial leverage (total liabilities to assets) increased to 65.9% and its adjusted debt increased to c. RMB13.3 billion at end-September 2022. The liquidity of TNDI was relatively tight. TNDI had a cash balance and unused credit facilities of c. RMB0.2 billion and RMB2.0 billion at end-September 2022, compared with its debt due within one year of c. RMB2.8 billion. Nevertheless, TNDI has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Strength of Tonglu: As one of municipal counties under the jurisdiction of Hangzhou City, Tonglu's economy maintained steady growth, with GDP reaching RMB41.4 billion in 2021, up 9.5% year-on-year. The GDP was mainly fueled by the second and tertiary industries, which accounted for 45.4% and 48.3% of total GDP in 2021. Its fixed asset investment growth rate recorded double-digit growth in the past three years and increased by approximately 30% in 2021.

The aggregate fiscal revenue of the Tonglu government was mainly derived from the budgetary revenue and government fund. The Tonglu government's budgetary revenue was relatively stable at RMB3.4 billion in 2019 and 2020, while increased to RMB3.8 billion in 2021, where its tax revenue accounted for c. 90% of its budgetary revenue in the past three years. However, given the impact from regional development pace and fluctuating state-owned land transfer revenue, Tonglu's government fund income was more volatile, which decreased by c. 38% to RMB4.8 billion in 2021. The fiscal self-sufficiency rate of the Tonglu government was insufficient, thus it continued to receive subsidies from higher governments. Besides, the Tonglu government's budgetary expenditure continued to rise in 2019-2021 due to the impact from the epidemic. At end-2021, the total outstanding amount of government debt increased to c. RMB8.3 billion from c. RMB6.6 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Tonglu government was c. 70.6% at end-2021, down from c. 87.6% at end-2019.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Tonglu

Tonglu, as one of municipal counties under the jurisdiction of Hangzhou City, is located in the northwest of Zhejiang Province. Tonglu has jurisdiction over 6 towns, 4 townships, 4 streets and a provincial development zone with a total land area of c. 1,830 square kilometers. The district's residential population reached c. 0.5 million with an urbanization rate of c. 70% at end-2021. Tonglu's economy has maintained steady growth, with GDP reaching RMB41.4 billion in 2021, up 9.5% year-on-year. The GDP was mainly fueled by the second and tertiary industries, which accounted for 45.4% and 48.3% of total GDP in 2021, respectively. During the same period, Tonglu's GDP per capita was approximately RMB90,962. Tonglu's fixed asset investment grew rapidly with double-digit growth in 2019-2021 and achieved a growth of c. 30% in 2021.

Established in 1994, Tonglu EDZ is one of the provincial-level economic development zones in Zhejiang Province and formed an industrial system led by intelligent security, express logistics, medical equipment and new materials and new energy. Per the Tonglu government, Tonglu EDZ accounted for significant contributions to Tonglu in terms of total GDP, fixed asset investment and industrial added value in 2021.

Tonglu's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	38.6	37.6	41.4
-Primary industry (%)	6.3	6.7	6.3
-Secondary industry (%)	45.4	42.8	45.4
-Tertiary industry (%)	48.3	50.5	48.3
GDP growth rate (%)	6.8	2.1	9.5
Fixed asset investment	10.6	13.1	16.9
Fixed asset investment growth rate (%)	18.7	23.4	29.5
Population (million)	0.4	0.5	0.5

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Tonglu

The aggregate fiscal revenue of the Tonglu government was mainly derived from the budgetary revenue and government fund income. The Tonglu government's budgetary revenue was stable at RMB3.4 billion from 2019 to 2020, and increased to RMB3.8 billion in 2021, where its tax revenue accounted for c. 90% of its budgetary revenue in the past three years. Nevertheless, the government fund income of Tonglu was more volatile, which increased by c. 298.5% to RMB7.7 billion in 2020 due to the recognition of revenue from regional development, and decreased by c. 37.9% to RMB4.8 billion in 2021 due to the reduction of revenue from state-owned land transfer. The fiscal self-sufficiency rate of the Tonglu government was insufficient, thus it continued to receive subsidies from higher governments. Besides, the Tonglu government's budgetary expenditure continued to rise in 2019-2021 due to the impact from the epidemic. At end-2021, the total outstanding amount of government debt increased to c. RMB8.3 billion from c. RMB6.6 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Tonglu government was c. 70.6% at end-2021, down from c. 87.6% at end-2019.

As an important component of Tonglu's local finance, Tonglu EDZ accounted for a significant contribution to Tonglu in terms of the budgetary revenue in 2021.

Tonglu's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	3.4	3.4	3.8
Budgetary revenue growth rate (%)	10.1	1.4	12.2
Tax revenue	3.0	3.1	3.5
Tax revenue (% of budgetary revenue)	90.3	91.7	92.3
Government fund income	1.9	7.7	4.8
Transfer payment	2.2	2.7	2.7
Aggregate revenue	7.6	14.1	11.7
Budgetary expenditure	5.0	5.6	6.1
Budget deficit ¹ (%)	26.0	64.9	59.5

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

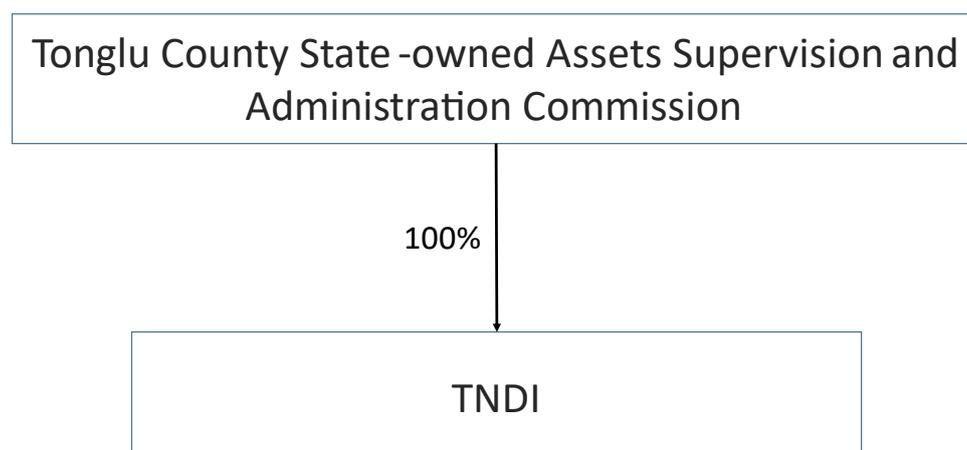
Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TNDI was established with an initial registered capital of RMB110 million and a paid-up capital of RMB110 million by Tonglu SASAC in 2009. Tonglu SASAC is the sole shareholder and ultimate controller of TNDI, and the registered capital and paid-in capital of the company were both RMB110 million at end-September 2022.

The shareholding structure of TNDI at end-September 2022:



Source: The Company

Strategic Importance and Government Linkage

Strategic Importance of TNDI to Tonglu

TNDI, as an important LGFV in Tonglu, is the sole state-owned infrastructure construction and operation entity in Tonglu EDZ, mainly responsible for municipal engineering construction (such as road and bridge construction), industrial park and supporting facilities development and landscaping construction in the Tonglu EDZ and the surrounding areas with franchised advantages. In addition, TNDI is also responsible for the related demolition and relocation projects and restricted-price housing (mainly resettlement housing) projects in the region, so as to promote the economic and social development and enhance the comprehensive service capability of Tonglu, especially the Tonglu EDZ and the surrounding areas. Entrusted by the Tonglu government, TNDI has been carrying out the related works for attracting investment in the Tonglu EDZ to meet the demand of capacity expansion.

TNDI's business operation and development have been aligned with the government's development plans.

Linkage with the Local Government

The Tonglu government, through the Tonglu SASAC, holds 100% equity of TNDI at end-September 2022. It is the sole shareholder and ultimate controller of the company. The equity interests of TNDI held by Tonglu Finance Bureau are not pledged or frozen at end-September 2022. The Tonglu government supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Tonglu government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financial position on a periodic basis.

Government Support

TNDI has received support from the local government, including equity injection, asset injection, operation subsidy and policy support from the Tonglu government. Meanwhile, as the sole state-owned entity for infrastructure construction and operation in Tonglu EDZ, TNDI has certain advantages in project and resource acquisition. The Tonglu government continued to inject various assets and equity to the company, including various operating assets (such as advertising operating rights, parking franchise operating rights, etc.) and a total of 100% equity interest in Zhejiang Fuchun Mountain Health City Investment and Development Company Limited ("Health City") transferred in 2021 and 2022. Per the Tonglu government, TNDI will continue to receive capital injections in the future. In addition, TNDI received a total subsidy amount of c. RMB7.2 million from 2020 to the first nine months of 2022. We believe TNDI is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure construction.

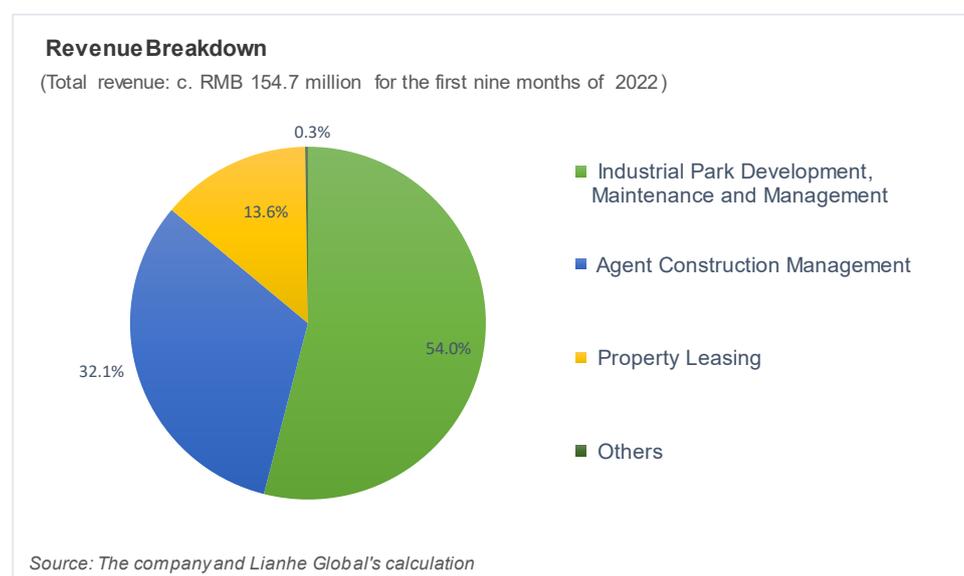
Business Profile

The Sole State-owned Entities Responsible for Infrastructure Construction and Operation in Tonglu EDZ

TNDI is mainly responsible for the infrastructure construction and subsequent operation in Tonglu, especially in Tonglu EDZ with franchised advantages, mainly including municipal engineering construction (such as road and bridge construction), industrial park and supporting facilities development and landscaping construction. It plays an important role in promoting the economic and industrial development of Tonglu EDZ. In addition, TNDI is also responsible for the relevant demolition and relocation projects, restricted-price housing (mainly resettlement housing) projects and industrial park leasing in the region. It also has the franchise rights of advertising charges, parking and roads charges in related industrial parks in Tonglu EDZ. We expect TNDI to have a broader business coverage after the allocation of relevant operating assets from the Tonglu government in the future.

TNDI's revenue showed a downward trend in the past three years, which reached c. RMB430.6 million, RMB184.6 million and RMB121.9 million, respectively, in the corresponding periods, while increased to c. RMB154.7 million in the first nine months of 2022. The decrease in 2020 was mainly due to the change of revenue recognition method, where the revenue of related construction business was simply recognized by the net amount since 2020. The decrease in 2021 was mainly due to reduction in revenue from part

of the industrial park construction and maintenance business affected by the less-than-expected construction and cash collection progress and the unrealized revenue of the price-limited housing segment. TNDI recorded a revenue growth for the first nine months of 2022 as a result of the rising income from its industrial park development and management business. The main source of TNDI's revenue is industrial park construction, maintenance and management and other municipal project construction business, but the proportion of these two segments in the total revenue decreased from 96.3% in 2019 to 86.1% in the first nine months of 2022. Affected by the change of revenue recognition method, the overall gross profit margin of the company increased significantly in 2020 and remained an upward trend subsequently, which recorded 13.5%, 83.1%, 93.0% and 93.5%, respectively, in 2019, 2020, 2021 and the first nine months of 2022. Overall, TNDI's revenue scale is relatively small and greatly affected by the project repayment collection progress. Having said that, benefiting from the company's exclusive position in Tonglu EDZ, TNDI's overall profitability is relatively strong.



Industrial Park Development, Maintenance and Management

As an important component of TNDI's revenue, the revenue from industrial park development, maintenance and management reached RMB278 million, RMB100 million, RMB63 million and RMB84 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. As the sole entity that is responsible for industrial park construction and management in Tonglu EDZ, TNDI has a regional franchise and development advantage in this segment, especially when taking the main development focus of the area, namely the industrial upgrading, into consideration. The revenue recognition method of segment has changed to simply recognizing the maintenance and management fee since 2020, leading the significant increase in gross profit margin of the segment from 13.0% in 2019 to 99.5% in the first nine months of 2022.

For the construction process, the project is financed by the company's own funds and external financing borrowings, such as bank borrowing and bond issuance, in the initial phase, while the revenue of the segment is mainly recognized by subsequent self-operating, including property leasing in the parks and the fee collection of supporting facilities, etc. The payback period is relatively long. TNDI has a few industrial parks under construction, such as the Electronic Device Industrial Park, the Nickel Industrial Park, the Medical Device

Industrial Base etc., all of which are aligned with the Tonglu EDZ's development guidelines. However, the relatively large initial and subsequent investment and long cash collection cycle makes TNDI face a relatively high capital expenditure pressure. According to the planning of the Tonglu government, TNDI will shift more its focus on the construction of industrial platforms and construction and operation of industrial parks in the future.

Agent Construction Management

The revenue generated from the agent construction management segment reached RMB137 million, RMB33 million, RMB43 million and RMB50 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. Given the important position of TNDI as the sole entity that responsible for the construction-related infrastructure in Tonglu EDZ, TNDI has certain regional franchise advantages in this segment. TNDI's agent construction management business mainly focuses on the construction of municipal engineering construction projects in Tonglu EDZ, including road network, bridges, factories and supporting landscape facilities construction, as well as some demolition and resettlement projects and relocation projects. The revenue recognition method of the agent construction management segment has also changed from recognizing the total cost plus an additional margin of 12-18% to simply recognizing the net project management fee since 2020, which in turn improved the gross profit margin. The entrusting party also changed from Health City to Tonglu County Fuchun Future City Development and Construction Co., Ltd., whose actual controller is Tonglu County Fuchun Future Urban Development Center.

TNDI is mainly responsible for fund raising and project construction management of relevant infrastructure agent construction projects in the region. In the initial phase, the project is financed by the company's own funds and external financing borrowings. TNDI would recognize the relevant net management fees after the projects' completion and handover, while the relevant project funds would be paid by the entrusting party in batches within 1-2 years. TNDI has completed infrastructure agent construction projects such as the reconstruction along Chunjiang East Road and Fengchuan Avenue, the Fuchunjiang Science and Technology City Phase I, Fengchuan demolition and resettlement project, Smart Security Town and land acquisition and relocation in Dongxing block at end-September 2022 with a relatively weak collection process. Considering the large scale of the projects under construction or to be constructed (such as the International Express Exhibition Center), TNDI may face a high pressure on its capital expenditure.

Restricted-Price Housing Sales

Entrusted by the Tonglu government, TNDI's restricted-price housing sales business mainly focuses on the construction, outsourcing and oriented-customer sales of affordable housing and resettlement housing in the region. The sales price of restricted-price housing is regulated by the government and is limited in a certain price range, which leads to a low or negative gross profit margin. For the remaining unsold houses, TNDI adopts market sales mode with higher selling prices for cash collection and improvement of the gross profit of the segment. Per management, TNDI's restricted-price housing sales schedule is flexible, whose sales process is adjusted according to the market conditions and selling prices, in order to achieve higher revenue and gross profit.

The revenue of the restricted-price housing sales segment reached RMB13.0 million and RMB10.7 million in 2019 and 2020, respectively. TNDI did not recognize any revenue from restricted-price housing sales in 2021 and the first nine months of 2022, due to the market fluctuations. At present, the company's major restricted-price housing sales project is the

Yanqiao Dafushan resettlement housing project in Tonglu EDZ with a large amount of inventory. TNDI will sell it at a suitable time according to the market conditions. In addition, the revenue of another major price-limited housing sales project, the Piaoying Fuchunjiang Garden project, has fully realized the revenue from restricted-price sales. The remaining inventory will be sold and recognized by market sales mode in the future.

Property Leasing

TNDI's main income source of the property leasing business is the leasing of industrial parks and related supporting facilities. TNDI invests and constructs properties in the industrial parks in Tonglu EDZ by means of self-raised funds and external borrowings to attract investment on behalf of the Tonglu government, after which it realizes operating income and achieves cash collection by leasing related properties. TNDI's revenue of property leasing business increased significantly in 2021 and the first nine months of 2022, which reached RMB10.3 million and RMB21.1 million, respectively, while the segment's contribution to the total revenue also increased from 1.3% in 2020 to 8.5% in 2021 and 13.6% in the first nine months of 2022. TNDI's leasing property mainly includes the first phase of the Science and Technology Incubation Park project of Tonglu Fuchunjiang Science and Technology City, where the rental rate was relatively high and the cash collection was stable. Considering the large scale of the company's industrial parks under construction, such as the electronic device industrial park and the medical device industrial park, as well as plannings and policies of the Tonglu Government that focusing on the industrial development of Tonglu EDZ, the property leasing income is likely to continue to increase in the future.

Other Businesses

TNDI's other businesses include advertising charges, parking and road charges etc., which account for a small proportion to the total revenue. The increase of revenue from other business in 2020 was mainly due to the sale of some plant and fixed equipment at auction, most of which were non-recurring income. Considering the transfer of operating assets from the Tonglu government, TNDI's income is likely to be more diversified and the income from other businesses may also increase accordingly.

Financial Profile

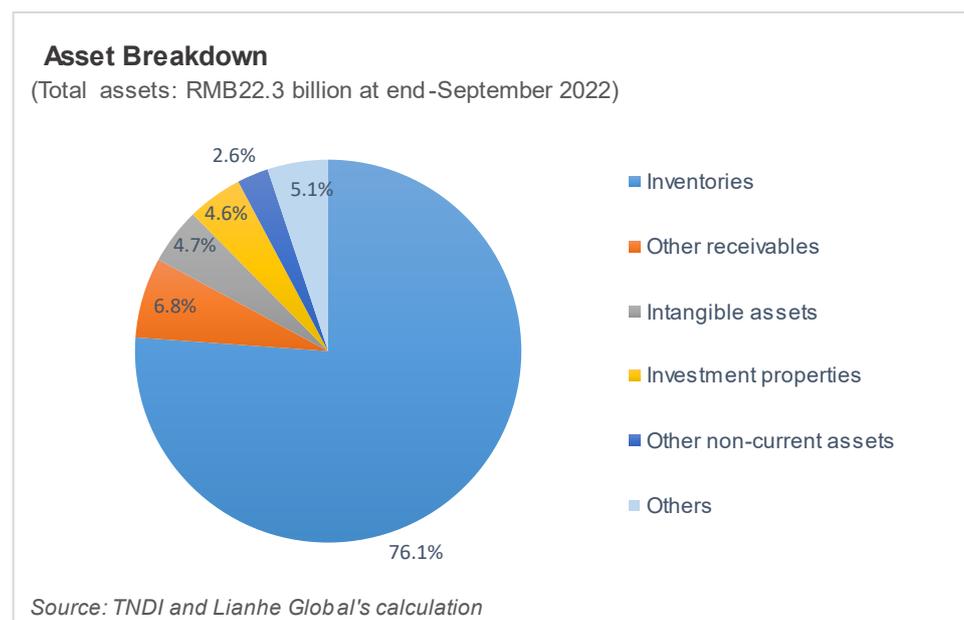
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sep 2022
Total Asset	9,867	12,709	21,192	22,324
Equity	4,808	4,956	8,652	7,614
Debt	4,565	6,730	11,267	13,285
Debt / (Debt + Equity) (%)	48.7	57.6	56.6	63.6
LT Debt	3,600	5,443	8,412	8,820
LT Debt / (LT Debt + Equity) (%)	42.8	52.3	49.3	53.7

Source: Company Information and Lianhe Global's calculations

TNDI's total assets showed a significant growth in the past few years, with a growth rate of 28.8%, 66.8% and 5.3% at end-2020, end-2021 and end-September 2022, respectively. The significant increase in total assets in 2021 was mainly caused by the transfer of Healthy City's equity interest and subsequent financial consolidation, as well as the injection of some operating asset from the Tonglu government. The proportion of TNDI's current assets was relatively large, which reached c. 85% at end-September 2022. The asset structure of TNDI

was largely unchanged in the past few years, which mainly composed of inventory, other receivables, intangible assets and investment properties. The inventory was mainly composed of land and land development cost (c. RMB100 million was restricted as collateral at end-September 2022). The other receivables were mainly composed of temporary loans from other state-owned enterprises in the region, indicating a low probability of bad debts. Intangible assets mainly consisted of road parking franchised operating rights injected by the Tonglu government. Although TNDI has a relatively large proportion of current assets, its assets quality was less liquid given the relatively large proportion of land, land development costs and operating assets.



TNDI's financial leverage (total liabilities to assets) was 51.3%、61%、59.2% and 65.9% at end-2019, end-2020, end-2021 and end-September 2022. The increase at end-2020 was mainly caused by the consolidation of Health City. Given the relevant guidelines of the Tonglu government, we expect the leverage of TNDI to decrease in the future. TNDI's adjusted total debt increased significantly from c. RMB4.6 billion at end-2019 to c. RMB13.3 billion at the end-September 2022 due to the increase in bonds payable and long-term borrowings, with long-term debt accounting for c. 66.4% of its total debt at end-September 2022. There was no significant change in the ownership equity structure of TNDI at end-September 2022 compared with that at end-2021. TNDI mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its infrastructure and industrial park projects under construction and to be constructed in the future.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	1,214	1,247	809	96
Cash Outflows from Operation	1,257	2,785	1,832	1,805
Net CF from Operation	-42	-1,538	-1,022	-1,710
Cash Inflows from Investment	143	0	324	212
Cash Outflows from Investment	1,182	38	1,050	561
Net CF from Investment	-1,040	-38	-725	-349
Cash Inflows from Financing	2,736	3,754	3,342	3,550

Cash Outflows from Financing	1,128	2,180	1,781	1,939
Net CF from Financing	1,608	1,574	1,561	1,611
Net Increase in Cash and cash equivalent	526	-2	-186	-448

Source: The Company

Debt Servicing Capability

The liquidity of TNDI was relatively tight. At end-September 2022, TNDI had a cash balance and unused credit facilities of c. RMB0.2 billion (restricted cash accounted for c. 1%) and RMB2.0 billion, respectively, compared with its debt due within one year of c. RMB2.8 billion at the same time. Besides, TNDI has access to various financing channels, including bank loans, bond issuance and non-traditional financing (such as financial leasing), to support its debt repayment and business operations.

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