

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taixing Zhiguang Environmental Protection Technology Co., Ltd.

HONG KONG, 3 January 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Taixing Zhiguang Environmental Protection Technology Co., Ltd. (“TZEPT” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Taixing City (“Taixing government”) would provide strong support to TZEPT if needed, in light of its indirectly full ownership of TZEPT, TZEPT’s strategic importance as the important investment and development company (“LIDC”) responsible for infrastructure construction and land development in Jiangsu Taixing High-tech Industrial Development Zone (“Taixing HTZ”), and the linkage between the Taixing government and TZEPT, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and other government support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TZEPT encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Taixing government via the LIDC of the State-owned Assets Supervision and Administration Office of Taixing (“Taixing SASAO”), Taixing Zhongxin Investment Group Co., Ltd. (“Zhongxin Group”), indirectly holds 100% stake of TZEPT. The Taixing government has strong supervision over the company through the Taixing SASAO, including appointment and supervision of the senior management, development strategy and investment plan decisions, major financing plans and daily operations. In addition, the Taixing government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: As one of the important LIDCs in Taixing, TZEPT is mainly responsible for the infrastructure construction and land development project in the Taixing HTZ, with a regional franchise advantage. The company aims to maintain its prominent position as the primary entity for infrastructure construction in the region, while further diversify its business portfolio at the same time. The company’s development plan has been aligned with the local government’s urban development and construction plan. TZEPT plays an important role in the urban development of the Taixing HTZ. Under the guidance of

the government's plan, the company undertakes the integration of asset in the region, revitalizes high-quality assets and resources to further develop and construct the zone. The major customers of the company are the Management Committee of the Taixing HTZ ("Taixing HZTMC") and other governmental entities and companies in the zone.

Ongoing Government Support: As the primary LIDC for infrastructure construction in the Taixing HTZ, TZEPT has been supported by the local government since its establishment. The government support it has received was mainly been in the form of capital injection and operational subsidies. In 2020, the company received a capital injection of RMB1.0 billion from the shareholder, which increased its paid-in capital to RMB2.0 billion. The subsidies amount received from the government was c. RMB256 million, RMB357 million and RMB376 million and RMB265 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. Considering the function and strategic importance of the company, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

TZEPT's Financial and Liquidity Position: The total asset of TZEPT was c. RMB31.6 billion at end-September 2022. The company's financial leverage as measured by total liabilities/total assets was moderately high and it maintained at c. 62%-64% in the past three years. The company's total adjusted debt was c. RMB13.05 billion at end-September 2022, of which short-term and long-term debt accounted for 30.1% and 69.9% of its total debt, respectively. Meanwhile, TZEPT had a cash balance of c. RMB5.06 billion (among which the restricted cash was RMB4.75 billion) and unused credit facilities of c. RMB6.08 billion, compared with its debt due within one year of c. RMB3.93 billion. TZEPT has access to various financing channels, including bank loans, onshore and offshore bond issuance and non-traditional financing (such as trust loan, financial lease and asset management), to support its debt repayment and business operations. TZEPT mainly relies on external financing to support its capital expenditures, which we expect the company to have certain capital expenditure needs in the future given its projects under construction.

Economy and Fiscal Condition of Taixing: Taixing is a county-level city in Jiangsu Province, which is an important economic link between the north and south of the Yangtze River. Taixing maintained growth in economic development in 2021, achieving a GDP of c. RMB127.3 billion, with a year-on-year growth of 9.9%. The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. In 2021, the budgetary revenue of the Taixing government reached c. RMB9.3 billion, with a year-on-year increase of 9.0%, of which tax revenue accounted for 80.7% of its budgetary revenue. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2021, the government fund income of the Taixing government was c. RMB13.9 billion, up 10.7% year-on-year. Taixing government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high. At end-2021, the local government's outstanding debt was c. RMB27.5 billion, including RMB10.4 billion of general obligations and RMB17.1 billion of special debt.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 TZEPT's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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.

Contact Information

Primary Analyst
Ben Yau
Senior Director
(852) 3462 9586
ben.yau@lhratingsglobal.com

Committee Chairperson
Toni Ho
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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