

Wuxi Construction and Development Investment Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 January 2023

Key Figures of Wuxi and WCDI

(RMB billion)	2020	2021
Wuxi		
GDP	1,237.0	1,400.3
GDP growth rate (%)	3.7	8.8
Budgetary revenue	107.6	120.0
Government fund	98.8	122.6
Transfer payment	18.0	15.2
Budgetary expenditure	121.5	135.8
WCDI		
Assets	68.3	79.0
Equity	25.6	26.3
Revenue	4.0	4.3

Source: Public information, 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 Wuxi Municipal People's Government ("Wuxi government") would provide strong support to WCDI if needed. This mainly considers the Wuxi government's indirectly full ownership of WCDI, the high importance of WCDI to Wuxi in infrastructure construction and industrial investment, and the strong linkage between the Wuxi government and WCDI, including management supervision, strategic alignment and ongoing operational and financial support. In addition, the Wuxi government may face significant negative impact on its reputation and financing activities if WCDI encounters any operational and financial difficulties.

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

Rating Rationale

Wuxi Government's Ownership and Supervision: Under the approval of the Wuxi government, the State-owned Assets Supervision and Administration Commission of Wuxi ("Wuxi SASAC") transferred a 49% stake of WCDI to Wuxi Urban Construction Development Group Co., Ltd. ("WUCD") in 2022. After that, the Wuxi SASAC and WUCD held 51% and 49% stake of WCDI, respectively. WUCD is a local investment and development company ("LIDC") wholly owned by the Wuxi SASAC. Thus, this change in shareholding structure of WCDI does not dilute the government's ultimate ownership and control. The Wuxi government, through the Wuxi SASAC, is still the ultimate controller of WCDI. The Wuxi SASAC increased WCDI's registered capital by capital injection in the first half of 2022, and then the stake held by the Wuxi SASAC increased to 51.18% at end-September 2022.

The Wuxi 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. In addition, the Wuxi government regularly appoints auditors to review WCDI's operating performance and financial position.

Strategic Importance and Strategic Alignment: WCDI is an important LIDC in Wuxi that undertakes various businesses including project construction, state-owned asset operation, financial leasing and industrial investment to support the local urban and economic development. WCDI will remain its importance as a municipal-level LIDC and diversify its business portfolio to financial business (such as leasing and industrial investment) to support the economic development in the region. WCDI's business operation and development have been aligned with the economic and social policies, as well as the local government's development plan.

Ongoing Government Support: WCDI has continued receiving government support in the form of asset and capital injections from the Wuxi SASAC, including c. RMB80 million of equity transfer in 2021 and RMB80 million of capital injection in the first half of 2022. Other support includes operational subsidies and project repurchase from the government. The subsidies mainly

Analysts

Monica Liu
 +852 3462 9583
monica.liu@lhratingsglobal.com

Toni Ho
 +852 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)

included tax benefits, support fund and other rewards. WCDI is expected to receive repurchase from the government in the next 1-3 years from the projects under development at end-September 2022.

Moderately Weak Financials of WCDI: WCDI's total assets increased to RMB82.4 billion at end-September 2022. Although the current assets accounted for the majority (52.3% of its total asset) at end-September 2022, the asset liquidity was weak as most of its inventory was made up of engineering projects with low liquidity and the scale of investment accounted for a large proportion. WCDI's financial leverage (total liabilities to assets) increased from 58.5% at end-2019 to 62.5%, 66.7% and 67.5% at end-2020, end-2021 and end-September 2022, respectively. We believe that WCDI will continue to issue new debt for repayment and keep its leverage to meet government's requirement. WCDI has wide access to various channels of financing, including bank loans, syndicated loans, corporate bonds, offshore bonds and other non-traditional financings. WCDI's adjusted total debt kept increasing, which reached RMB44.7 billion at end-September 2022. WCDI has a cash balance of RMB4.9 billion (restricted cash of RMB183 million) and unused credit facilities of RMB13.2 billion, compared with its short-term debt of c. RMB15.5 billion at end-September 2022.

Business Complexity and Risks: WCDI's revenue continued to grow in the past few years. The main sources of the total revenue were still engineering contracting and financial leasing, while the percentage of financial leasing increased year by year from 2019 to the first nine months of 2022. The financial leasing segment includes business service, infrastructure, environmental protection, tourism and other industries and has expanded from Jiangsu to Shandong, Zhejiang, Hunan and other regions in China. The financial business has a higher gross margin compared to engineering contracting, which can improve WCDI's profit margin, as well as the revenue scale. However, with the expansion of its financial business, the scale of long-term receivable increases significantly and the recovery risk and capital occupancy rate increase as well.

In addition, the forest products business has been seriously affected by the COVID-19 in the past two years. After the acquisition of Kangxin New Materials Co., Ltd. ("Kangxin") in 2019, the forest products business has become the third revenue source of its total revenue. Kangxin's market risk is relatively high as it is in an industry with cyclical fluctuations and is vulnerable to the periodic fluctuations of container transportation and manufacturing industries. WCDI plans to combine forest products business with its construction business segment, maintain Kangxin's main business and its forest advantages, and carry out business innovation in the future.

Economy and Fiscal Strength Underpin Wuxi: As a prefecture-level city in Jiangsu Province, Wuxi's economic development remains growing. Wuxi realized a GDP of c. RMB1,400 billion, representing a year-on-year growth of 8.8% in 2021. Wuxi's GDP per capita was high at a level of c. RMB187,400 in 2021, ranking the 1st in Jiangsu and 3rd among all prefecture-level cities in China.

Wuxi's aggregate fiscal revenues are mainly derived from stable budgetary revenue with tax revenue accounting for above 80% in the past three years. The budgetary revenue reached c. RMB120 billion, representing a year-on-year growth of 11.6% in 2021. WCDI's fiscal self-sufficiency rate was high at 88%-93% in 2019-2021. Wuxi's debt ratio (i.e., total government debt divided by aggregate fiscal revenue) was at a moderate level of c. 60% at end-2021. At end-2021, Wuxi's total government debt was RMB160.8 billion, including RMB52.2 billion of general obligations and RMB108.6 billion of special debt.

Rating Sensitivities

We would consider downgrading WCDI's rating if (1) there is perceived weakening in support from the Wuxi government, particularly due to its reduced strategic importance with diminished



government functions, or (2) commercial-oriented operations may significantly jeopardize WCDI's overall credit profile, or (3) there is a significant reduction of the Wuxi government's ownership of WCDI, or (4) there is a downgrade in our internal credit assessment on the Wuxi government.

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

Company Profile

WCDI, formerly Wuxi Construction and Development Investment Corporation, was established as a fully state-owned entity in 1991. WCDI experienced a reorganization in 2022. At end-September 2022, the Wuxi SASAC and WUCD held 51.18% and 48.82% stake of WCDI, respectively. The Wuxi government is the ultimate controller of WCDI. WCDI is an important LIDC for infrastructure construction and industrial investment in Wuxi that undertakes various businesses including project construction, state-owned asset operation, financial leasing and industrial investment to support the local urban and economic development.

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2023.