

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taixing City Investment Development Group Co., Ltd.**

HONG KONG, 21 February 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Taixing City Investment Development Group Co., Ltd. (“TCID” 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 TCID if needed, in light of its full ownership of TCID, TCID’s strategic importance as an important local investment and development company (“LIDC”) responsible for urban development and operation in Taixing City (“Taixing”), and the linkage between the Taixing government and TCID, including appointment and supervision of the senior management, strategic alignment, major financing plan and investment decisions and ongoing operational and financial support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TCID encounters any operational and financial difficulties.

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

**Key Rating Rationales**

**Government’s Ownership and Supervision:** The Taixing government holds 100% stake of TCID through State-owned Assets Supervision and Administration Office of Taixing (“Taixing SASAO”). The Taixing government also has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major financing plan and investment decisions. In addition, the Taixing government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** TCID is an important LIDC that is mainly responsible for infrastructure and affordable housing development in the urban area of Taixing. The company is also responsible for the water supply in the Taixing urban area and neighboring townships. TCID’s development plan has been aligned with the local government’s economic and social policies by promoting Taixing’s urban development. The company also plans to enhance its role in the city operation by participating in Taixing’s garbage disposal project and other social causes.

**Ongoing Government Support:** TCID was established in 2019 by Taixing SASAO with a registered capital of RMB3.0 billion, which was fully injected in 2020. In addition, the company received multiple asset injections (including cash, properties as well as equities of SOEs and LIDCs in Taixing) with a total amount of RMB2,362 million between 2020 and the first half of

2022. TCID has also received ongoing operational subsidies from the Taixing government, amounting to RMB1,713 million between 2019 and end-June 2022. These subsidies mainly support TCID's activities in relation to providing public goods and services.

***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 recorded strong economic growth 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%. At the same time, the government fund income was c. RMB13.9 billion, up 10.7% year-on-year, yet it was vulnerable to market and policy changes. However, the Taixing government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high at 105.0% in 2021.

***TCID's Financial Matrix and Liquidity Position:*** TCID's asset size grew significantly by 50.9% to RMB70.3 billion at end-September 2022 from RMB46.6 billion at end-2019. This was mainly attributed to the company's active involvement in Taixing's project constructions and land acquisitions. The company's total debt rose sharply by 106.4% over the same period, pushing up its financial leverage, as measured by total debt/capitalization, to 56.4% at end-September 2022 from 43.0% at end-2019.

TCID's asset liquidity was moderately weak. Its current assets (RMB61.1 billion at end-September 2022) mainly comprised construction costs of RMB13.8 billion generated by its project construction activities and lands to be developed of RMB17.9 billion. The former usually take a long time (8-10 years) to be converted to cash due to the protracted construction, revenue recognition and receivable collection periods, while the company plans to resale the later to other property developers or develop properties for sale or leasing on them, yet both options are subject to current challenging property market conditions. In addition, TCID had other receivables of RMB14.5 billion at end-September 2022, mainly due from government agencies, other LIDCs and SOEs in Taixing, and some were technically loans. TCID usually takes three to five years to collect them.

At end-September 2022, TCID had a cash balance of c. RMB5.7 billion compared with its debt due within one year of c. RMB14.6 billion. Nevertheless, TCID has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations.

***Moderately High Contingent Liability Risk:*** TCID's contingent liability risk was moderately high. It provided financial guarantees of c. RMB13.1 billion to third parties at end-September 2022, accounting for 47.9% the company's net assets. These guarantees were mainly provided to LIDCs and SOEs; a small fraction provided to non-SOEs required counter guarantee to mitigate risks. TCID had restricted assets of RMB9.5 billion at end-June 2022, accounting for 13.8% of its total assets. Moreover, TCID's water supply income has been charged for obtaining bank facilities of RMB720 million.

## Rating Sensitivities

We would consider downgrading TCID'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 TCID, or (3) there is a downgrade in our internal credit assessment on the Taixing government.

We would consider upgrading TCID'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 TCID'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](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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