Lianhe Ratings Global

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

HONG KONG, 10 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 Zhongxin Investment Group Co., Ltd. (“TZIG” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

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

Strategic Importance and Strategic Alignment: Taixing SASAO transferred full ownership of six important LIDCs to TZIG after its establishment, making it the largest LIDC in terms of asset size in Taixing. Since then, TZIG has become the essential LIDC, mainly responsible for infrastructure construction and land consolidation projects in industrial parks and development zones, on which Taixing relies to foster industrial clusters, and thereby promoting local economic growth. TZIG’s development plan has been aligned with the local government’s economic and social policies by facilitating development zones and industrial parks’ development.

Currently, however, TZIG mainly supervises subsidiaries' financing activities and provides financial support to them if needed while subsidiaries maintain a high degree of independence in operation and investment decisions. We believe an effective integration, including centralized strategic and financial planning, risk management as well as resource allocation to support its subsidiaries' development, is vital for TZIG to maintain its strategic importance.

Ongoing Government Support: As an important LIDC in Taixing, TZIG has been supported by the local government since its establishment in 2019. The company had paid-in capital of RMB500 million at end-2019, which was increased by RMB4.5 billion to RMB5 billion at end-September 2022. In addition, the Taixing government injected cash and assets, including equities of LIDCs and SOEs in Taixing, land use rights and properties, into TZIG, enlarging the company's capital reserves by RMB5.7 billion to RMB28.1 billion at end-September 2022 from RMB22.4 billion at end-2019. TZIG also received ongoing financial subsidies from the government in relation to providing public services and goods.

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.

TZIG's Financial Position: TZIG's total assets increased by 31.6% to RMB124.9 billion at end-September 2022 from RMB94.9 billion at end-2019, mainly due to its active participation in project construction activities, as well as intensive investment in debts and equities. Over the same period, the company's total debts only raised by 16.6%. Its financial leverage, as measured by total debts/capitalization, decreased to 55.3% from 62.8%. This was because TZIG received multiple capital and assets injections in the forms of cash, land use rights, properties, and equity of other LIDCs in Taixing, enlarging its equity to RMB50.9 billion at end-September 2022 from RMB32.0 billion at end-2019.

Relatively Weak Asset Liquidity and Moderately High Contingent Liability: TZIG's asset liquidity was moderately weak. Its current assets mainly comprised accounts receivable, other receivables and inventories, mostly generated from project construction activities. These assets could take a long time to convert to cash due to the protracted development, revenue recognition and receivable collection periods.

At end-September 2022, TZIG had a cash balance of c. RMB18.0 billion (including restricted cash of RMB13.1 billion), compared with its debt due within one year of c. RMB29.7 billion. Successfully rolling over its short-term bank borrowings (c. RMB6.9 billion at end-September

2022) and obtaining additional financing sources or government support is vital for TZIG to maintain its liquidity.

TZIG provided financial guarantees of RMB31.2 billion to external parties, mostly LIDCs and SOEs in Taixing, accounting for 61.4% of the company's net assets at end-September 2022. At the same time, TZIG had restricted assets of RMB20.4 billion, representing 16.2% of the company's total assets, mainly pledged to banks for obtaining bank facilities.

Rating Sensitivities

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

We would consider upgrading TZIG'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 TZIG'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.

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