

Taixing City Investment Development Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 February 2023

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

Summary

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.

Rating Rationale

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

Key Figures of Taixing and TCID

(RMB billion)	2020	2021
Taixing		
GDP	112.7	127.3
GDP growth rate (%)	3.9	9.9
Budgetary revenue	8.5	9.3
Government fund	12.6	13.9
Transfer payment	4.1	2.9
Budgetary expenditure	10.8	11.8
TCID		
Assets	59.9	66.3
Equity	26.8	27.0
Revenue	8.5	10.0

Source: Public information, TCID and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

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.

Operating Environment

Economic Condition of Taixing

Taixing is a county-level city under the jurisdiction of Taizhou City, Jiangsu Province. Taixing is located in the middle of Jiangsu Province and in the Yangtze River Economic Belt, which is an important economic link between the north and south of the Yangtze River. It enjoys good economic development and has been ranked among the top 100 counties in China for years (2022: Ranked 28th). At end-2021, Taixing has jurisdiction over 3 streets, 13 towns and 1 township, with a total area of 1,172 square kilometers, and the residential population of Taixing was c. 1.0 million, with an urbanization rate of 62.9% in 2021.

Taixing recorded strong economic growth in 2021, achieving a GDP of c. RMB127.3 billion, with a year-on-year growth of 9.9%. Its economy was dominated by the secondary industry and the tertiary industry, of which the tertiary industry accounted for an increasing proportion year by year. The GDP per capita of Taixing reached c. RMB128,000 in 2021, compared with that of c. RMB137,000 in Jiangsu Province at the same time.

Taixing's GDP and Fixed Asset Investment			
(RMB billion)	2019	2020	2021
GDP	108.4	112.7	127.3
-Primary industry (%)	6.0	6.2	5.6
-Secondary industry (%)	51.3	50.1	50.3
-Tertiary industry (%)	42.7	43.7	44.1
GDP growth rate (%)	6.8	3.9	9.9
Fixed asset investment	100.8	95.6	102.4
Fixed asset investment growth rate (%)	10.9	-5.2	7.1
Population (million)	1.1	1.0	1.0

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Taixing

The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Taixing government grew by 9.0% in 2021, reaching c. RMB9.3 billion, and 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 kept growing, reaching c. RMB13.9 billion, up 10.7% year-on-year.

The fiscal self-sufficiency rate of the Taixing government was relatively high in the past three years as c. 75%-80% its budgetary expenditure could be covered by the budgetary revenue; the remaining gap was mainly compensated by subsidies from higher governments. The outstanding debt of the Taixing government continuously increased in the past three years, and the debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high at 105.0% in 2021. 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.

Taixing's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	8.1	8.5	9.3
Budgetary revenue growth rate (%)	8.2	6.0	9.0
Tax revenue	6.6	6.7	7.5
Tax revenue (% of budgetary revenue)	82.2	78.7	80.7
Government fund income	9.3	12.6	13.9
Transfer payment	3.3	4.1	2.9
Aggregate revenue	20.6	25.2	26.2
Budgetary expenditure	10.6	10.8	11.8
Budget deficit ¹ (%)	-32.1	-26.8	-27.1

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TCID was established by Taixing SASAO in 2019. Taixing SASAO transferred the full ownership of five important LIDCs to TCID free of charge after its establishment, and became effective on 31 December 2019, making TCID the second largest LIDC in terms of asset size in Taixing. At end-September 2022, Taixing SASAO remained the company's sole shareholder.

Transferred LIDCs included Taixing Zhongxing State-owned Asset Management & Investment Co., Ltd. ("TZSAMI"), an LIDC focusing on urban infrastructure development and land consolidation in Taixing, and four other LIDCs responsible for water supply, water conservancy construction as well as affordable house development, etc. TCID has developed robust control of operations as well as financial and investment decisions over its subsidiaries, except TZSAMI. Both TZSAMI and its major subsidiary, Taixing No.1 Construction Group Co., Ltd., a nationwide building contractor, are under Taixing SASAO's direct control. Yet TZSAMI will be less involved in Taixing's urban development projects in the future, according to the government's planning.

Strategic Importance and Government Linkage

Strategic Importance of TCID to Taixing

TCID is an important LIDC mainly responsible for infrastructure and affordable housing development in the Taixing urban area. 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.

Strong Linkage with the Local Government

TCID has a strong linkage with the local government, as the Taixing government holds 100% ownership of the company through Taixing SASAO. The Taixing government also has strong supervision over the company, 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 has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

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) of RMB1,816 million, 396 million and 150 million in 2020, 2021 and the first half of 2022, respectively, from the Taixing government.

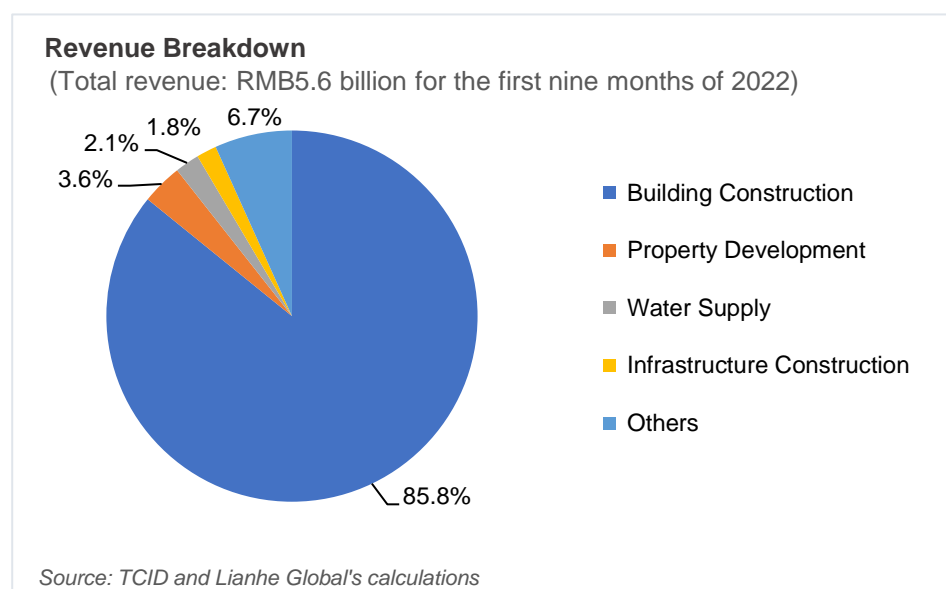
TCID has received ongoing operational subsidies from the Taixing government since its establishment. The subsidies received amounted to RMB434 million, 463 million, 515 million and 372 million in 2019, 2020, 2021 and the first half of 2022, respectively. These subsidies mainly support TCID's activities in relation to providing public goods and services.

Business Profile

An Important LIDC Responsible for Urban Development and Operation in Taixing

TCID is mainly responsible for urban development projects, including affordable housing and infrastructures such as roads and pipe networks, water conservancy and other public facilities, in the urban area of Taixing. The company is also responsible for the water supply in the Taixing urban area and neighboring townships. While maintaining its position as an important infrastructure development entity, the company has further diversified into building construction, gas supply, security escort and other activities.

TCID recognized revenue of c. RMB6.9 billion, 8.5 billion, 10.0 billion and 5.6 billion in 2019, 2020, 2021 and the first nine months of 2022, respectively. Its primary source of revenue was building construction (mainly for property developers), complemented by property development, water supply and infrastructure construction.



Infrastructure Construction

TCID's infrastructure construction projects are concentrated in Taixing urban area. The project scope mainly includes road works, pipe networks, water conservancy projects and other public facilities. These projects are usually carried out under agent construction

agreements signed with Taixing Water Authority and other LIDCs in Taixing, whereby TCID raises funds and implements entrusted projects. TCID recognizes construction costs plus the agreed margin (e.g., 10%-20, varying from project to project) as revenue. The entrusting parties should pay TCID progress payments for respective projects annually. However, actual payments often be delayed.

The infrastructure construction business recognized revenues of RMB393 million, 265 million, 234 million and 98 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. At end-June 2022, the company had fourteen projects under construction, including city flood control projects, the Taixing Culture Center construction project, and some land development projects, with a total planned investment of RMB11.0 billion, of which RMB3.8 billion were scheduled to be invested in the coming years. We expect these projects to support the segment's development in the next two to three years but pose cash pressure to TCID, considering the company's cash collection records.

Building Construction

The building construction business is operated by TZSAMI's subsidiary, Taixing No.1 Construction Group Co., Ltd., a nationwide building contractor established in 2002. The company usually acquires projects through public bidding and directly signs contracts with project owners (mainly property developers) as the general contractor. During the construction period, project owners should pay progress payments to TCID monthly, and the accumulated amount should arrive at 70%-80% of the total contracted value upon the completion and delivery of the respective project. The remaining should be paid within one year except for 5%-10% quality guarantee retention, which is usually held for 1-3 years and would be released if there is no quality issue.

The building construction business grew significantly between 2019 and 2021. The segment revenue increased to RMB9.0 billion in 2021 from RMB5.7 billion in 2019, representing a compound annual growth rate of 25.7%. However, the momentum was reversed due to the recent downturn in the property market. The building construction segment realized revenue of RMB4.8 billion in the first nine months of 2022, representing a year-over-year decrease of 2.8%. Moreover, the value of the newly signed contract dropped by 21.3% to RMB12.3 billion in 2021 from RMB15.7 billion in 2020, which could hinder the segment's development in the coming years. By the end-June 2022, TCID had 150 contracts in progress, with a total uncompleted contracted value of RMB21.1 billion. The uncompleted projects were mainly located in provincial capitals and other cities in Guangdong and Jiangsu.

Property Development

TCID develops and sells residential properties, mainly affordable housing and some commercial housing. The company obtains land with specified design and construction standards for affordable housing through public bidding, then it is responsible for fundraising, constructing and selling properties to qualified buyers. However, the property development segment's revenue was shrinking, recording RMB310 million, 118 million, 28 million and 198 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. At end-June 2022, TCID had no property project under construction and proposed to be developed.

Water Supply and Others

TCID is also responsible for the water supply for production and domestic use in the Taixing urban area and neighboring townships, with a monopoly advantage. The company realized stable revenues of RMB137 million, 151 million, 172 million and 118 million in 2019, 2020,

2021 and the first nine months of 2022, respectively. It maintained a good cash collection rate of over 97% by charging fees directly from the users through electronic channels and service branches.

In addition, TCID participates in other businesses, including water supply engineering, trading, project management, gas supply, security escort, consulting and development services and examination services. Yet these activities only generated a small fraction of revenue for TCID and had a limited impact on the company's overall condition and solvency.

Financial Profile

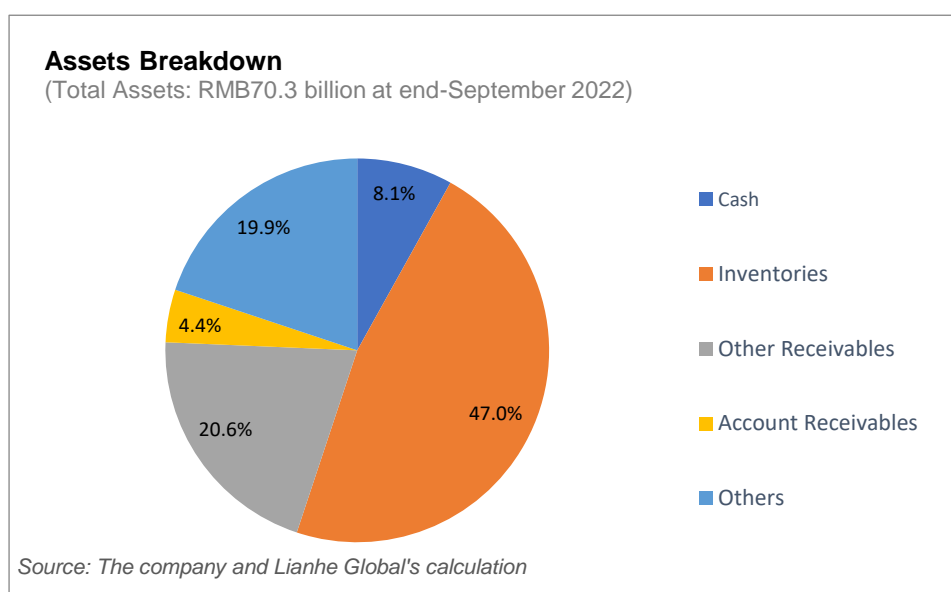
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sep 2022
Total Asset	46,581	59,940	66,337	70,289
Equity	22,578	26,837	26,993	27,258
Debts	17,057	26,479	31,254	35,199
Debt / (Debt + Equity) (%)	43.0	49.7	53.7	56.4
LT Debts	12,076	16,893	20,550	20,551
LT Debt / (LT Debt + Equity) (%)	34.8	38.6	43.2	43.0

Source: The company's financial reports and Lianhe Global's calculations

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. TCID relied more on debts to finance its asset expansion. The company's total debt rose sharply by 106.4% to RMB35.2 billion from RMB17.1 billion over the same period, pushing up its financial leverage to 56.4% at end-September 2022 from 43.0% at end-2019.

TCID's asset liquidity was moderately weak in practice, although current assets contributed



to most of the company's total assets (87.0%). At end-September 2022, TCID had inventories of RMB33.1 billion, accounting for 47.0% of its total assets, of which RMB13.8 billion were construction costs generated by its project construction activities. These costs usually take a long time (usually 8-10 years) to be converted to cash due to the protracted

construction, revenue recognition and receivable collection periods. At the same time, TCID had lands to be developed of RMB17.9 billion in its inventories, up from RMB7.6 billion at end-2019. TCID plans to resale these lands 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 the same time, TCID had accounts receivables of RMB3.1 billion, accounting for a relatively small fraction (4.4%) of its total assets. Yet TCID faced heightened counterparty credit risks amid the recent property market downturn, as a significant part of these receivables were due from property developers.

At end-September 2022, TCID's other assets mainly included fixed assets, as well as investments in time/structural deposits, debts, equities and properties.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	8,775	12,984	19,322	8,368
Cash Outflows from Operation	13,818	23,678	19,863	9,917
Net CF from Operation	-5,043	-10,694	-541	-1,549
Cash Inflows from Investment	592	786	699	393
Cash Outflows from Investment	1,831	564	2,701	1,701
Net CF from Investment	-1,239	223	-2,002	-1,308
Cash Inflows from Financing	16,355	15,246	14,322	12,793
Cash Outflows from Financing	10,179	7,287	10,768	9,318
Net CF from Financing	6,177	7,959	3,554	3,475
Net Increase in Cash and cash equivalent	-105	-2,519	1,006	641

Source: The company's financial reports

Debt Servicing Capability

The liquidity of TCID was moderately tight. 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. At end-September 2022, the company had unused bank credit line of RMB7.8 billion and bond issuance quota of c. RMB5.0 billion. Yet successfully rolling over its short-term bank borrowings (RMB6.1 billion at end-September 2022) is still important for TCID to maintain its liquidity.

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