

# Taixing Zhongxin Investment Group Co., Ltd.

## Initial Issuer Report

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

### Summary

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 City (“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.

### Rating Rationale

**Government’s Ownership and Supervision:** The Taixing government holds 100% stake of TZIG via State-owned Assets Supervision and Administration Office of Taixing City (“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-

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 February 2023

### Key Figures of Taixing and TZIG (RMB billion)

	2020	2021
<b>Taixing</b>		
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
<b>TZIG</b>		
Assets	115.3	118.0
Equity	44.6	47.5
Revenue	14.6	9.6

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

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### Applicable Criteria

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

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.

## 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 28<sup>th</sup>). 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.

<b>Taixing's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
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.

<b>Taixing's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
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
<b>Aggregate revenue</b>	<b>20.6</b>	<b>25.2</b>	<b>26.2</b>
Budgetary expenditure	10.6	10.8	11.8
Budget deficit <sup>1</sup> (%)	-32.1	-26.8	-27.1

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

TZIG was established by Taixing SASAO in 2019. It then transferred full ownership of six important LIDCs, mainly focusing on infrastructure development in development zones and industrial parks of Taixing, to TZIG, and became effective on 31 December 2019, making TZIG the largest LIDC in terms of asset size in Taixing. At end-September 2022, Taixing SASAO remained the company's sole shareholder and the ultimate controller.

## Strategic Importance and Government Linkage

### Strategic Importance of TZIG to Taixing

TZIG was established against the policy backdrop of LIDC consolidation, aiming to integrate resources, improve management and lower financing costs for LIDCs in Taixing. Taixing SASAO transferred full ownership of six important LIDCs in the three zones and three parks after its establishment, making TZIG 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 (e.g., financial guarantees and liquidity supports) 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.

### Strong Linkage with the Local Government

TZIG 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 senior management, development strategy, 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

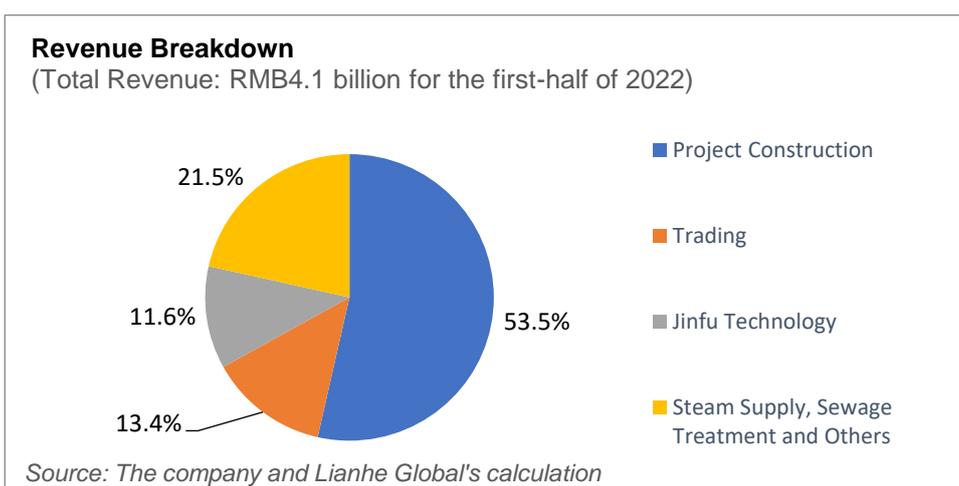
As an important LIDC in Taixing, TZIG has been supported by the local government since its establishment in 2019. The company had paid-in capital of RMB500 million at end-2019, which was increased by RMB4.5 billion to RMB5 billion at end-September 2022. In addition, the Taixing government injected cash 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 of RMB776 million, 1,004 million, 1,062 million and 843 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. We expect the company to continue to receive financial subsidies in relation to providing public services and goods in the future.

## Business Profile

**The Important LIDC that is responsible for infrastructure construction, resettlement house development and land consolidation in the development zones and industrial parks of Taixing**

TZIG is the largest LIDC in terms of asset size in Taixing that is responsible for infrastructure construction, resettlement house development, and land consolidation in three economic development zones and three industrial parks (“the three zones and three parks”) of Taixing, namely Taixing Economic Development Zone (“High-tech Zone”), Jiangsu Taixing High-tech Industrial Development Zone, Taixing Huangqiao Economic Development Zone, Taixing Hongqiao Industrial Park, Taixing Urban Industrial Park and Taixing Agricultural Products Processing Park. While maintaining its project construction position, TZIG has diversified into trading, steam supply, sewage treatment and other businesses through its subsidiaries.



## Project Construction

TZIG engages in the construction of an array of projects, including infrastructure projects such as road construction, landscaping and pipe networking, as well as land consolidation and resettlement house development projects in the three zones and three parks of Taixing. These projects were entrusted by government agencies, management committees and LIDCs through agent construction agreements, and executed by corresponding subsidiaries

in the respective development zones and industrial parks. According to agent construction agreements, TZIG is responsible for fundraising and construction for the projects, and recognizes construction costs plus the agreed margin as revenue, while entrusting parties should pay progress payments annually or settle in one lump sum upon the completion and delivery of the projects, depending on actual agreements signed with entrusting parties.

Nevertheless, the actual payment schedule is largely subject to the financial conditions of entrusting parties, and therefore could be extended. The payment of land consolidation projects, in particular, are strongly linked to the price and progress of respective land-use right transfers. As a result, the recent property market downturn could squeeze TZIG's gross margin and prolong the cash collection period for land consolidation projects. At end-September 2022, TZIG had accounts receivable of RMB13.4 billion, representing 10.7% of TZIG's total assets, and most of them were due from the entrusting parties of project construction.

The project construction recognized revenues of RMB4.6 billion, 5.1 billion, 4.8 billion and 2.2 billion in 2019, 2020, 2021 and the first half of 2022, respectively. The segment's gross margin stayed at c. 20% level over the same period. The segment's development will be supported by its strong project pipeline under construction with total investments of c. RMB18.6 billion, of which c. RMB6.5 billion were scheduled to be invested in the coming years. Yet these projects require high capital expenditures and thus may push up TZIG's debts and weaken its liquidity, given the relatively low cash collection efficiency.

## Trading

Trading is an important revenue source for TZIG, contributing 13.4% to its revenue in the first half of 2022. TZIG's trading business mainly adopted an order-oriented model, where the company initiates sourcing from a wide list of suppliers (mainly commodity traders) based on clients' needs and signed contracts. Traded products mainly include ethylene oxide, electrolytic copper, ethylene glycol, zinc, nickel, etc. TZIG usually charges a percentage of advance payment as the deposit from buyers to mitigate market and counterparty risks. The trading segment realized revenue of RMB1,096 million and 544 million in 2021 and the first half of 2022, respectively. However, the segment's gross margin remained low at 0.4% over the same period.

## Jinfu Technology

In 2019, Taixing Zhiguang Environmental Protection Technology Co., Ltd. ("TZEPT"; 'BBB-/Stable), one of the most important subsidiaries of TZIG responsible for infrastructure construction in High-tech Zone, became the largest shareholder of the listed company Suzhou Jinfu Technology Co., Ltd. (300128.SZ) ("JFT"), holding 19.2% of JFT's shares indirectly and gaining control over its board of directors.

Founded in 2004 and listed on the Shenzhen Stock Exchange in 2010, JFT mainly produces LCD parts, electronic functional components, heat insulation and shock absorption products, IDC and its value-added services, all of which are widely used in consumer electronics, automotive, medical, new energy and other industrial fields. TZIG expected to boost the industrial development of Taixing by introducing JFT to High-tech Zone.

Nevertheless, JFT's revenue decreased from RMB1,364 million in 2020 to RMB972 million in 2021, with a net loss of RMB357 million, due to weakening demand and narrowing gross margin as well as impairments in goodwill, inventories and accounts receivable. In addition, JFT was exposed to risks such as fund embezzling and disputes over foreign mergers and

acquisitions. Moreover, JFT expects a net loss of RMB170-250 million (excluding net loss attributable to minority interests) in 2022.

### Steam Supply, Sewage Treatment and Others

TZIG produces and supplies steam to chemical enterprises in Taixing Economic Development Zone. The company is also responsible for treating domestic and industrial wastewater in Taixing Economic Development Zone and Taixing Huangqiao Economic Development Zone. Local governments have been providing stable financial subsidies to TZIG to support its sewage treatment operation, as it is a non-profitable public service. In addition, TZIG participates in financial guarantee, leasing and other activities, but the operating scale is relatively small and thus has a minor impact on TZIG's overall operation.

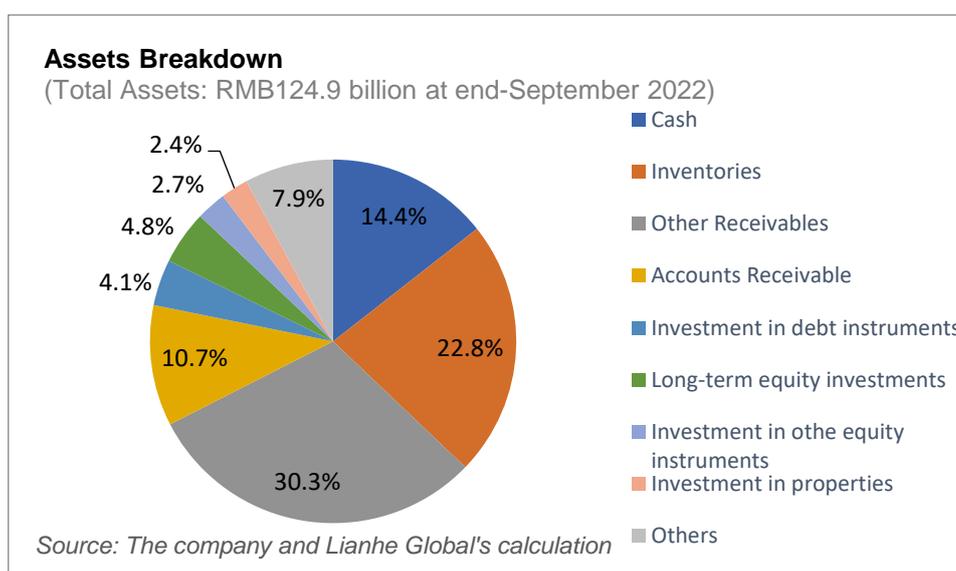
## Financial Profile

### Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sept. 2022
Total Asset	94,931	115,259	118,039	124,946
Equity	31,992	44,645	47,534	50,899
Debt	54,105	61,722	60,592	63,076
Debt / (Debt + Equity) (%)	62.8	58.0	56.0	55.3
LT Debt	34,005	28,508	30,726	33,362
LT Debt / (LT Debt + Equity) (%)	51.5	39.0	39.3	39.6

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

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. At end-September 2022, TZIG's total liabilities/total assets ratio was 59.3%, and the company intended to maintain it at below 60% level.



At end-September 2022, current assets represented 79.9% of TZIG's total assets. However, the company's asset liquidity was moderately weak in practice. 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 the same time, TZIG's non-current assets consisted of an array of investments in equities (mainly non-listed companies located in Taixing) and properties, which the company intended to hold in the long run. In addition, TZIG made a debt investment of RMB5.1 billion due December 2023 to Taizhou Binjiang Port Development Company Limited, another LIDC in Taixing.

## Cash Flow

<b>Cash Flow (RMB million)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>9M2022</b>
Cash Inflows from Operation	24,273	30,435	29,227	21,443
Cash Outflows from Operation	36,965	37,161	33,674	14,451
<b>Net CF from Operation</b>	<b>-12,692</b>	<b>-6,725</b>	<b>-4,447</b>	<b>6,992</b>
Cash Inflows from Investment	1,879	694	1,509	139
Cash Outflows from Investment	2,270	4,062	4,242	2,382
<b>Net CF from Investment</b>	<b>-391</b>	<b>-3,368</b>	<b>-2,733</b>	<b>-2,243</b>
Cash Inflows from Financing	43,083	42,488	46,238	27,744
Cash Outflows from Financing	28,095	32,993	39,521	31,433
<b>Net CF from Financing</b>	<b>14,987</b>	<b>9,495</b>	<b>6,717</b>	<b>-3,689</b>
Net Increase in Cash and cash equivalent	1,904	-606	-465	1,062

Source: The company's financial reports

## Debt Servicing Capability

The liquidity of TZIG was moderately weak. 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. TZIG has access to various financing channels, including bank borrowings, bond issuances and non-traditional financings (such as trust loans and financial leasing), to support its debt repayment and business operations. At end-June 2022, TZIG had total unused bank lines of RMB5.3 billion. Nevertheless, 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.

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