

Taizhou Hailing City Development Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 March 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Taizhou Hailing City Development Group Co., Ltd. (“THCD” or “the company”); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Taizhou City (“Taizhou government”) would provide moderately strong support to THCD if needed. This mainly considers the Taizhou government’s full ownership of THCD, the high strategic importance of THCD to Taizhou and Hailing District in land development and consolidation, infrastructure construction and maintenance, and the strong linkage between the Taizhou government (via the Hailing District Government) and THCD, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Taizhou government may face negative impact on its reputation and financing activities should THCD encounters any operational or financial difficulties.

The Stable Outlook reflects our expectation that THCD’s current position in the region will remain while the Taizhou government will continue to ensure THCD’s stable operation.

Rating Rationale

Government’s Ownership and Supervision: The Taizhou government has 100% ownership of THCD via the State-owned Assets Supervision and Administration Commission of Taizhou government (“Taizhou SASAC”). The Taizhou government has strong control and supervision (via the Hailing District Government) over THCD, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions. In addition, the Taizhou government has formulated a performance appraisal policy for THCD, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: THCD is still the major state-owned entity that is responsible for land consolidation and infrastructure construction in Hailing District of Taizhou. It is also the major urban developer and important platform for supporting the urban and economic development in Hailing District. THCD’s strategic planning and development have been aligned with the local government’s economic and social policies, aiming to develop Taizhou and Hailing District.

Ongoing Government Support: THCD has received government support in the form of capital injection, equity transfer, land resources and financial subsidies, etc. THCD received government subsidies of c. RMB197.4 million in 2021, mainly included the special fund for urban construction project. Given the company’s role and its strategic importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

THCD’s Financial and Liquidity Position: THCD’s financial leverage (total liabilities to assets) and total debt capitalization were 64.8% and 59.5% at end-September 2022, respectively. THCD mainly relies on external financing for debt repayment. The total debt of THCD increased to RMB27.3 billion, of which the short-term and long-term debt accounted

Key Figures of Taizhou and THCD

(RMB billion)	2021	2022
Taizhou		
GDP	602.5	640.2
GDP growth rate (%)	10.1	4.4
Budgetary revenue	42.0	41.7
Government fund	68.1	52.3
Transfer payment	15.1	18.1
Budgetary expenditure	66.8	69.7
THCD		
	2021	2022.9
Total Asset	53.0	52.9
Equity	18.8	18.6
Revenue	2.4	1.6

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

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Applicable Criteria

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

for 23.9% and 76.1%, respectively, at end-September 2022. THCD had a total cash balance of RMB2.0 billion (unrestricted cash: RMB447.2 million) and a total credit line of RMB32.0 billion (unused: RMB14.2 billion) at end-September 2022, compared with its debt to be due within one year of RMB6.5 billion. THCD had access to multiple financing channels including bank borrowings, bond issuance and other non-traditional financing channels such as PPN and finance lease.

Economy and Fiscal Condition of Taizhou: Taizhou is a prefecture-level city in Jiangsu and it is an important trading port city in China's Yangtze River Delta Region. Taizhou realized GDP of c. RMB640.2 billion, representing a year-on-year growth rate of 4.4% in 2022. In 2022, the government's fiscal revenue was affected by the value-added tax (VAT) credit refund policy. The Taizhou government's fiscal revenue was c. RMB41.7 billion. It recorded a growth rate of 7.4% in 2022, excluding the impact from the VAT credit refund. The financial self-sufficiency rate of Taizhou was insufficient and it recorded budget deficit of 67.3% in 2022. Taizhou continuously received substantial subsidies from higher government. The government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2022, the government fund income of the Taizhou was c. RMB52.3 billion, downed 23.2% year-on-year. At end-2022, the Taizhou government's outstanding debt was c. RMB100.1 billion, including RMB44.6 billion of general obligations and RMB55.5 billion of special debt.

Rating Sensitivities

We would consider downgrading THCD's rating if (1) there is perceived weakening in support from the Taizhou government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Taizhou government's ownership of THCD, or (3) there is a downgrade in our internal credit assessment on the Taizhou government.

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

Company Profile

THCD was established under approval of the Taizhou government and Hailing district government in April 2006. At end-2022, the Taizhou SASAC was the sole shareholder and ultimate controller of THCD.

THCD is the major state-owned entity that is responsible for land consolidation and infrastructure construction in Hailing District of Taizhou. It is also the major urban developer and important platform for supporting the urban and economic development in Hailing District. THCD's operating businesses mainly consist of land consolidation, resettlement housing sales, project construction and management, commodity trading and consulting services, etc.

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