

Taizhou Xinbinjiang Development 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 Taizhou Xinbinjiang Development Co., Ltd. (“TXDC” or “the company”)

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 TXDC if needed, in light of its full ownership of TXDC, TXDC’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction and state-owned assets operation in Binjiang Industrial Park (“Industrial Park”) of Taizhou Medical High-tech Industrial Development Zone (“Medical High-tech Zone”) of Taizhou City, and the linkage between the Taizhou government and TXDC, 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 if TXDC encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: TXDC was established with an initial registered capital of RMB20 million in August 2000. At end-September 2022, the Taizhou government via the State-owned Assets Supervision and Administration Committee of Taizhou government (“Taizhou SASAC”) holds 100% ownership of TXDC. Taizhou SASAC is the sole shareholder and actual controller of TXDC. The Taizhou government has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major investment and financing plan decisions and ongoing government support. In addition, the Taizhou government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: TXDC is an important and sole entity for infrastructure construction in the Industrial Park of the Medical High-tech Zone of Taizhou. The company intends to promote the integration of production, services and development in the Industrial Park through investment. The company’s business strategy has been aligned with the government development plan. It will adhere to the goal of the “14th Five-Year-Plan” of Taizhou, seize the business opportunities, play its leading role in infrastructure construction in the Industrial Park and provide full services to enterprises entering the Industrial Park.

Ongoing Government Support: TXDC has been supported by the local government since its establishment. The government support was mainly in the form of capital and assets injection and operational subsidies. The registered capital of the company increased from RMB20 million to RMB4.33 billion at end-September 2022. In 2020, the company received a capital injection of RMB3 billion from the local government. The subsidies amount received from the government was c. RMB370 million, RMB400 million and RMB483 million and

Summary

| | |
|---------------|--------------------------------------------|
| Issuer Rating | BBB- |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 8 March 2023 |

Key Figures of Taizhou and TXDC (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 |
| TXDC | | |
| | 2021 | 2022.9 |
| Assets | 42.5 | 43.8 |
| Equity | 13.5 | 13.5 |
| Revenue | 2.0 | 1.7 |

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

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Applicable Criteria

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

RMB302 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. Considering the function and strategic importance of the company, 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.

TXDC's Financial and Liquidity Position: TXDC's total assets increased rapidly from c. RMB28.4 billion at end-2019 to c. RMB43.8 billion at end-September 2022. TXDC's financial leverage (total liabilities/total assets) was moderately high and it maintained at c. 65%-70% in the past few years, of which reached to 69.1% at end-September 2022. The company's total adjusted debt was c. RMB26.9 billion at end-September 2022, of which short-term and long-term debt accounted for 61.3% and 38.7% of its total adjusted debt, respectively. Meanwhile, TXDC had a cash balance of c. RMB4.3 billion (among which the restricted cash was c. RMB3.7 billion) and unused credit facilities of c. RMB2.0 billion. TXDC mainly relies on external financing and it has access to various financing channels, including bank loans, onshore and offshore bond issuance and other non-traditional financing, to support its debt repayment and business operations.

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 in 2022. 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 TXDC'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 TXDC, or (3) there is a downgrade in our internal credit assessment on the Taizhou government.

We would consider upgrading TXDC'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.

Operating Environment

Economic Condition of Taizhou

Taizhou is a prefecture-level city in Jiangsu and it is located in East China and middle of Jiangsu. Taizhou is an important trading port city in China's Yangtze River Delta Region. It has a total land area of 5,787 square kilometers. Taizhou realized GDP of c. RMB640.2 billion, representing a year-on-year growth rate of 4.4% in 2022. Taizhou's GDP amount was ranked 9th in Jiangsu in 2022 (out of a total 13 municipals). The economic structure of Taizhou was stable, which was mainly fueled by the secondary and tertiary industries, accounting for 49.3% and 45.5% of its GDP in 2022. GDP per capita of Taizhou was c. RMB141,600 in 2022, which was higher than the GDP per capita of China (c. RMB85,700) but slightly lower than that of Jiangsu's (c. RMB144,500). Taizhou also continued investing heavily in fixed assets to boost the regional economy. The growth rate of fixed asset was 9.4% in 2022.

| Taizhou's GDP and Fixed Asset Investment | | | |
|-------------------------------------------------|-------------|-------------|-------------|
| (RMB billion) | 2020 | 2021 | 2022 |
| GDP | 531.3 | 602.5 | 640.2 |
| -Primary industry (%) | 5.8 | 5.3 | 5.2 |
| -Secondary industry (%) | 47.8 | 48.4 | 49.3 |
| -Tertiary industry (%) | 46.4 | 46.3 | 45.5 |
| GDP growth rate (%) | 3.6 | 10.1 | 4.4 |
| Fixed asset investment | 420.2 | 455.1 | 497.9 |
| Fixed asset investment growth rate (%) | 0.2 | 8.3 | 9.4 |
| Population (million) | 4.5 | 4.5 | 4.5 |

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Taizhou

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 in 2022. It recorded a growth rate of 7.4% in 2022, excluding the impact from the VAT credit refund. The tax revenue as a percentage of budgetary revenue downed to 63.5% due to the implementation of the aforementioned policy. The financial self-sufficiency rate of Taizhou was insufficient and it recorded budget deficit of 67.3% in 2022. Nevertheless, 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. Given the Taizhou government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to c. 88.5% at end-2022.

| Taizhou's Fiscal Condition | | | |
|--------------------------------------|--------------|--------------|------------------|
| (RMB billion) | 2020 | 2021 | 2022 |
| Budgetary revenue | 37.5 | 42.0 | 41.7 |
| Budgetary revenue growth rate (%) | 2.6 | 12.0 | 7.4 ² |
| Tax revenue | 28.2 | 31.7 | 26.4 |
| Tax revenue (% of budgetary revenue) | 75.2 | 75.4 | 63.5 |
| Government fund income | 55.0 | 68.1 | 52.3 |
| Transfer payment | 17.9 | 15.1 | 18.1 |
| Aggregate revenue | 111.0 | 127.7 | 113.1 |
| Budgetary expenditure | 62.8 | 66.8 | 69.7 |
| Budget deficit ¹ (%) | -67.3 | -58.9 | -67.3 |

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

² Excluding the influence of value-added tax credit refund.

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TXDC was established as a state-owned company with four shareholders and an initial registered capital of RMB20 million in August 2000. TXDC's shareholders changed several times between 2002 to 2017, and the Taizhou SASAC has become the sole shareholder of TXDC since 2017. At end-September 2022, the registered capital of TXDC increased to RMB4.33 billion, mainly through capital injection, physical asset injection and land use rights, etc., and the Taizhou SASAC is the sole shareholder and actual controller of TXDC.

Strategic Importance and Government Linkage

Strategic Importance of TXDC to the Industrial Park

TXDC is an important and sole entity for infrastructure construction in the Industrial Park of the Medical High-tech Zone of Taizhou. The Medical High-tech Zone (also known as China Medical City) is a national high-tech zone and it has five functional zones under its administration. As a leading state-owned entity in the Industrial Park, the company intends to promote the integration of production, services and development in the Industrial Park through investment. The company's business strategy is aligned with the government development plan. It will adhere to the goal of the "14th Five-Year Plan" of Taizhou, seize the business opportunities, play its leading role in infrastructure construction in the Industrial Park and provide full services to enterprises entering the Industrial Park.

Strong Linkage with the Local Government

TXDC has a strong linkage with the local government, as the Taizhou government via the Taizhou SASAC holds 100% ownership of the company. The Taizhou government has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major investment and financing plan decisions and ongoing government support. In addition, the Taizhou government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Ongoing Government Support

TXDC has been supported by the local government since its establishment. The government support was mainly in the form of capital and assets injection and operational subsidies. The

registered capital of the company increased from RMB20 million to RMB4.33 billion at end-September 2022, mainly through capital and assets injection (i.e., physical assets and land use rights) by shareholders during 2002-2014. In 2020, the company received a capital injection of RMB3 billion from the local government and increased its capital surplus. The subsidies amount received from the government was c. RMB370 million, RMB400 million and RMB483 million and RMB302 million in 2019, 2020, 2021 and the first nine months of 2022, respectively. Considering the government function and strategic importance of the company, 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.

Business Profile

The Sole LIDC Responsible for Infrastructure Construction in the Industrial Park

TXDC is mainly responsible for infrastructure construction, as well as state-owned asset operation in the Industrial Park. TXDC has gradually formed its main business in infrastructure construction (e.g., land consolidation, public infrastructure development and other supporting facilities project in the Industrial Park), repurchase of affordable and resettlement housing, commodity sales and other businesses. TXDC recognized a total revenue of c. RMB1.66 billion, RMB1.80 billion, RMB1.96 billion and RMB1.73 billion in 2019, 2020, 2021 and the first nine months of 2022, respectively. The major sources of TXDC's revenue are infrastructure construction and commodity sales, of which together accounted for above 90% of its total revenue in both 2020 and 2021. The gross margin of TXDC was moderately stable at c. 13%-16% for the past few years.



Infrastructure Construction

The infrastructure construction business is one of the core business segments of TXDC. It mainly includes public infrastructure development and other supporting facilities project construction in the Industrial Park. TXDC conducts its infrastructure development business through an agent construction business model. Generally, the rate of return of infrastructure project is 15%-20%.

With an established track record, the company has demonstrated its strong execution capacity by completing several key infrastructure projects effectively in the Industrial Park. The main public infrastructure construction projects completed by the company include Taizhen Road, Songshui River Bridge, water pipeline network and pumping station in the Industrial Park, Binjiang Avenue and the Yangtze River Avenue Project, etc. At end-September 2022, the company had several projects under construction such as ecological greening projects, public pipeline construction, ecological park construction in the Industrial Park with considerable investment amount in the next 1-3 years, indicating a capital expenditure need in the near future.

Repurchase of Affordable and Resettlement Housing

TXDC is engaged in the repurchase of affordable housing business. The company purchases commodity properties from third party developers and transfers to the Binjiang Finance Office or the Industrial Park Management Committee. The Binjiang Finance Office or the Industrial Park Management Committee pays a repurchase price to the company for the costs of the properties together with an agreed premium. The company is not involved in any construction or management of the properties and is only involved in the sales of the properties. TXDC is also engaged in the repurchase of resettlement housing business pursuant to the resettlement house construction plan of Taizhou government. The repurchase entity pays the company for total investment costs and an additional 15%-25% of fees based on the total construction cost after its inspection and reviewed. Although the recovery risk is relatively low, the sustainability of this business segment is uncertain given there is no project under construction or planned at this stage.

Commodity Sales

The commodity sales business is one of the core sources of revenue of the company. The main trading products include oil, coal, steel, asphalt, etc. The company has been engaged in oil product sales business through its subsidiaries since 2016. The customers of commodity business are mainly state-owned companies in Jiangsu. In addition, the concentration rate of upper and downstream counterparties is relatively high. At end-June 2022, the top five suppliers and customers accounted for 89.8% and 100% of its total procurement and sales, respectively. The scale of commodity sales business continued to grow and accounted for over 50% of the company's total revenue in the past few years. However, the gross margin of this business segment was low that dragged down the overall gross margins of the company.

Other Businesses

The company also engages in property leasing business, which primarily involves leasing of commercial property, underground pipelines and parking spaces. The gross margin of other businesses is more volatile but relatively high that can supplement the profit of the company.

Financial Profile

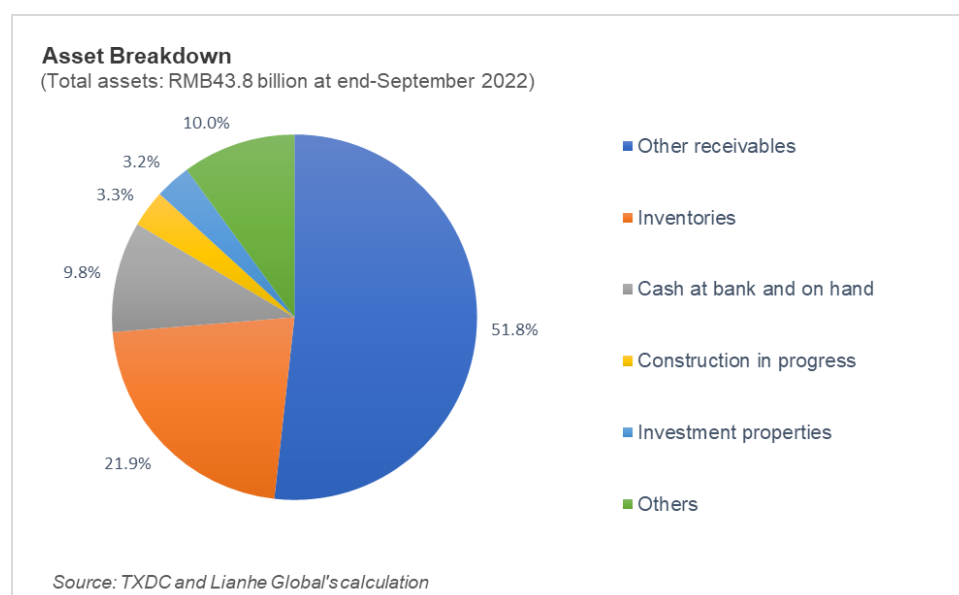
Balance Sheet Structure and Quality

| Balance Sheet Structure and Quality | | | | |
|--------------------------------------------|-------------|-------------|-------------|------------------|
| (RMB million) | 2019 | 2020 | 2021 | Sept 2022 |
| Total Asset | 28,391 | 38,635 | 42,532 | 43,807 |

| | | | | |
|----------------------------------|--------|--------|--------|--------|
| Equity | 9,360 | 13,263 | 13,545 | 13,535 |
| Debt | 17,731 | 23,373 | 25,506 | 26,887 |
| Debt / (Debt + Equity) (%) | 65.4 | 63.8 | 65.3 | 66.5 |
| LT Debt | 6,834 | 12,628 | 12,052 | 10,401 |
| LT Debt / (LT Debt + Equity) (%) | 42.2 | 48.8 | 47.1 | 43.5 |

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

TXDC's financial leverage (total liabilities/total assets) was moderately high and maintained at c. 65%-70% in the past few years, which reached 69.1% at end-September 2022. At end-September 2022, the company's liabilities mainly consisted of long-term and short-term borrowings, bills and bonds payables, current portion of non-current liabilities and long-term payables. The long-term payables were mainly included non-traditional financing such as trust loan and financial lease. In terms of equity structure, the capital reserve increased to c. RMB4.6 billion at end-2020 from RMB987.7 million at end-2019, mainly due to the capital injection of RMB3.0 billion from the Management Committee. TXDC mainly funds its capital expenditures with its operating cash flow and the proceeds of bank loans and bond issuance in the capital market, as well as non-traditional financing. We expect the company's financing needs to increase given its infrastructure projects under construction and to be constructed in the future.



TXDC's total assets increased rapidly from c. RMB28.4 billion at end-2019 to c. RMB42.5 billion at end-2021, representing a compound annual growth rate of 22.4%. At end-September 2022, the total assets of TXDC further increased to RMB43.8 billion and the asset structure was relatively stable. At end-September 2022, the company's assets mainly consisted of other receivables, inventories and cash. The other receivables were mainly loans to other local state-owned enterprises and government related department such as the Medical High-tech Zone Management Committee and the Binjiang Finance Office. The other receivables had a high concentration risk, among which Taizhou Runjiang Construction and Development Co., Ltd. (a state-owned company in the Medical High-tech Zone) accounted for the largest proportion of 37.7%. The inventories were mainly composed of inventory goods, land and development costs of construction projects. Although TXDC has a relatively large proportion of current assets (c. 87.6% of its total assets), its asset liquidity was weak given the relatively large proportion of receivables and the long projects payback period.

Cash Flow

| Cash Flow (RMB million) | 2019 | 2020 | 2021 | 9M2022 |
|------------------------------------------|---------------|---------------|---------------|---------------|
| Cash Inflows from Operation | 1,821 | 2,762 | 3,531 | 1,850 |
| Cash Outflows from Operation | 1,616 | 2,549 | 1,913 | 1,268 |
| Net CF from Operation | 206 | 213 | 1,618 | 583 |
| Cash Inflows from Investment | 777 | 623 | 4,844 | 18,897 |
| Cash Outflows from Investment | 3,020 | 6,966 | 4,589 | 17,370 |
| Net CF from Investment | -2,243 | -6,343 | 255 | 1,527 |
| Cash Inflows from Financing | 11,557 | 20,916 | 14,231 | 11,228 |
| Cash Outflows from Financing | 9,980 | 13,645 | 16,073 | 14,195 |
| Net CF from Financing | 1,576 | 7,270 | -1,841 | -2,967 |
| Net Increase in Cash and cash equivalent | -461 | 1,063 | 28 | -850 |

Source: The company's financial reports

Debt Servicing Capability

The liquidity of TXDC was weak. At end-September 2022, TXDC had a cash balance of c. RMB4.3 billion (among which the restricted cash was c. RMB3.7 billion) and unused credit facilities of c. RMB2.0 billion, compared with its debt due within one year of c. RMB16.5 billion. The company's total adjusted debt was c. RMB26.9 billion at end-September 2022, of which short-term and long-term debt accounted for 61.3% and 38.7% of its total adjusted debt, respectively. TXDC mainly relies on external financing and it has access to various financing channels, including bank loans, onshore and offshore bond issuance and non-traditional financing (such as trust loan, financial lease and factoring), to support its debt repayment and business operations. At end-September 2022, the non-traditional financing accounted for c. 20% of TXDC's financing structure.

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