

Changsha Tianxin State Property 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 Changsha Tianxin State Property Group Co., Ltd. (“CTSPG” or “the company”)

Summary

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

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

Rating Rationale

Government’s Ownership and Supervision: The Tianxin government indirectly holds 100% ownership of CTSPG through Changsha Tianxin State-owned Assets Development Group Co., Ltd. (“TSADG”), an important land development and consolidation and state-owned asset management entity wholly owned by the Tianxin government. The Tianxin government is the ultimate controller of CTSPG. The local government has strong supervision over the company, including appointment and supervision of the senior management, decision on its strategic development and supervision of its major investment plan and funding decisions, etc. In addition, the Tianxin 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: CTSPG, as an important land consolidation and state-owned assets operation LIDC in Tianxin, is primarily responsible for the comprehensive operation of state-owned operating assets, urban renewal, land consolidation, trade, property operation of innovation park, human resource services, and other businesses within Tianxin. It has strong competitive advantage in the region. CTSPG provides some public goods and services which are vital to the society and economy of Tianxin, and it plays an important role in the economic development and infrastructure construction of the region. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: CTSPG continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. CTSPG received a total subsidy amount of c. RMB0.47 billion from 2020 to end-2022, respectively. Meanwhile, CTSPG received multiple assets and capital injection in the form

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	25 May 2023

Key Figures of Tianxin and CTSPG (RMB billion)

	2021	2022
Tianxin District		
GDP	121.5	130.2
GDP growth rate (%)	7.8	4.9
Budgetary revenue	6.7	7.0
Government fund	-0.1	-0.1
Budgetary expenditure	7.7	7.8
CTSPG		
Assets	10.7	21.2
Equity	6.6	14.2
Revenue	3.0	3.4

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

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Applicable Criteria

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

of capital, equity, land, operational assets and other assets to expand its asset size, which reached a total amount of c. RMB12.2 billion in the same period. Considering the company's function and strategic importance in Tianxin, we believe CTSPG is likely going to receive government support in the form of operational and/or financial subsidies in the future.

CTSPG's Financial and Liquidity Position: CTSPG's total assets grew rapidly in the past three years. At end-2022, CTSPG's assets were mainly composed of land, receivables and investment properties. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, thus, the company's overall asset liquidity was weak. The financial leverage ratio (total liabilities/total assets) of CTSPG was at a moderately low level of c. 25%-38% between 2020 and 2022. The total adjusted debt of CTSPG increased to c. RMB4.4 billion at end-2022. The liquidity risk of CTSPG was moderate. At end-2022, CTSPG had unrestricted cash balance of c. RMB746.3 million and unused credit facilities of c. RMB1,416 million, compared with its debt due within one year of c. RMB1.83 billion at the same time. Besides, CTSPG has access to various financing channels, including bank loans and bond issuance and other financing channels such as finance lease to support its debt repayments and business operations.

Economy and Fiscal Condition of Tianxin: Tianxin is a municipal district of Changsha City, Hunan Province, and is located in the south of central urban areas of Changsha, and also in the geometric center of the urban agglomeration of Changsha, Zhuzhou and Xiangtan. Tianxin's economic remained growth but slightly slowed down in 2022. Its GDP reached c. RMB130.2 billion in 2022, representing a year-on-year growth rate of 4.9%. Tianxin's GDP amount was ranked 7th out of 9 districts and counties of Changsha in 2022. The economic growth of Tianxin was mainly fueled by the secondary and tertiary industries, accounting for 31.3% and 68.6% of GDP in 2022, respectively. The budgetary revenue of the Tianxin government maintained a steady growth in the past three years, reaching c. RMB7.0 billion with a year-on-year increase of 4.9% in 2022. The tax revenue accounted for 66-70% of the budgetary revenue in 2020-2022. Tianxin recorded a budget deficit of -10.5% in 2022. On the other hand, government fund income of Tianxin had remained negative since 2021, mainly due to the payment of land use fees for new construction land.

The outstanding debt of the Tianxin government continued to grow in the past few years and reached c. RMB5.7 billion at end-2022, including RMB3.3 billion general obligations and RMB2.4 billion special debt. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 46.1% in 2020 to 58.5% in 2022, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Tianxin

Tianxin is a municipal district of Changsha City, Hunan Province, and is located in the south of central urban areas of Changsha, and also in the geometric center of the urban agglomeration of Changsha, Zhuzhou and Xiangtan. Tianxin is a time-honored district with many cultural and historical sites as well as commercial areas. Besides, it is also the place where the Hunan provincial government compound is located. Tianxin is one of the top 100 districts in China, ranking 52nd in the list of Top 100 Districts in China in 2022, with relatively strong economic and financial strength. Tianxin has jurisdiction over 14 streets with a total land area of c. 141 square kilometers. Tianxin had a residential population of c. 0.9 million with an urbanization rate of 99.1% at end-2022.

Tianxin's economic remained growth but slightly slowed down in 2022. Its GDP reached c. RMB130.2 billion in 2022, representing a year-on-year growth rate of 4.9%. Tianxin's GDP amount was ranked 7th out of 9 districts and counties of Changsha in 2022. The economic growth of Tianxin was mainly fueled by the secondary and tertiary industries, accounting for 31.3% and 68.6% of GDP in 2022, respectively. GDP per capita of Tianxin c. RMB 149,382 in 2022, which was higher than that of Hunan (c. RMB 73,598) and Changsha (c. RMB 134,024).

Tianxin's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	112.1	121.5	130.2
-Primary industry (%)	0.1	0.1	0.1
-Secondary industry (%)	30.5	30.8	31.3
-Tertiary industry (%)	69.3	69.1	68.6
GDP growth rate (%)	3.6	7.8	4.9
Fixed asset investment	63.5	69.4	75.7
Fixed asset investment growth rate (%)	-4.1	9.3	9.1
Population (million)	0.8	0.9	0.9

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Tianxin

The aggregate fiscal revenue of the Tianxin government was mainly derived from the budgetary revenue and transfer payment. The budgetary revenue of the Tianxin government maintained a steady growth in the past three years, reaching c. RMB7.0 billion with a year-on-year increase of 4.9% in 2022. The tax revenue accounted for 66-70% of the budgetary revenue in 2020-2022. Tianxin's financial self-sufficiency rate was insufficient and it recorded a budget deficit of -10.5% in 2022. On the other hand, government fund income of Tianxin had remained negative since 2021, mainly due to the payment of land use fees for new construction land.

The outstanding debt of the Tianxin government continued to grow in the past few years and reached c. RMB5.7 billion at end-2022, including RMB3.3 billion general obligations and RMB2.4 billion special debt. The debt ratio (total outstanding debt/ aggregate fiscal revenue) climbed from 46.1% in 2020 to 58.5% in 2022, mainly due to the increase in special debt.



Tianxin's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	6.4	6.7	7.0
Budgetary revenue growth rate (%)	6.2	9.8	4.9
Tax revenue	4.5	4.6	4.7
Tax revenue (% of budgetary revenue)	70.1	68.8	66.2
Government fund income	0.0	-0.1	-0.1
Aggregate revenue	9.4	9.4	9.8
Budgetary expenditure	6.8	7.7	7.8
Budget deficit ¹ (%)	-7.0	-14.6	-10.5

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CTSPG was established on October 15, 2019, as a wholly state-owned entity approved and funded by the Tianxin government. The initial registered capital of the company was RMB1.5 billion, and the paid-in capital was RMB312.48 million. In July 2022, the controlling shareholder of the company was changed from the Tianxin government to TSADG, an important land development and consolidation and state-owned asset management entity wholly owned by the Tianxin government, and CTSPG became its wholly-owned and core subsidiary. The Tianxin government via TSADG holds 100% ownership of CTSPG and is the actual and ultimate controller of the company. After an array of capital injections and equity transfers, the company's registered capital and paid-in capital of CTSPG were both RMB1.5 billion at end-2022.

Strategic Importance and Government Linkage

Strategic Importance of CTSPG to Changsha City of Tianxin District

CTSPG, as an important land consolidation and state-owned assets operation LIDC in Tianxin, is primarily responsible for the comprehensive operation of state-owned operating assets, urban renewal, land consolidation, trade, property operation of innovation park, human resource services, and other businesses within Tianxin. It has strong competitive advantage in the region. CTSPG provides some public goods and services which are vital to the society and economy of Tianxin, and it plays an important role in the economic development and infrastructure construction of the region. Its business operation and development have been aligned with the government's development plans.

Linkage with the Local Government

CTSPG's linkage with the local government is strong as the Tianxin government indirectly holds 100% ownership of CTSPG through TSADG. The local government has strong supervision over the company, including appointment and supervision of the senior management, decision on its strategic development and supervision of its major investment plan and funding decisions, etc. In addition, the Tianxin 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

CTSPG continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. CTSPG received subsidies of c. RMB1.4 million, RMB102.0 million and RMB364.9 million in 2020, 2021 and by the end of 2022, respectively. Meanwhile, CTSPG received multiple assets and capital injection in the form of capital, equity, land, operational assets and other assets to expand its asset size, which reached RMB4.1 billion, RMB0.1 billion and RMB7.9 billion in 2020, 2021 and by the end of 2022, respectively, of which the company received injection of RMB1.2 billion in the form of cash from the local government, and the paid-in capital of the company increased to RMB1.5 billion in 2022. Considering the company's function and strategic importance in Tianxin, we believe CTSPG is likely going to receive government support in the form of operational and/or financial subsidies in the future.

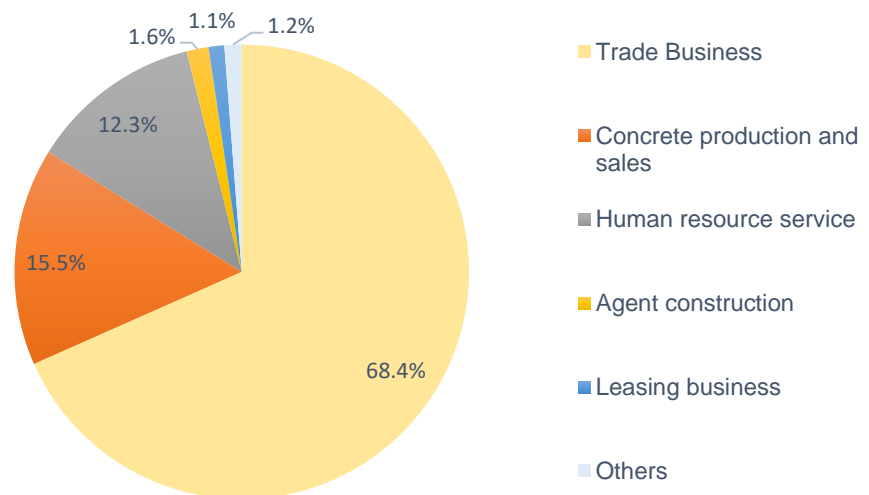
Business Profile

The Important LIDC Responsible for Land Consolidation and State-owned Asset Operation in Tianxin of Changsha

The company is an important state-owned asset operator in Tianxin of Changsha. It is responsible for the comprehensive operation of state-owned operating assets, urban renewal, land consolidation, trade, property operation of innovation park, human resource services, and other businesses within Tianxin. The company has a strong competitive advantage in the region.

Revenue Breakdown

(Total revenue: RMB3,398.5 million at end-2022)



Source: CTSPG and Lianhe Global's calculation

Land Consolidation Business

The land development and consolidation business of the company can be divided into two main modes: entrusted land development and self-owned land development, which is undertaken by its original subsidiary Hunan Tianxin Asset Operation Management Co., LTD. ("HTAOM"). Entrusted land development mainly involves carrying out land

development and consolidation projects for the Paitang Village and urban renewal projects on behalf of clients. The company signs an agreement with the client and is responsible for carrying out the land development and consolidation work in the designated area. The entrusting party pays the company a return on investment based on the total investment amount and a certain percentage (e.g., 12%). Self-owned land development business mainly involves acquiring land through allocation and promoting the adjustment of land planning and control indicators. After the work is completed, the land will be sold according to the unified planning and deployment of Tianxin. The company has undertaken the land consolidation and development work of three plots of land and has completed, and there are no other planned land consolidation and development projects. With the free transfer of HTAOM's equity to TSADG in June 2022, the future revenue scale of the company's land consolidation business is expected to decline significantly. In 2022, the company expanded its business into the construction agency business such as the Tianxin Nantang Industrial Park project and the Datopu parking lot project, which are agent construction projects entrusted by the Tianxin government.

Trade Business

In 2020, the company expanded its business into the trading of building materials such as steel, cement, and sand, mainly focused on the local market in Hunan. The company signs contracts with upstream suppliers and downstream customers based on downstream demand, and the upstream suppliers directly deliver the required products to the designated location of the downstream customers. The company does not store or manage the goods. The company's trading business has a high concentration of customers, mainly consisting of small and medium-sized enterprises, and has a higher counterparty risk.

Other Business

The company's other businesses include concrete production and sales, human resources services, leasing, and parking lot management. The company provides business services such as labor dispatch and human resources outsourcing to government agencies, state-owned enterprises, and other organizations in Tianxin. The company is also responsible for the operation of industrial parks, which mainly includes the sale and lease of properties such as office buildings, commercial shops, and residential buildings. The company's property assets include office buildings, commercial properties, residential buildings, and other types of properties. While these other businesses contribute to the company's stable income and cash flow, they are relatively smaller in scale.

Financial Profile

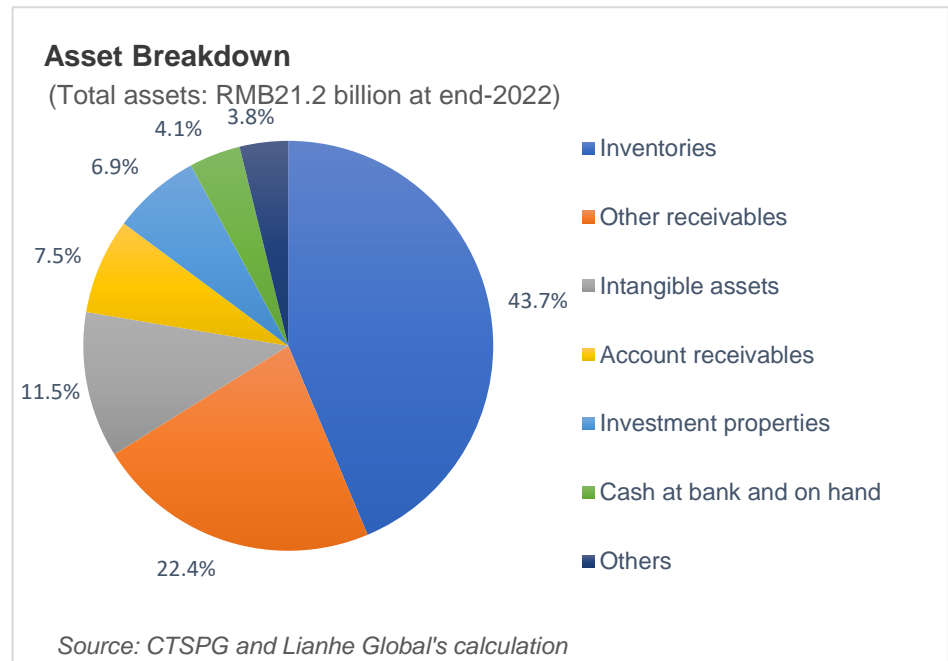
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality			
(RMB million)	2020	2021	2022
Total Asset	8,405	10,661	21,235
Equity	6,301	6,596	14,162
Debt	1,000	2,455	4,435
Debt / (Debt + Equity) (%)	13.7	27.1	23.8
LT Debt	621	1,294	2,943
LT Debt / (LT Debt + Equity) (%)	9.0	16.4	17.2

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

The financial leverage ratio (total liabilities/total assets) of CTSPG was at a moderately low level of c. 25%-38% in the past three years, which was 33.3% at end-2022. The company's liabilities were mainly consisted of other payables, long-term borrowing and bonds payable, among which other payables are mainly current accounts, and long-term borrowing and bonds payable accounted for a total of 42% of its total liabilities. CTSPG mainly relies on external financing to support its capital expenditure. The total adjusted debt of CTSPG increased by 80.6% to c. RMB4.4 billion at end-2022 from c. RMB2.5 billion at end-2021, mainly due to the increase in long-term borrowings and bonds, of which short-term debt and long-term debt accounted for 33.6% and 66.4% of its total debt, respectively, at end-2022, and the company's short-term repayment pressure was moderately high.

CTSPG's equity increased substantially by 114.7% to c. RMB14.2 at end-2022 from c. RMB6.6 billion at end-2021, mainly due to assets and capital injection from the Tianxin government in 2022.



CTSPG's total assets grew rapidly in the past three years, mainly due to asset and capital injections from the local government. At end-2022, CTSPG's assets were mainly composed of land, receivables and investment properties. The scale of inventory was large that mainly included land to be developed and inventory goods. The receivables of the company were mainly current accounts of the Tianxin government, other government related entities and state-owned enterprise, with a relatively low collection risk. The investment properties of the company were its own properties that used for rent. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, thus, the company's overall asset liquidity was weak.



Cash Flow

Cash Flow (RMB million)	2020	2021	2022
Cash Inflows from Operation	881	3,819	7,063
Cash Outflows from Operation	1,598	4,344	5,875
Net CF from Operation	-717	-525	1,188
Cash Inflows from Investment	0	75	30
Cash Outflows from Investment	42	996	4,244
Net CF from Investment	-42	-920	-4,214
Cash Inflows from Financing	1,000	1,906	5,199
Cash Outflows from Financing	70	418	1,657
Net CF from Financing	930	1,488	3,542
Net Increase in Cash and cash equivalent	171	43	515

Source: The company's financial reports

Debt Servicing Capability

The liquidity risk of CTSPG was moderate. At end-2022, CTSPG had unrestricted cash balance of c. RMB746.3 million and unused credit facilities of c. RMB1,416 million, compared with its debt due within one year of c. RMB1.83 billion at the same time. Besides, CTSPG has access to various financing channels, including bank loans and bond issuance and other financing channels such as finance lease to support its debt repayments and business operations.

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