

Taizhou Huaxin Pharmaceutical Investment Co., Ltd.

Surveillance Report

Summary

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

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd. to ‘BBB’ from ‘BBB-’. The Outlook is Stable.

Summary

The Issuer Rating upgrade reflects the increased strategic importance of THPI in the development of Taizhou City (“Taizhou”), as demonstrated in its strengthened role in further promoting the comprehensive development of health industry in Taizhou, one of pillar industries of the city.

We believe there is a high possibility that the Taizhou Municipal People’s Government (“Taizhou Government”) would provide moderate support to THPI if needed, in light of its indirect ownership of THPI through Taizhou State-owned Investment Group Co., Ltd. (“TSI”), THPI’s strategic position as the major pharmaceutical investment and operating entity in Taizhou and the strong linkage between Taizhou Government and THPI including management supervision, strategic alignment, and ongoing operational and financial support. In addition, Taizhou Government may face negative impact on its reputation and financing activities should THPI encounter any operational or financial difficulties.

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

Rating Rationale

Strong linkage and Strategic alignment with Taizhou Government: THPI’s linkage with the local government is strong as it is majority owned by Taizhou Government. Taizhou Government indirectly holds a 99.45% stake in THPI through TSI, and it is THPI’s ultimate shareholder. The rest of the 0.55% share is held by CDB Development Fund.

Taizhou Government has strong control and supervision over THPI, including control of the board of directors and the supervisory committee, the appointment of senior managements, and the supervision over its major operating and financing plans. In addition, the government will assign auditor to audit THPI’s financial and operational data periodically.

THPI’s strategic planning and development have been aligned with the local government’s economic and social policies, aiming to support the pharmaceutical industry development and urban development in Taizhou.

Strategic Importance of THPI to Taizhou City and Hi-tech Zone: The Taizhou government established TSI in July 2021 and allocated the 99.45% equity of THPI to TSI in July 2023, making TSI become the largest LIDC in Taizhou. As one of the most important state-owned assets investment and operation entity in Taizhou, TSI is responsible for health industry development, port construction and operation, and infrastructure construction in High-tech Zone, Taizhou Urban New Center and High-speed Railway Hub Area.

THPI is TSI’s most important subsidiary specifically responsible for health industry development in Taizhou. Given its newly assigned mission and strategic important role in economy development planning in Taizhou City, we believe that THPI’s government function

Key Figures of Taizhou and THPI

(RMB billion)	2021	2022
Taizhou		
GDP	602.5	604.2
GDP growth rate (%)	10.1	4.4
Budgetary revenue	42.0	41.7
Government fund	68.1	52.1
Transfer payment	15.1	18.5
Budgetary expenditure	66.8	70.4
THPI		
Total Asset	85.9	89.1
Equity	30.8	29.1
Revenue	4.4	4.0

Source: Statistics Bureau of Taizhou, Finance Bureau of Taizhou, THPI and Lianhe Global’s calculations

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Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)

is strengthened and THPI is likely to continue to receive strong government support in the future.

THPI's primary business focuses on pharmaceutical areas. The company actively engages in the trading of pharmaceutical products and provides offices and factories leasing, warehousing and logistic services for pharmaceutical companies within Taizhou Pharmaceutical High-tech Industrial Development Zone ("High-tech Zone"). We believe that THPI's business activities effectively promote the development of the pharmaceutical industry in the area by facilitating related companies' sales and operations.

Ongoing Government Support: THPI has received support from the local government for its business operation, which is not limited to the capital injection, financial subsidies, allocation of land resources or assets and guidance in its daily management.

THPI received 2 rounds of capital injection from Taizhou Government in 2020 and 2021, respectively, with a total amount of RMB2 billion. By end-2021, the company's registered capital increased to RMB7.3 billion from RMB5.3 billion at end-2019.

THPI also received financial subsidies from Taizhou Government in the past three years, which were mainly for supporting projects related to public infrastructure or special projects. However, the size of subsidies has shown a decreasing trend, amounting to RMB417 million, RMB303 million, RMB258 million and RMB215 million in 2019, 2020, 2021 and 2022, respectively. Besides, the company also received RMB1,611 million as cash collection from the agent construction projects in 2022.

Financial Positions of THPI: THPI's total assets increased to RMB91.0 billion at end-June 2023 from RMB85.9 billion at end-2021, due to the rise in inventories (mainly construction costs) as the result of THPI's active participation in the development of High-tech Zone. THPI depended much on debt financing, and the total debts of the company jumped to RMB58.8 billion at end-June 2023 from RMB47.8 billion at end-2021. Accordingly, its financial leverage (total debt / (total debt+equity)) was lifted to 66.8% from 60.8% over the same period.

THPI's liquidity was tight. The company had cash of RMB3.0 billion at end-June 2023, as compared to its short-term debts of RMB24.7 billion. THPI relied on bank borrowings and bond issuances to meet its financial obligations when they come due and to support its operations. It had unused credit line of RMB9.0 billion from banks at end-March 2023. We expect THPI to roll-over most of its short-term bank borrowings (end-June 2023: RMB5.0 billion) yet obtaining additional financing sources and receiving government support timely are important for THPI to maintain its liquidity.

Economy and Fiscal conditions of Taizhou: Taizhou's GDP reached c. RMB640.2 billion in 2022, representing a year-over-year growth rate of 4.4%. The fixed asset investment of Taizhou increased to RMB497.9 billion in 2022 from RMB455.1 billion in 2021, maintaining a high growth rate of 9.4%.

Its GDP size was ranked 9th out of 13 prefecture-level cities of Jiangsu Province, and its economic growth was mainly driven by the secondary and tertiary industries in 2022. The GDP per capita of Taizhou was RMB141,830 in 2022, slightly lower than Jiangsu's RMB144,475.

The aggregate fiscal revenue of the Taizhou government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Taizhou government decreased to RMB41.7 billion in 2022 from RMB42.0 billion in 2021, due to the large-scale value-added tax credit refunds to support the economy. Taizhou government's financial self-sufficiency was still relatively weak, and its budget deficit was enlarged to 68.9% in 2022

from 58.9% in 2021. The government fund income, mainly generated by land sales, fell sharply to c. RMB52.1 billion in 2022 from c. RMB68.1 billion in 2021, mainly owing to the weak property market.

The outstanding debt of Taizhou government reached c. RMB100.1 billion at end-2022, representing a year-over-year growth rate of 3.6%. Its fiscal debt ratio (total government debt outstanding/aggregate revenue), was lifted to 88.2% in 2022 from 75.6% in 2021 due to the larger debt stock and reduced aggregate revenue.

Rating Sensitivities

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

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

Company Profile

THPI was established in December 2005 under approval from Taizhou Government with an initial registered capital of RMB100 million. After several rounds of capital injections, THPI's registered capital enlarged to RMB7.3 billion at end-2022.

THPI focuses on the trading of pharmaceutical products, development and sales of residential properties, leasing of offices and factories, as well as primary land developments and infrastructure constructions in Hi-tech Zone.

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