

Taixing Zhiguang Environmental Protection Technology Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 January 2024

Key Figures of Taixing and TZEPT

(RMB billion)	2021	2022
Taixing		
GDP	114.2	122.6
GDP growth rate (%)	10.6	5.3
Budgetary revenue	7.0	7.5
Government fund	10.5	10.2
Transfer payment	1.9	2.3
Budgetary expenditure	11.4	11.1
TZEPT	2022	2023.6
Assets	32.4	34.0
Equity	11.0	11.5
Revenue	3.2	2.8

Source: Public information, TZEPT and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Taixing Zhiguang Environmental Protection Technology Co., Ltd. (“TZEPT”); Issuer Rating Outlook is Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the Taixing government would provide strong support to TZEPT if needed, in light of its indirectly full ownership of TZEPT, TZEPT’s strategic importance as the important investment and development company (“LIDC”) responsible for infrastructure construction and land development in Jiangsu Taixing High-tech Industrial Development Zone (“Taixing HTZ”), and the linkage between the Taixing government and TZEPT, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and other government support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TZEPT encounters any operational and financial difficulties.

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

Rating Rationale

Taixing Government’s Ownership and Supervision: The Taixing government via the LIDC of the State-owned Assets Supervision and Administration Office of Taixing (“Taixing SASAO”), Taixing Zhongxin Investment Group Co., Ltd. (“Zhongxin Group”), indirectly holds 100% stake of TZEPT. The Taixing government has strong supervision over the company through the Taixing SASAO, including appointment and supervision of the senior management, development strategy and investment plan decisions, major financing plans and daily operations. In addition, the Taixing 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: TZEPT is still one of the important LIDCs in Taixing that mainly responsible for the infrastructure construction and land development project in the Taixing HTZ, with a strong regional advantage. The company aims to maintain its prominent position as the primary entity for infrastructure construction in the region, while further diversify its business portfolio at the same time. The company’s development plan has been aligned with the local government’s urban development and construction plan. TZEPT plays an important role in the urban development of the Taixing HTZ. Under the guidance of the government’s plan, the company undertakes the integration of asset in the region, revitalizes high-quality assets and resources to further develop and construct the zone.

Ongoing Government Support: TZEPT has received support from the local government, including capital injection, asset injection, operation subsidy and policy support from the Taixing government. Meanwhile, as the key LIDC for infrastructure construction in Taixing HTZ, TZEPT has certain advantages in project, land and resource acquisition. TZEPT had received a total subsidy amount of RMB974.3 million from 2020 to the first nine months of 2023. Considering the

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Applicable Criteria

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



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.

TZEPT's Financial Matrix and Liquidity Position: TZEPT's total assets increased from RMB28.3 billion at end-2021 to RMB32.4 billion at end-September 2023. The asset structure of TZEPT was largely unchanged compared with that at end-2021, with account receivables, other receivables and inventories accounting for 59.9% of its total assets at end-September 2023. TZEPT's financial leverage (total liabilities to assets) remained stable at 62%-66% since 2020. We expect TZEPT's financial leverage would remain at this level considering the government's supervision.

The liquidity of TZEPT was sufficient. TZEPT had a total cash balance of RMB5.5 billion and unused credit line of RMB2.1 billion at end-September 2023, compared with its debt to be due within one year of RMB4.12 billion. Besides, TZEPT has access to multiple financing channels including bank borrowings, corporate bonds and other financing channels such as finance lease.

Economy and Fiscal Strength Underpin Taixing: Taixing's GDP reached RMB133.7 billion in 2022, representing a year-on-year growth rate of 5.3%, and its GDP amount was ranked 1st among all jurisdictions of Taizhou. Taixing's GDP was mostly fuelled by secondary and tertiary industries, accounting for 51.1% and 43.4% of its total GDP in 2022, respectively. Fixed asset investment growth rate of Taixing increased to 9.5% in 2022 from 7.1% in 2021.

The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund. The Taixing government's budgetary revenue decreased to RMB9.0 billion in 2022 from RMB9.3 billion in 2021, mainly due to the large-scale value-added tax credit refund policy to support the economy. In addition, the government fund income, which was mainly generated by land sales, decreased by 13.6% year-over-year to RMB120.1 billion in 2022, owing to the weak property market. The fiscal self-sufficiency rate of the Taixing government was insufficient, thus it continues to receive subsidies from higher governments. At end-2022, the total outstanding amount of government debt decreased to RMB26.8 billion from RMB27.5 billion at end-2021. The debt ratio (i.e., total government debt divided by aggregate revenue) of the Taixing government was 109.7% at end-2022, up from 105.0% at end-2020.

Rating Sensitivities

We would consider downgrading TZEPT'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 TZEPT, or (3) there is a downgrade in our internal credit assessment on the Taixing government.

We would consider upgrading TZEPT'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.

Company Profile

TZEPT was established with an initial registered capital of RMB1.18 million in 2024. The registered capital and paid-in capital were both RMB2 billion at end-September 2023. The shareholders of the company changed several times, with Zhongxin Group ultimately holding 100% of TZEPT's equity. Zhongxin Group is the only shareholder of the company, while the ultimate controller of the company is the Taixing government.



TZEPT is an important state-owned entity for infrastructure construction in Taixing HTZ. It has gradually formed its main business in construction engineering (e.g., greening engineering, road engineering and earthmoving engineering etc.), manufacturing and trading, all of which are closely related to regional infrastructure construction and urban development planning.

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