

Wuxi Construction and Development Investment Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 January 2024

Key Figures of Wuxi and WCDI

(RMB billion)	2021	2022
Wuxi		
GDP	1,400.3	1,485.1
GDP growth rate (%)	8.8	3.0
Budgetary revenue	120.1	113.3
Government fund	122.6	112.9
Transfer payment	16.7	24.2
Budgetary expenditure	135.8	136.6
WCDI		
	2022	2023.9
Assets	87.9	92.4
Equity	27.9	30.9
Revenue	4.4	3.4

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

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Wuxi Construction and Development Investment Co., Ltd. (“WCDI”) to ‘A+’ from ‘A’, Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects the increased strategic importance of WCDI in Wuxi City (“Wuxi”). The company continues to undertake key infrastructure projects in Wuxi and actively diversifies its business portfolio to financial business (such as leasing and industrial investment) to support the local urban and economic development.

We believe there is a high possibility that Wuxi Municipal People’s Government (“Wuxi government”) would provide strong support to WCDI if needed. This mainly considers the Wuxi government’s indirectly full ownership of WCDI, the high importance of WCDI to Wuxi in infrastructure construction and industrial investment, and the strong linkage between the Wuxi government and WCDI, including management supervision, strategic alignment and ongoing operational and financial support. In addition, the Wuxi government may face significant negative impact on its reputation and financing activities if WCDI encounters any operational and financial difficulties.

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

Rating Rationale

Wuxi Government’s Ownership and Supervision: The Wuxi Government, as the ultimate controller of WCDI, owns 51.18% and 48.82% stake of WCDI through the State-owned Assets Supervision and Administration Commission of Wuxi (“Wuxi SASAC”) and Wuxi Urban Construction Development Group Co., Ltd. (“WUCD”; ‘A+/Stable’), respectively. WUCD is a local investment and development company (“LIDC”) wholly owned by the Wuxi SASAC.

The Wuxi government and Wuxi SASAC have strong control and supervision over WCDI, including control of the board of directors, senior management appointments, major strategic, investment and financing planning. In addition, the Wuxi government regularly appoints auditors to review WCDI’s operating performance and financial position.

Strategic Importance and Strategic Alignment: WCDI is an important municipal-level LIDC in Wuxi. The company’s strategic importance has been strengthened, as it continues to undertake infrastructure projects in Wuxi and participate in the development of Lihu Lake Future City, a key planned new area of Wuxi. The company also actively diversifies its business portfolio to financial business (such as leasing and industrial investment). WCDI’s business operation and development have been aligned with the economic and social policies. It plays an important role in supporting the local urban and economic development.

Ongoing Government Support: WCDI has continued receiving government support from the local government, including RMB80 million of capital injection in 2022, as well as collection of project fund to RMB1,041 million and RMB3,301 million in 2022 and the first nine months of 2023, respectively. Other support includes operational subsidies, tax benefits and other rewards. We

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Applicable Criteria

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

expect WCDI to receive ongoing support from the local government in the coming years considering its strategic importance in Wuxi.

Economy and Fiscal Strength of Wuxi: As a prefecture-level city in Jiangsu Province, Wuxi is one of the fifteen national economic centre cities and one of the central cities in Yangtze River Delta. Wuxi realized a GDP of RMB1,485.1 billion in 2022, which was ranked 3rd in Jiangsu Province. Besides, Wuxi's GDP per capita was c. RMB198.4 thousand in 2022, ranking 3rd among all prefecture-level cities in China. The Wuxi government's budgetary revenue decreased to RMB113.3 billion in 2022 from 120.1 billion in 2021, mainly due to the large-scale value-added tax credit refund policy to support the economy.

The Wuxi government's budget deficit widened to 20.5% in 2022 from 13.1% in 2021, but remained at a manageable level. The Wuxi government's debt ratio, as measured by total government debt/aggregate revenue, maintained at a moderate level of c. 60% in 2020 and 2021, but surged to 74.5% in 2022, mainly to the increase in special purpose debt.

Moderately Weak Financials of WCDI: WCDI's total assets increased by 5.1% to RMB92,371 million at the end of September 2023 from RMB87,901 million at end-2022, mainly driven by the rise in long-term receivables, which were mainly receivables from financial leasing business. As the financial leasing business was in a stage of rapid expansion, its scale increased significantly from RMB9.3 billion at end-2020 to RMB27.3 billion at end-September 2023, accounting for 29.5% of WCDI's total asset.

The total debt of WCDI was largely stable, staying at RMB46.3 billion (including perpetual bonds amounting to RMB2.5 billion) at end-September 2023 (end-2022:RMB46.6 billion). Its financial leverage level, as measured by total debt/capitalization, stayed at c. 65% level over the same period. However, WCDI's liquidity was moderately weak. At end-September 2023, WCDI had a cash balance of RMB2.0 billion, compared with its debt to be due within one year of RMB13.2 billion. Yet WCDI has wide access to various channels of financing, including bank borrowings, bond issuances and other non-traditional financing channels. At end-September 2023, the company unused credit line of RMB15.7 billion and considerable bond issuance quotas.

Rating Sensitivities

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

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

Company Profile

WCDI, formerly Wuxi Construction and Development Investment Corporation, was established as a fully state-owned entity in 1991. The company is an important LIDC for infrastructure construction and industrial investment in Wuxi that undertakes various businesses including project construction, state-owned asset operation, financial leasing and industrial investment to support the local urban and economic development.

WCDI experienced a reorganization in 2022. Under the approval of the Wuxi government, Wuxi SASAC transferred a 49% stake of WCDI to WUCD. WUCD is a LIDC wholly owned by the Wuxi SASAC. Thus, this change in shareholding structure of WCDI did not dilute the government's ultimate ownership and control. The Wuxi government, through the Wuxi SASAC, is still the ultimate controller of WCDI. The Wuxi SASAC increased WCDI's registered capital by capital



injection in 2022, and then the stake held by the Wuxi SASAC increased to 51.18%, WUCD holds the remaining 48.82% stake.

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