

# Taixing City Investment Development Group Co., Ltd.

## Surveillance Report

**Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Taixing City Investment Development Group Co., Ltd. (“TCID” or “the company”) to ‘BBB+’ from ‘BBB’; Issuer Rating Outlook Stable**

### Summary

The Issuer Credit Rating upgrade reflects the increased strategic importance of TCID in Taixing City (“Taixing”). The company continues to undertake infrastructure and affordable housing projects in Taixing. It also actively participates in Taixing’s city operation, such as water supply, gas supply, garbage disposal and sanitation services.

We believe there is a high possibility that the People’s Government of Taixing (“the Taixing government”) would provide very strong support to TCID if needed, in light of its full ownership of TCID, TCID’s strategic importance as a core local investment and development company (“LIDC”) in Taixing, and the linkage between the Taixing government and TCID, including appointment of the senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operational and financial support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TCID encounters any operational and financial difficulties.

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

### Rating Rationale

**Government’s Ownership and Supervision:** The Taixing government holds 100% stake of TCID through State-owned Assets Supervision and Administration Office of Taixing (“Taixing SASAO”). The Taixing government also has strong supervision over the company, including appointment of the senior management, supervision of development strategy, major financing plan and investment decisions. In addition, the Taixing government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** TCID is a core LIDC of Taixing, mainly responsible for infrastructure and affordable housing development in the urban area of Taixing. Its development plan has been aligned with the local government’s economic and social policies by promoting Taixing’s urban development.

TCID’s strategic importance has increased as the company actively participates in Taixing’s city operation. TCID supplies water for Taixing urban area and neighboring townships. The company also provides gas supply, garbage disposal and sanitation services in Taixing. In addition, TCID is developing a solid waste treatment and recycle center which is expected to be put into operation in 2024.

**Ongoing Government Support:** TCID receives ongoing support from the Taixing government. The company was established in 2019 by Taixing SASAO with a registered capital of RMB3.0 billion, which was fully injected in 2020. In addition, the company received multiple asset injections (including cash, properties as well as equities of SOEs and LIDCs in Taixing) with a total amount of c. RMB2.4 billion between 2020 and 2022. TCID has also

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	19 February 2024

### Key Figures of Taixing and TCID (RMB billion)

Taixing	2021	2022
GDP	127.3	136.7
GDP growth rate (%)	9.9	5.3
Budgetary revenue	9.3	9.0
Government fund	13.9	12.0
Transfer payment	2.9	3.9
Budgetary expenditure	11.8	12.8
TCID	2022	2023.9
Asset	69.7	74.4
Equity	27.4	27.5
Revenue	8.17	4.54

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

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### Applicable Criteria

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

received ongoing operational subsidies from the Taixing government, amounting to RMB1,644 million between 2020 and end-September 2023, mainly for supporting TCID's activities in relation to providing public goods and services. We believe TCID will receive timely government support from the local government considering its important role and functions in Taixing.

**Economy and Fiscal Condition of Taixing:** Taixing is a county-level city in Jiangsu and managed by Taizhou City. Taixing is one of top 100 counties in China, with GDP scale ranked 1<sup>st</sup> among six jurisdictions of Taizhou City. Taixing maintained economic growth in the past few years but slowed down substantially in 2022, owing to COVID's disruption. Its GDP reached RMB133.7 billion in 2022, representing a year-on-year growth rate of 5.3%, down from 9.9% in 2021.

The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Taixing government decreased by 3.3% year-over year to RMB9.0 billion in 2022, due to the weak economy and the value-added tax credit refund as a supporting policy. The Taixing government recorded a budget deficit of 42.4% in 2022. In addition, the government fund income of the Taixing declined to RMB12.0 billion in 2022 from RMB13.9 billion in 2021, owing to the weak property market.

The outstanding debt of the Taixing government continued to grow in the past few years as it borrowed heavily in special debts to support the development of public projects. At end-2022, the Taixing government's outstanding debt amounted to RMB26.8 billion, up from RMB23.3 billion at end-2020. As a result of increasing government debt and decreasing aggregate fiscal revenue, Taixing government's debt ratio (total outstanding debt/ aggregate fiscal revenue) increased to 109.7% from 92.4% over the same period.

**TCID's Financial Matrix and Liquidity Position:** TCID's asset size continued to grow, reaching RMB74.4 billion at end-September 2023, up from RMB69.7 billion at end-2022. The company's total debt increased significantly by 21.2% over the same period, pushing up its financial leverage, as measured by total debt/capitalization, to 59.5% at end-September 2023 from 54.9% at end-2022.

TCID's asset liquidity remained weak. Inventories (mainly construction costs and lands to be developed) and other receivables (mainly due from government agencies and SOEs in Taixing) together accounted for c. 70% of the company's total asset at end-September 2023. These assets usually take a long time to monetize.

TCID's short-term debt servicing pressure was moderately high. At end-September 2023, TCID had a cash balance of RMB6.5 billion compared with its debt due within one year of RMB14.9 billion. Nevertheless, TCID has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused bank facilities amounting to RMB15.3 billion at end-June 2023.

**Moderately High Contingent Liability Risk:** TCID's contingent liability risk was moderately high. It provided financial guarantees of RMB13.1 billion to third parties at end-June 2023, accounting for 47.6% the company's net assets. These guarantees were mainly provided to LIDCs and SOEs. Moreover, TCID's water supply income has been charged for obtaining bank facilities of RMB627 million at end-June 2023.

### Rating Sensitivities

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

We would consider upgrading TCID's rating if there is an upgrade in our internal credit assessment on the Taixing government.

### Company Profile

TCID was established by Taixing SASAO in 2019. Taixing SASAO transferred the full ownership of five important LIDCs to TCID free of charge after its establishment, making TCID the core LIDC in Taixing. At end-September 2023, Taixing SASAO remained the company's sole shareholder.

TCID is mainly responsible for urban development projects, including affordable housing and infrastructures such as roads and pipe networks, water conservancy and other public facilities, in the urban area of Taixing. The company is also responsible for the operation of the city's utilities such as water supply, gas supply, garbage disposal and provides sanitation services. In addition, TCID's subsidiary, Taixing No.1 Construction Group Co., Ltd., is a nationwide building contractor.

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