

# Taixing Runjia Holdings Ltd.

## Surveillance Report

**Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Taixing Runjia Holdings Ltd. (“TRH” or “the company”); Issuer Rating Outlook Revised to Positive**

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Taixing City (“Taixing government”) would provide strong support to TRH if needed, in light of its indirect majority ownership of TRH, TRH’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for infrastructure construction, area development and state-owned asset operation and management in Taixing City (“Taixing”), especially in the Taixing Economic Development Zone (“Taixing EDZ”), and the linkage between the Taixing government and TRH, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TRH encounters any operational and financial difficulties.

The Positive Outlook reflects our expectation that TRH’s importance would be strengthened given its strategic development role in the involvement in land development and public services business under the guidance of the Taixing government and receiving support from the Taixing government, while the Taixing government will continue to ensure TRH’s stable operation.

### Rating Rationale

**Government’s Ownership and Supervision:** The Taixing government indirectly holds the majority ownership of TRH through Taixing Municipal People’s Government State-owned Assets Supervision and Administration Office (“Taixing SASAO”), and is the ultimate shareholder of the company. The Taixing SASAO has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions, via the Taixing Economic Development Zone Management Committee (“TEDZMC”). In addition, the Taixing SASAO has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financial position on a periodic basis via TEDZMC.

**Strategic Importance and Strategic Alignment:** TRH continues to be the core entity for infrastructure construction and the operation of state-owned assets development in Taixing and Taixing EDZ. As an important LIDC in the area, it is mainly responsible for infrastructure investment and construction, operation and management of state-owned assets etc., with strong regional advantages. In addition, TRH is also responsible for the construction of administrative and business areas in the region and related investment attraction work to promote the industrial upgrading and transformation of Taixing EDZ.

TRH’s strategic importance would be strengthened as the company has recently taken on land consolidation operations and public services business within the Taixing EDZ. It plays an important role in promoting the economic and social development of the region. TRH’s business operation and development have been aligned with the government’s development plans.

### Summary

Issuer Rating	BBB-
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	29 February 2024

### Key Figures of Taixing and TRH (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
TRH		
Assets	21.2	24.3
Equity	14.9	15.9
Revenue	0.8	1.0

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

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### Applicable Criteria

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

**Ongoing Government Support:** TRH received operational and financial support from the government. The Taixing government, through the TEDZMC, continued to inject cash, equity and land improvement projects into TRH to expand its asset size and diversify its business. TEDZMC will repurchase some infrastructure and administrative area construction projects and provide policy supports to TRH to ensure its business operation. Given the regional advantage in infrastructure construction and area development in Taixing EDZ, TRH has advantages to obtain land resources and major projects. We believe TRH is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**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.

**TRH's Financial Matrix and Liquidity Position:** TRH's total asset continued to expand in the last year, accompanied by a proportional increase in total debt, leading to a rise in its financial leverage, as indicated by the total debt/capitalization ratio, which, however, remained below 40%. TRH's asset liquidity remained weak. The majority of its total assets were tied up in inventories, primarily construction costs and undeveloped lands, along with other receivables, mainly from government agencies and state-owned enterprises in Taixing. These assets usually take a long time to monetize.

The liquidity of TRH was tight. TRH had a cash balance and unused credit facilities of RMB2 billion and RMB1.1 billion at end-2022, respectively, compared with its debt due within one year of RMB3.7 billion. Having said that, TRH has access to various financing channels, including bank loans, bond issuance and non-traditional financing (e.g., trust loans), to support its debt repayment and business operations.

## Rating Sensitivities

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



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

### Company Profile

TRH was established in 2018 with an initial registered capital of RMB500 million, which was fully contributed by TEDZMC. As of the end of September 2023, TEDZMC continued to be the predominant shareholder, maintaining a 31% ownership stake in the company. Following closely, Taixing Port Group Co., Ltd., Taixing Jinjiang Investment Co., Ltd., and Taixing Chengxing State-Owned Assets Operation and Investment Ltd. held ownership stakes of 30.25%, 20%, and 18.7%, respectively, in the company.

TRH is mainly responsible for infrastructure investment and construction, operation and management of state-owned assets and related public services (such as road maintenance, greening projects, firefighting, etc.) in Taixing, especially in the Taixing EDZ with strong regional advantage.

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