

Taizhou Zhongtian New Energy Industry Development Co., Ltd.

Initial Issuer Report

Summary

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|----------------------|--|
| Issuer Rating | BBB- |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 26 April 2024 |

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taizhou Zhongtian New Energy Industry Development Co., Ltd. (“TZNEID” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Hailing District, (“the Hailing District government”) would provide strong support to TZNEID if needed, in light of its direct full ownership of TZNEID, TZNEID’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for development and operation of Taizhou New Energy Industrial Park in Taizhou’s Hailing District (“Hailing District”), and the linkage between the Hailing District government and TZNEID, 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 Hailing District government may face significant negative impact on its reputation and financing activities if TZNEID encounters any operational and financial difficulties.

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

Rating Rationale

Hailing District Government’s Ownership and Supervision: The Hailing District government holds the full ownership of TZNEID through Hailing District State-owned Asset Supervision and Administration Office (“Hailing District SASAO”). The Hailing District government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Hailing District government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Hailing District and Strategic Alignment: TZNEID is an important LIDC in Hailing District, mainly responsible for the development and operation of Taizhou New Energy Industrial Park. Its business operation and development have been aligned with the government’s development plans. TZNEID plays a significant role in promoting the economic and social development of the region, given that Taizhou New Energy Industrial Park is a key region of promoting Hailing District’s industrial development.

Ongoing Government Support: The Hailing District government ongoing operational and financial support to TZNEID. The company received government subsidies totaling RMB226 million from 2020 to 2022. We believe TZNEID is going to receive government support in the coming years, considering its strategic importance in Hailing District.

Economy and Fiscal Strength of Hailing District: Hailing District is an urban district under the jurisdiction of Jiangsu’s Taizhou City (“Taizhou”) and is located in the central urban area of Taizhou. Hailing District focused on the development of new energy, new material, high-end manufacturing, IT and modern service industry in recent years. Hailing District’s GDP

Key Figures of Hailing District and TZNEID (RMB billion)

| Hailing District | 2021 | 2022 |
|-----------------------|------|--------|
| GDP | 70.0 | 73.3 |
| GDP growth rate (%) | 8.6 | 3.1 |
| Budgetary revenue | 4.0 | 3.7 |
| Government fund | 5.5 | 5.3 |
| Transfer payment | 1.5 | 2.3 |
| Budgetary expenditure | 4.4 | 5.1 |
| TZNEID | 2022 | 2023.9 |
| Asset | 14.4 | 14.4 |
| Equity | 5.4 | 5.1 |
| Revenue | 1.61 | 1.16 |

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

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Applicable Criteria

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

growth rate fluctuated between 2020 and 2022, owing to Covid's disruption, which was 3.5%, 8.6% and 3.1% in 2020, 2021 and 2022, respectively. Hailing District realized a GDP of RMB73.3 billion in 2022.

The budgetary revenue of the Hailing District government fluctuated in the past few years, dropping to RMB3.7 billion in 2022 from RMB4.0 billion in 2021, owing to value-added tax credit refund policy. As a result, the fiscal self-sufficiency of the Hailing District government deteriorated between 2020 and 2022. Its budget deficit widened to -37.2% in 2022 from -8.1% in 2020. In addition, the government fund income, mainly generated by land sales, decreased slightly to RMB5.3 billion in 2022 from RMB5.5 billion in 2021, owing to the weak property market.

The total outstanding debt of the Hailing District government increased steadily to RMB7.8 billion at end-2022 from RMB5.6 billion at end-2020, while the government debt ratio (measured by total government debt/aggregate revenue) reducing to 55.1% at end-2021 from 68.2% at end-2020, but rebounded to 71.3% at end-2022, mainly due to the fluctuation of aggregate revenue.

TZNEID's Financial Matrix and Liquidity Position: TZNEID's total asset increased moderately to RMB14.4 billion at end-September 2023 from RMB11.2 billion at end-2020, as it actively participated in local infrastructure construction activities. The company mainly relied on borrowings to fund its asset expansion. Its total debt reached RMB8.3 billion at end-September 2023, compared with RMB5.5 billion at end-2020. As a result, its financial leverage, as measured by debt/capitalization, was on an upward trend in the past few years, increasing to 61.8% from 55.2% over the same period.

The short-term debt servicing pressure of TZNEID was high. At end-September 2023, the company had unrestricted cash of RMB92 million, while it had short term debt of RMB2.7 billion. Yet we expect the company to roll over most of its short-term bank borrowings (end-September 2023: RMB828 million). In addition, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing tools, to support its debt repayments and business operations. At end-September 2023, the company also had unused bank facilities of RMB764 million. Nevertheless, obtaining timely government support and additional financing sources are vital to TZNEID.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Hailing District

Hailing District is an urban district under the jurisdiction of Jiangsu's Taizhou and is located in the central urban area of Taizhou. Hailing District has jurisdiction over 4 towns, 7 streets and 2 industrial parks, with a total area of 307 square kilometers. At end-2022, Hailing had a residential population of 0.58 million with an urbanization rate of 92.8%.

Hailing District's GDP growth rate fluctuated between 2020 and 2022, owing to Covid's disruption, which was 3.5%, 8.6% and 3.1% in 2020, 2021 and 2022, respectively. Hailing District realized a GDP of RMB73.3 billion in 2022. Hailing District's economy was mainly boosted by the secondary and tertiary industries, accounting for 43.0% and 55.0% of the aggregate GDP in 2022, respectively. Hailing District focused on the development of new energy, new material, high-end manufacturing, IT and modern service industry in recent years.

| Hailing District's GDP and Fixed Asset Investment | | | |
|--|-------------|-------------|-------------|
| (RMB billion) | 2020 | 2021 | 2022 |
| GDP | 62.0 | 70.0 | 73.3 |
| -Primary industry (%) | 2.2 | 2.0 | 2.0 |
| -Secondary industry (%) | 40.8 | 41.5 | 43.0 |
| -Tertiary industry (%) | 57.0 | 56.5 | 55.0 |
| GDP growth rate (%) | 3.5 | 8.6 | 3.1 |
| Fixed asset investment | - | 26.3 | 33.1 |
| Fixed asset investment growth rate (%) | - | 8.5 | 25.9 |
| Population (million) | 0.58 | 0.58 | 0.58 |

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Hailing District

The aggregate fiscal revenue of the Hailing District government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Hailing District government fluctuated during the past few years, dropping to RMB3.7 billion in 2022 from RMB4.0 billion in 2021, owing to value-added tax credit refund policy. As a result, the fiscal self-sufficiency of the Hailing District government deteriorated between 2020 and 2022. Its budget deficit widened to -37.2% in 2022 from -8.1% in 2020. In addition, the government fund income, mainly generated by land sales, decreased slightly to RMB5.3 billion in 2022 from RMB5.5 billion in 2021, owing to the weak property market.

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| Hailing District's Fiscal Condition | | | |
|--|-------------|-------------|-------------|
| (RMB billion) | 2020 | 2021 | 2022 |
| Budgetary revenue | 3.6 | 4.0 | 3.7 |
| Budgetary revenue growth rate (%) | 3.5 | 11.1 | 0.2* |
| Tax revenue | 2.9 | 3.2 | 2.4 |
| Tax revenue (% of budgetary revenue) | 80.2 | 80.0 | 64.5 |
| Government fund income | 2.9 | 5.5 | 5.3 |
| Transfer payment | 1.7 | 1.5 | 2.0 |
| Aggregate revenue | 8.1 | 11.0 | 11.0 |
| Budgetary expenditure | 3.9 | 4.5 | 5.1 |
| Budget balance ¹ (%) | -8.1 | -11.1 | -37.2 |

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Note: Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TZNEID was established in August 2003 with an initial registered capital of RMB20 million, funded by two local stated-owned enterprises ("SOEs"). After an array of equity transfers and capital injections, TZNEID's registered capital and paid-in capital were both enlarged to RMB1 billion at end-September 2023. The company is now wholly owned and actually controlled by Hailing District SASAO.

Strategic Importance and Government Linkage

Strategic Importance of TZNEID to Hailing District

TZNEID is an important LIDC in Hailing District, mainly responsible for the development and operation of Taizhou New Energy Industrial Park. Its business operation and development have been aligned with the government's development plans. TZNEID plays a significant role in promoting the economic and social development of the region, given that Taizhou New Energy Industrial Park is a key region of promoting Hailing District's industrial development.

Strong Linkage with the Local Government

TZNEID's linkage with the local government is strong as the Hailing District government holds the full ownership of TZNEID through Hailing District SASAO. The Hailing District government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Hailing District government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

Ongoing Government Support

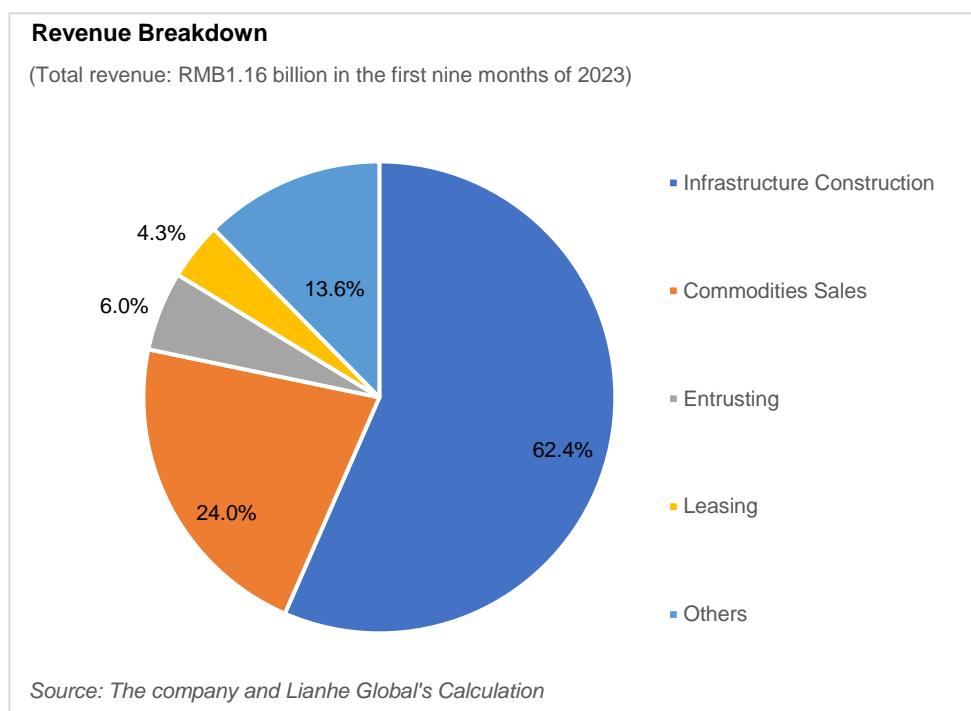
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Business Profile

The Key Entity Responsible for the Development and Operation of Taizhou New Energy Industrial Park

TZNEID, as an important LIDC in Hailing District, is mainly responsible for project construction and state-owned asset operation within Taizhou New Energy Industrial Park, with a strong regional franchise advantage. The primary sources of operating revenue for the company are infrastructure construction, commodities sales. The company also engages in businesses including property leasing, resettlement housing sales, management consulting, etc. The company's total revenue reached c. RMB1.11 billion, RMB1.40 billion, RMB1.61 billion and RMB1.16 billion in 2020, 2021, 2022 and the first nine months of 2023,

respectively, representing an upward trend. The overall gross profit margin remained relatively stable at 18%-22% level over the same period.



Infrastructure Construction

As the main source of the company's operating revenue, the infrastructure construction business is operated under both agent construction and self-operated modes. Under the agent construction model, the company signs agent-construction agreements with local SOEs and is responsible for fundraising and construction of roads, public facilities and resettlement housing within the Taizhou New Energy Industrial Park. The company settles construction costs plus a certain percentage (20%-30%) of management fees with the entrusting party according to the agreements. Under the self-operated model, the company constructs the projects with internal and external funds and operates them for rental income upon completion.

Entrusting and Leasing

TZNEID entrusts local sewage treatment plants to operate its self-owned sewage pipeline network. Sewage treatment plants are entitled to operational incomes while TZNEID enjoys stable annual income (2022: RMB93 million) that is equivalent to 5% of the valuation of entrusting assets. The company is also involved in leasing of factory buildings within the Taizhou New Energy Industrial Park.

Commodities Sales and Others

TZNEID diversified its business structure in 2023 by exploring commodities sales business. This segment recorded a notable revenue of RMB277 million in the first nine months of 2023. However, the gross profit margin was as low as 0.3%.

TZNEID's other businesses included resettlement housing sales and management consulting, etc. These businesses mainly play a supplementary role and have little impact on TZNEID's financial position and creditworthiness.

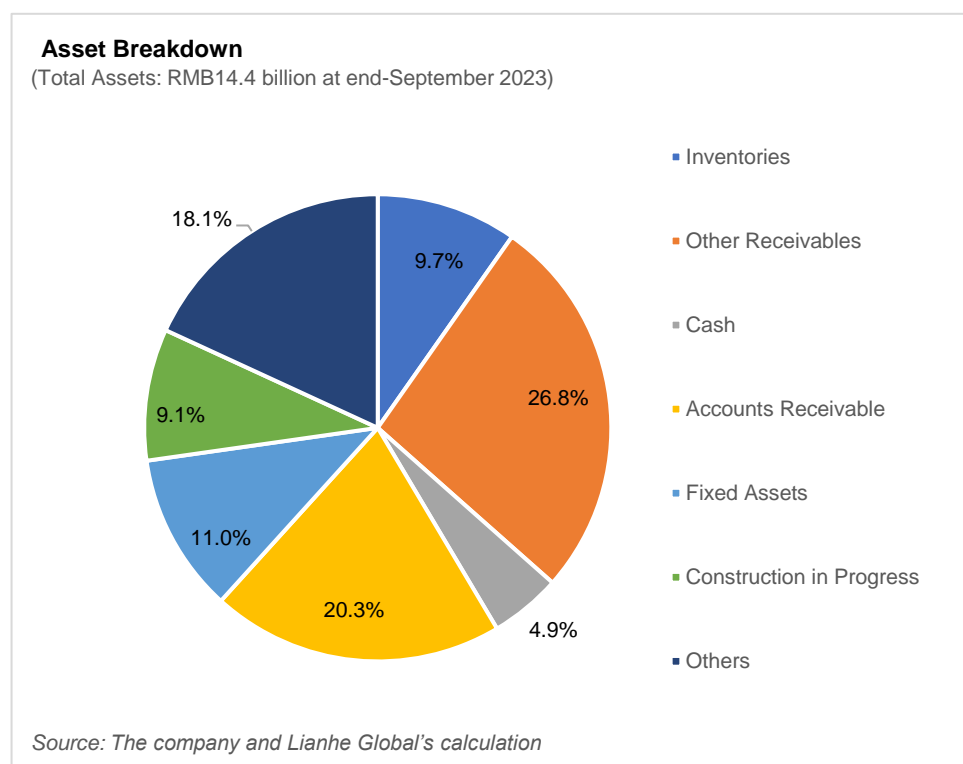
Financial Profile

Balance Sheet Structure and Quality

| Balance Sheet Structure and Quality | | | | |
|-------------------------------------|--------|--------|--------|----------------|
| (RMB million) | 2020 | 2021 | 2022 | September-2023 |
| Total Asset | 11,212 | 11,205 | 14,426 | 14,444 |
| Equity | 4,497 | 4,395 | 5,438 | 5,154 |
| Debt | 5,543 | 5,712 | 7,977 | 8,341 |
| Debt / (Debt + Equity) (%) | 55.2 | 56.5 | 59.5 | 61.8 |
| LT Debt | 4,105 | 3,549 | 5,603 | 5,676 |
| LT Debt / (LT Debt + Equity) (%) | 47.7 | 44.7 | 50.7 | 52.4 |

Source: Company information and Lianhe Global's calculations

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TZNEID's asset liquidity was relatively weak, as the company had accumulated a large amount of accounts receivable and other receivables, which added up to RMB6.8 billion at end-September 2023, representing 47.0% of total asset. They were primarily due from local

government agencies and SOEs, and their repayment schedules are highly subject to the fiscal conditions of the local government. In addition, the company had a large amount of fixed asset (mainly sewage pipeline networks), which accounted for 11.0% of total asset.

Debt Servicing Capability

The short-term debt servicing pressure of TZNEID was high. At end-September 2023, the company had unrestricted cash of RMB92 million, while it had short term debt of RMB2.7 billion. Yet we expect the company to roll over most of its short-term bank borrowings (end-September 2023: RMB828 million). In addition, the company has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing tools, to support its debt repayments and business operations. At end-September 2023, the company also had unused bank facilities of RMB764 million. Nevertheless, obtaining timely government support and additional financing sources are vital to TZNEID.

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