

Tongcheng Economic Development Zone Construction Investment Group Co., Ltd.

Surveillance Report

Summary

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

Lianhe Ratings Global Limited ("Lianhe Global") affirmed 'BBB-' global scale Long-term Issuer Rating of Tongcheng Economic Development Zone Construction Investment Group Co., Ltd. ("TEDZ" or "the company"); Issuer Rating Outlook is Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Tongcheng City, Anqing City ("Tongcheng government") would provide very strong support to TEDZ if needed, in light of its full ownership of TEDZ, TEDZ's strategic importance as the key local investment and development company ("LIDC") that is responsible for infrastructure construction and state-owned asset management in Tongcheng City, Anqing City ("Tongcheng"), especially in the Tongcheng Economic and Technological Development Zone ("Tongcheng EDZ") and the linkage between the Tongcheng government and TEDZ, 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 Tongcheng government may face significant negative impact on its reputation and financing activities if TEDZ encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that TEDZ's strategic importance would remain intact while the Tongcheng government will continue to ensure TEDZ's stable operation.

Rating Rationale

Government's Ownership and Supervision: The Tongcheng government holds the full ownership of TEDZ through the Tongcheng Economic and Technological Development Zone Management Committee ("EDZ MC"). The Tongcheng government is the actual controller of the company. It 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. In addition, the Tongcheng government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: TEDZ stays the key LIDC in Tongcheng that primarily responsible for infrastructure construction and state-owned asset management in Tongcheng EDZ. Serving as the sole entity in charge of infrastructure projects in Tongcheng EDZ, TEDZ focuses on constructing industrial parks and resettlement houses, sewage treatment plants and other main municipal engineering projects in the region. TEDZ plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: TEDZ received operational and financial support from the government. TEDZ received a total subsidy amount of RMB357.6 million from 2021 to the first half of 2024, mainly including operating subsidies. The Tongcheng government continued to inject capitals, equities, land and other assets into TEDZ to expand its asset

Key Figures of Tongcheng and TEDZ

(RMB billion)	2022	2023
Tongcheng		
GDP	45.2	46.7
GDP growth rate (%)	4.5	5.5
Budgetary revenue	2.2	2.4
Government fund	3.3	1.0
Transfer payment	2.7	2.7
Budgetary expenditure	6.1	6.0
TEDZ		
Asset	11.7	12.6
Equity	5.1	5.2
Revenue	0.4	0.2

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

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

size. Besides, the EDZ MC will repurchase some infrastructure projects and provide policy supports to TEDZ to ensure its business operation. Given it is the sole entity for infrastructure construction and resettlement housing construction in Tongcheng EDZ, TEDZ has an advantage in acquiring land resources and major projects. We believe TEDZ is likely to receive government support to support its daily business operation.

Economic and Fiscal Condition of Tongcheng: Tongcheng is a county-level city in Anhui Province and managed by Anqing City (“Anqing”), with a total land area of c. 1,571 square kilometers. Tongcheng’s GDP growth rate fluctuated in the past three years, which was 6.2%, 4.5% and 5.5% in 2021, 2022 and 2023, respectively. Its GDP reached RMB46.7 billion in 2023, which was ranked 1st out of all jurisdictions of Anqing. The aggregate fiscal revenue of the Tongcheng government was mainly derived from the budgetary revenue and government fund income. The Tongcheng government’s budgetary revenue increased to RMB2.4 billion in 2023, while the government fund income decreased to RMB1.0 billion from RMB3.3 billion in 2022, owing to the downturn of the real estate market. The budget deficit of the Tongcheng government was 151.5% at end-2023, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Tongcheng government increased to 156.7% at end-2023 from 138.6% at end-2022.

TEDZ’s Financial and Liquidity Position: Both TEDZ’s assets and debt have expanded steadily in the past two years, with financial leverage (measured by debt to capitalization ratio) stayed at below 60% level. The company’s liquidity risk is manageable. At end-June 2024, the company had RMB748.3 million of unrestricted cash against its short-term debt amounting to RMB1.3 billion. In addition, TEDZ has access to multiple financing channels, including bank loans, syndicated loans and bond issuances, etc., to support its debt repayment and business operation. The company had an unused credit line of RMB4.9 billion at end-June 2024.

Rating Sensitivities

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

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

Company Profile

TEDZ was established in May 2017 by EDZ MC with an initial registered capital of RMB798.0 million. At end-June 2024, both the company’s registered capital and paid-in capital were RMB798.0 million. EDZ MC is the sole shareholder, and the Tongcheng government is the actual controller of the company.

TEDZ is an important LIDC that operates in infrastructure and resettlement housing construction within the Tongcheng EDZ, and enjoys a strong regional franchise. In addition, the company also engages in businesses like leasing and property sales to diversify its business structure.

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