

Taizhou Huaxin Pharmaceutical Investment Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	19 September 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd. to ‘A-’ from ‘BBB’. The Outlook is Stable.

Summary

The Issuer Rating upgrade reflects the strengthened support from the government to THPI and increased strategic importance of THPI in the development of Jiangsu’s Taizhou City (“Taizhou”), as demonstrated by the large cash capital injection in 2023, and its enhanced role in further promoting the development of health industry in Taizhou, one of pillar industries of the city.

We believe there is a high possibility that the Taizhou Municipal People’s Government (“the Taizhou government”) would provide strong support to THPI if needed, in light of its indirect majority ownership of THPI, THPI’s strategic position as the major local investment and development company (“LIDC”) responsible for promoting the development of health industry in Taizhou and the strong linkage between the Taizhou government and THPI including appointment of senior managements, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the Taizhou government may face significant negative impact on its reputation and financing activities should THPI encounter any operational or financial difficulties.

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

Rating Rationale

Strong Linkage with the Taizhou Government: THPI’s linkage with the local government is strong as the Taizhou government indirectly holds a 99.45% stake in THPI through Taizhou State-owned Investment Group Co., Ltd. (“TSI”), and is THPI’s ultimate shareholder. The rest of the 0.55% share is held by CDB Development Fund. The Taizhou government has strong control and supervision over THPI, including control of the board of directors, appointment of senior managements, and the supervision over its major operating and financing plans. In addition, the government will assign auditor to audit THPI’s financial and operational data periodically.

Strategic Importance of THPI to Taizhou: The Taizhou government established TSI in July 2021 and allocated the 99.45% equity of THPI to TSI in July 2023, making TSI the largest LIDC in Taizhou. As one of the most important state-owned assets investment and operation entity in Taizhou, TSI is responsible for health industry development, port development and operation, and infrastructure construction in Taizhou Medical High-tech Zone (“High-tech Zone”), Taizhou Urban New Centre and High-speed Railway Hub Areas.

THPI is TSI’s most important subsidiary specifically responsible for health industry development in Taizhou. The company actively develops and operates industrial parks, as well as provides warehousing and logistic services for pharmaceutical companies within High-tech Zone to facilitate their operations. It also engages in the sales of pharmaceutical products. THPI’s strategic planning and development have been aligned with the local government’s economic and social policies.

Key Figures of Taizhou and THPI

(RMB billion)	2022	2023
Taizhou		
GDP	604.2	673.2
GDP growth rate (%)	4.4	6.8
Budgetary revenue	41.7	44.0
Government fund	52.1	49.3
Transfer payment	18.5	17.9
Budgetary expenditure	70.4	69.7
THPI		
Total Asset	89.2	94.7
Equity	29.1	31.1
Revenue	4.04	3.66

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

Analysts

Roy Luo, FRM, CESGA
(852) 3462 9582
roy.luo@lhratingsglobal.com

Jack Li, CESGA
(852) 3462 9585
jack.li@lhratingsglobal.com

Applicable Criteria

[China Local Investment and Development Companies Criteria \(31 July 2024\)](#)

Ongoing Government Support: THPI has been receiving strong support from the local government for its business operation, including capital injection, operational subsidies asset injections. In 2023, the local government increased THPI's registered capital by RMB3 billion, of which RMB1.5 billion has been paid. The company also received ongoing operational subsidies of RMB258 million, 215 million and 140 million in 2021, 2022 and 2023, respectively. We believe THPI is likely to continue to receive strong government support in the future given its strategic importance in Taizhou.

Economy and Fiscal conditions of Taizhou: Taizhou's GDP reached RMB673.2 billion in 2023, representing a year-over-year growth rate of 6.8%, up from 4.4% in 2022. Its fixed asset investment also maintained a moderately high growth rate of 9.4%. Taizhou's health industry, a pillar of the city's economy, had an industry scale of RMB307 billion in 2023.

The Taizhou government's budgetary revenue increased to RMB44 billion in 2023 from RMB41.7 billion in 2022, mainly due to the growth of tax revenue. However, the Taizhou government still recorded budget deficit of 58.6% in 2023. Its government fund income, mainly generated by land sales, demonstrated a downward trend in the past three years, dropping to RMB49.3 billion in 2023 from RMB68.1 billion in 2021, mainly owing to the weak property market.

The outstanding debt of the Taizhou government reached RMB107.1 billion at end-2023, representing a year-over-year growth rate of 6.9%. Its government debt ratio (total government debt outstanding/aggregate revenue) was lifted to 95.6% in 2023 from 88.5% in 2022, as the government issued a substantial number of special debts to support public projects.

THPI's Financial and Liquidity Position: THPI's total asset increased to RMB95.7 billion at end-March 2024 from RMB89.1 billion at end-2022, due to the rise in inventories (mainly construction costs) as the result of THPI's active participation in the project development in High-tech Zone. THPI relied on debt financing to support its asset expansion, with total debt increasing to RMB54.0 billion from RMB51.7 billion over the same period. Yet owing to the government's capital injections, the company's financial leverage, as measured by total debt to capitalization, stayed at approximately 64% level.

THPI's liquidity was tight. The company had unrestricted cash of RMB1.7 billion at end-March 2024, as compared to its short-term debts of RMB17.0 billion. THPI relied on bank borrowings and bond issuances to meet its financial obligations when they come due and to support its operations. It had unused credit line of RMB9.6 billion from banks and available bond issuance quota of RMB2.6 billion at end-March 2024. We expect THPI to roll-over most of its short-term bank borrowings (end-March 2024: RMB4.9 billion), yet obtaining additional financing sources and receiving timely government support are important for THPI to maintain its liquidity.

Rating Sensitivities

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

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



Company Profile

THPI was established in December 2005 under approval from the Taizhou government with an initial registered capital of RMB100 million. After several rounds of capital injections, THPI's registered capital enlarged to RMB8.8 billion at end-March 2024. Taizhou government indirectly holds a 99.45% stake in THPI through TSI, and is THPI's ultimate shareholder.

THPI is the major LIDC responsible for promoting health industry development in Taizhou. The company focuses on the development and operation of industrial parks for pharmaceutical companies in High-tech Zone. It also provides warehousing and logistic services to facilitate their operations. In addition, THPI engages in sales of pharmaceutical products, infrastructure construction, property development and trading activities.

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