

Lianhe Global has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Taizhou Chemical New Materials Industry Development Group Co., Ltd.

HONG KONG, 20 November 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘A-’ global scale Long-term Issuer Credit Rating to Taizhou Chemical New Materials Industry Development Group Co., Ltd. (“TCNMI” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Taizhou Municipal People’s Government (“the Taizhou government”) would provide strong support to TCNMI if needed, in light of its full ownership of TCNMI, TCNMI’s strategic importance as an important local investment and development company responsible for developing and operating industrial parks in Jiangsu’s Taizhou City (“Taizhou”) and the linkage between the Taizhou government and TCNMI, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Taizhou government may face significant negative impact on its reputation and financing activities if TCNMI encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: State-owned Assets Supervision and Administration Commission of Taizhou directly owns 100% shares of TCNMI, and is the ultimate controller of the company. The Taizhou government has strong control and supervision over the company, including appointments of its senior management, decisions on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has an assessment mechanism over the company and periodically appoints auditors to supervise its operating performance and financials.

Strategic Importance and Alignment: TCNMI is an important development and operation entity in Taizhou that promotes regional industrial development. The company is responsible for developing and operating industrial parks, mainly in Taixing, a county-level city in Taizhou. It also invests in high-tech and bio-pharmaceutical companies’ equities to support Taizhou’s industrial upgrade. The company’s development strategy has been aligned with the Taizhou government’s economic and social development plans.

Strong Government Support: The local government provides strong support to TCNMI, which enhances its capital base and profitability. In 2023, the Taizhou government injected

cash capital of the company RMB2.0 billion into the company. In addition, the company has received ongoing operational subsidies and assets such as state-owned properties and state-owned enterprises' equities and mining rights in the past three years. Given TCNMI's strategic importance in Taizhou, we expect the local government's support to remain intact.

Economy and Fiscal Condition of Taizhou: Taizhou is a prefecture-level city in Jiangsu Province and an important trade port city in China's Yangtze River Delta. Taizhou recorded a GDP of RMB673.2 billion in 2023, ranked 9th among all 13 prefecture-level cities under the administration of Jiangsu Province. Its GDP growth rate rose to 6.8% in 2023 from 4.4% in 2022, mainly due to the rapid increase of fixed asset investment. Its economic development has focused on new materials, chemicals, biomedicine, high-end equipment manufacturing, and the energy industry in recent years.

The budgetary revenue of the Taizhou government grew by 5.5% in 2023, reaching RMB44.0 billion. Its fiscal self-sufficiency was improving but remained weak, with budget deficits of 58.6% in 2023, down from 67.3% in 2022. However, the government fund income, mainly generated from land sales, is vulnerable to property market conditions and policy changes. In 2023, the government fund income of the Taizhou government dropped to RMB49.3 billion, representing a year-over-year growth rate of -5.4%, the second consecutive year of negative growth.

The outstanding debt of the Taizhou government increased to RMB107.1 billion at end-2023, up from RMB96.6 billion at end-2021, as it borrowed heavily in special debts to support its public projects. The government debt ratio (total outstanding debt/ aggregate fiscal revenue) increased to a relatively high level of 95.6 % at end-2023.

TCNMI's Financial and Liquidity Position: TCNMI's total assets surged to RMB160.3 billion at the end-2023 from RMB121.1 billion at end-2021, as the company actively participated in Taizhou's project development. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. TCNMI's total debt reached RMB63.9 billion at end-2023, compared with RMB56.4 billion at end-2021. Yet the company's financial leverage, as measured by debt/capitalization, stayed at a manageable level of around 50%, owing to the local government's multiple capital/asset injections over the same period.

TCNMI's short-term debt servicing pressure was high. At end-2023, TCNMI had cash of RMB14.7 billion (including restricted cash of RMB12.1 billion), compared with its short-term debts due within one year of RMB36.2 billion. TCNMI has access to various financing channels to support its debt repayment and business operations, including bank borrowings and other non-traditional financings. At the end of March 2024, the company had unused bank lines amounting to RMB11.9 billion. We expect the company to roll over most of its short-term bank borrowings (end-2023: RMB9.5 billion). Yet obtaining additional financing sources and timely government support is important to TCNMI to maintain its liquidity.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this TCNMI's rating is Lianhe Global's *China Local Investment and Development Companies Criteria* published on 31 July 2024, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer Credit Ratings are solicited at the request of the rated entity or a related third party. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

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