

Taizhou Chemical New Materials Industry Development Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	20 November 2024

Lianhe Ratings Global Limited (“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. (“TCNMI” or “the company”)

Summary

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 (“LIDC”) 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.

Rating Rationale

Government’s Ownership and Supervision: State-owned Assets Supervision and Administration Commission of Taizhou (“Taizhou SASAC”) 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

Key Figures of TCNM and Taizhou

(RMB billion)

Taizhou	2022	2023
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
TCNM	2022	2023
Asset	147.4	160.3
Equity	66.9	70.2
Revenue	11.4	14.0

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

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Applicable Criteria

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

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.

Operating Environment

Economic Condition of Taizhou

Taizhou is a prefecture-level city in Jiangsu Province, and it is also an important trade port city in China's Yangtze River Delta, approved by the State Council. It is located in East China and is in the middle of Jiangsu Province. Taizhou has jurisdiction over three county-level cities (Xinghua, Jingjiang and Taixing) and three districts (Hailing, Gaogang and Jiangyan). It has a land area of 5,787 square kilometers and a residential population of 4.5 million with an urbanization rate of 69.2% at end-2023.

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. Taizhou's economic growth was fueled primarily by the secondary and tertiary industries, which accounted for 48.4% and 46.5% in 2023, respectively. Its economic development has focused on new materials, chemicals, biomedicine, high-end equipment manufacturing, and the energy industry in recent years.

Taizhou's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	602.5	640.2	673.2
-Primary industry (%)	5.3	5.2	5.1
-Secondary industry (%)	48.4	49.3	48.4
-Tertiary industry (%)	46.3	45.5	46.5
GDP growth rate (%)	10.1	4.4	6.8
Fixed asset investment growth rate (%)	8.3	9.4	9.4
Population (million)	4.5	4.5	4.5

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Taizhou

The aggregate fiscal revenue of the Taizhou government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Taizhou government grew by 5.5% in 2023, reaching RMB44.0 billion, and the tax revenue accounted for 70% of budgetary revenue. 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.

Taizhou's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	42.0	41.7	44.0
Budgetary revenue growth rate (%)	12.0	-0.9	5.5
Tax revenue	31.7	26.4	30.8
Tax revenue (% of budgetary revenue)	75.4	63.5	70.0

Government fund income	68.1	52.3	49.3
Transfer payment	15.1	18.1	17.5
Aggregate revenue	127.8	113.1	112.0
Budgetary expenditure	66.8	69.7	69.7
Budget balance ¹ (%)	-58.8	-67.3	-58.6

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

TCNMI was established in July 2014 with an initial capital of RMB50 million. In November 2023, TCNMI's shareholder was changed to the State-owned Assets Supervision and Administration Office of Taixing ("Taxing SASAO"), and the initial capital increased to RMB6.0 billion. In March 2024, Taixing SASAO transferred an array of LIDCs' equity to the company, making it one of the largest LIDCs in Taizhou regarding asset size. In May 2024, Taixing SASAO transferred 100% of the equity of TCNMI to the Taizhou SASAC.

By June 2024, TCNMI's registered and paid-in capital was recorded at RMB6.0 billion and RMB2.05 billion, respectively, and Taizhou SASAC, as the company's ultimate controller, held 100% of TCNMI's shares.

Strategic Importance and Government Linkage

Strategic Importance of TCNMI to Taizhou

TCNMI is an important development and operation entity in Taizhou to promote regional industrial development. The company is responsible for developing and operating industrial parks, mainly in Taizhou's Taixing city. 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 Linkage with the Local Government

TCNMI's linkage with the Taizhou government is strong. Taizhou SASAC directly owns 100% of TCNMI's shares 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.

Strong Government Support

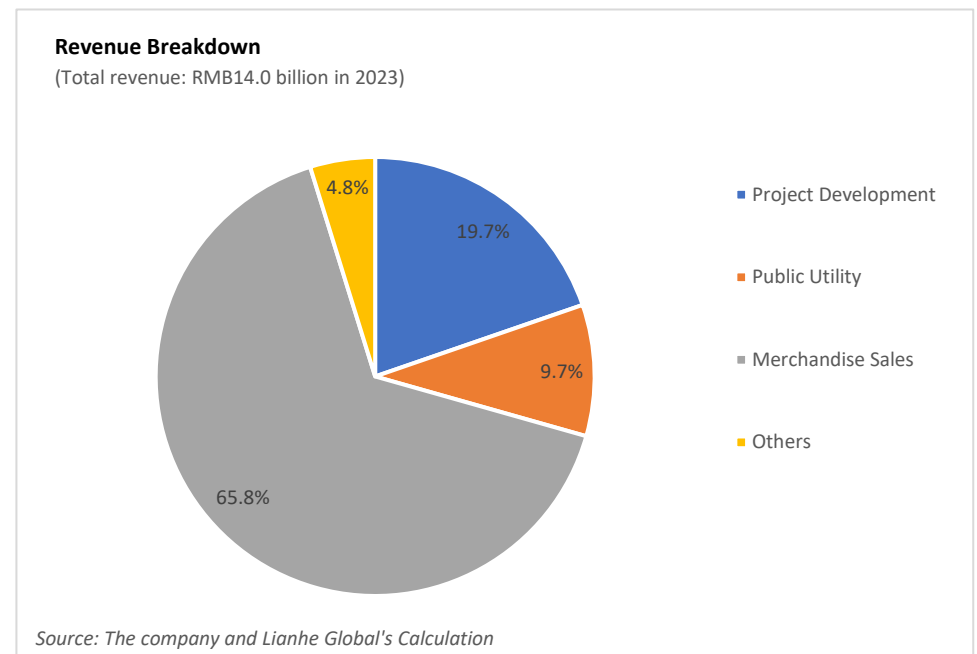
The local government provides strong support to TCNMI, which enhances its capital base and profitability. In 2023, the Taizhou government injected cash capital of the company RMB2.0 billion into the company. In addition, the company received ongoing operational subsidies amounting to RMB221 million, 256 million and 279 million in 2021, 2022 and 2023, respectively. The local government also allocated assets such as state-owned properties and state-owned enterprises' equities and mining rights to the company over the same

period. Given TCNMI's strategic importance in Taizhou, we expect the local government's support to remain intact.

Business Profile

An Important LIDC Responsible for Industrial Parks Development and Operation in Taizhou

TCNMI, as an important LIDC in Taizhou, is mainly responsible for developing and operating industrial parks, mainly in Taixing, a county-level city in Taizhou. The primary sources of operating revenue for TCNMI are project development, public utility operation and merchandise sales. The company's total revenue was on an upward trend in the past few years, recording RMB10.7 billion, 11.4 billion, 14.0 billion in 2021, 2022 and 2023, respectively. TCNMI's business was well diversified and had regional advantages in Taizhou.



Project Development

TCNMI is mainly responsible for developing industrial parks in Taizhou, including Taixing Economic Development Zone, Taixing High-tech Industry Development Zone and Xinghua High-tech Industry Development Zone, etc., as designated by the respective Administrative Committees. TCNMI usually undertakes infrastructure construction, land consolidation, environmental improvement and social housing development projects within Taizhou's industry parks. The company signs the development agreements with the entrusting party and is responsible for fundraising and construction of entrusted projects. The entrusting parties pay construction costs and an agreed margin to TCNMI based on the project's progress. The gross profit margin of this segment stayed at a moderately high level of around 20% over the same period. TCNMI has a strong project pipeline supporting its development in the next three to five years. Yet the large scale of investment will put a high capital expenditure pressure on the company.

Public Utility Operation

In addition to project development, TCNMI operates public utilities in Taizhou's industrial parks, including steam supply and sewage treatment. The company leases the steam pipeline network for rental income and supplies steam to chemical companies. It also provides sewage treatment services for commercial and residential users in Taixing Economic Development Zone and Huangqiao Town.

Merchandise Sales and Others

TCNMI sells high-end equipment, agricultural products, chemical products and sandstone, etc. The sales of agricultural and chemical products are mostly conducted in a “demand-driven” model, which determines the amount of materials to be procured strictly based on the actual purchase orders placed by customers. The company makes a profit from the spread between buying and selling prices, which is usually low.

TCNMI also holds a listed company, Suzhou Jinfu Technology Co., Ltd. (“SJT”), which produces and sells high-end equipment. However, SJT recorded a net loss between 2021 and 2023, affected by the intensified market competition and large-scale asset impairment losses.

Other TCNMI businesses include property management, leasing and terminal handling services, etc., with each segment accounting for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the income of the main business and diversifying its revenue structure.

Financial Profile

Balance Sheet Structure and Quality

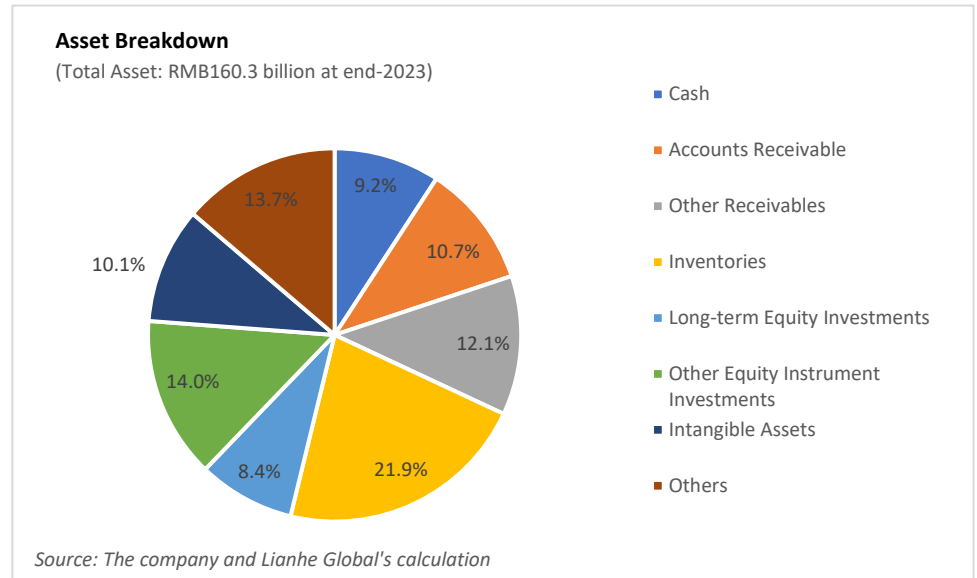
Balance Sheet Structure and Quality			
(RMB million)	2021	2022	2023
Total Asset	121,131	147,402	160,341
Equity	54,740	66,871	70,215
Debt	56,426	66,655	63,956
Debt / (Debt + Equity) (%)	50.8	49.9	47.7
LT Debts	31,508	28,432	27,715
LT Debt / (LT Debt + Equity) (%)	36.5	29.8	28.3

Source: TCNMI and Lianhe Global's calculations

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 asset liquidity is moderately weak. At end-2023, the company's assets mainly comprised inventories (mostly lands and construction costs) and receivables (including other receivables), amounting to RMB71.5 billion, representing 44.6% of the company's total assets. These assets usually take a long time to monetize due to the protracted construction, and the repayment schedules are highly subject to the fiscal conditions of the local

government. In addition, the company's long-term equity investments and other equity instrument Investments were also long-term in nature. TCNMI's intangible assets mainly consisted of mining rights injected by the local government.



Debt Servicing Capability

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.

In addition, TCNMI's contingent liability risk is high. At the end-2023, it provided financial guarantees of RMB70.5 billion to third parties (mainly other LIDCs and SOEs in Taizhou and Taixing), representing 100.5% of its net assets. The company's creditworthiness is closely linked to the regional overall credit status and financing conditions.

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