

Taixing Zhiguang Environmental Protection Technology Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 December 2024

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Taixing Zhiguang Environmental Protection Technology Co., Ltd. ("TZEPT" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Taixing City, Taizhou City ("Taixing government") would provide strong support to TZEPT if needed, in light of its actual control over the company, TZEPT's strategic importance as the important investment and development company ("LIDC") responsible for infrastructure construction and land development in Jiangsu Taixing High-tech Industrial Development Zone ("Taixing HTZ"), and the linkage between the Taixing government and TZEPT, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and other government support. In addition, the Taixing government may face significant negative impact on its reputation and financing activities if TZEPT encounters any operational and financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: The People's Government of Taizhou City ("Taizhou government") indirectly holds 100% stake of TZEPT through the State-owned Assets Supervision and Administration Committee of Taizhou ("Taizhou SASAC")'s fully-owned subsidiary, Taixing Zhongxin Investment Group Co., Ltd. ("TZIG"). The Taixing government has the final decision-making authority and strong supervision over the company, including appointment and supervision of the senior management, development strategy and investment plan decisions, major financing plans and daily operations. In addition, the Taizhou government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Strategic Importance to Taixing and Strategic Alignment: TZEPT is still one of the important LIDCs in Taixing that mainly responsible for the infrastructure construction and land development project in the Taixing HTZ, with a strong regional advantage. The company aims to maintain its prominent position as the primary entity for infrastructure construction in the region, while further diversify its business portfolio at the same time. The company's development plan has been aligned with the local government's urban development and construction plan. TZEPT plays an important role in the urban development of the Taixing HTZ. Under the guidance of the government's plan, the company undertakes the integration of asset in the region, revitalizes high-quality assets and resources to further develop and construct the zone.

Ongoing Government Support: TZEPT has received support from the local government, including capital injection, asset injection, operation subsidy and policy support from the Taixing government. Meanwhile, as the key LIDC for infrastructure construction in Taixing HTZ, TZEPT has certain advantages in project, land and resource acquisition. TZEPT had received a total subsidy amount of RMB1.6 billion from 2021 to the first six months of 2024. Considering the function and strategic importance of the company, we believe that the company is likely going to

Key Figures of Taixing and TZEPT

(RMB billion)	2022	2023
Taixing		
GDP	136.7	143.5
GDP growth rate (%)	5.3	6.5
Budgetary revenue	9.0	9.7
Government fund	12.0	10.2
Transfer payment	3.9	4.0
Budgetary expenditure	12.8	13.7
TZEPT	2023	2024.6
Assets	33.7	33.7
Equity	11.8	13.8
Revenue	3.0	1.4

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

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Applicable Criteria

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

receive timely government support in the form of operational and/or financial subsidies in the future.

Economy and Fiscal Condition of Taixing: Taixing is a county-level city under the jurisdiction of Jiangsu's Taizhou City. It is located in the middle of Jiangsu Province and in the Yangtze River Economic Belt, which is an important economic link between the north and south of the Yangtze River. It enjoys good economic development and has been ranked among the top 100 counties in China for years (2023: Ranked 39th). Taixing recorded steady economic growth in 2023, achieving a GDP of RMB143.5 billion, with a year-on-year growth of 6.5%.

The aggregate fiscal revenue of the Taixing government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Taixing government grew by 8.0% in 2023, reaching RMB9.7 billion. 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 Taixing government dropped to RMB10.2 billion from RMB13.9 billion in 2021. The outstanding debt of the Taixing government remained at approximately RMB27 billion in the past three years. Its government debt ratio (total outstanding debt/ aggregate fiscal revenue) stayed at a relatively high level of 111 % at end-2023.

TZEPT's Financial Matrix and Liquidity Position: TZEPT's total assets slightly declined to RMB30.8 billion at end-2023, with the growth rates of -5.0%, while it increased by 9.7% to RMB33.7 billion at end-June 2024, which mainly due to the increase in other receivables. The non-current assets of TZEPT accounted for 20.6% of the total assets at end-June 2024, but the overall asset liquidity was moderately weak due to large amount of development cost related to the company's infrastructure projects. TZEPT's financial leverage (total liabilities to total assets) was 59.0% and its adjusted debt increased to RMB13.2 billion at end-June 2024 from RMB12.7 billion at end-2021. Moreover, TZEPT's short-term debt servicing pressure was moderately high. The company had a cash balance of RMB1.0 billion at end-June 2024, compared to its short-term debts of RMB5.2 billion. The company mainly relies on external financing and has access to various financing channels, including bank loans, bond issuance and non-traditional funding, to support its debt repayment and business operations. At end-June 2024, the company had unused credit facilities of RMB4.2 billion.

Rating Sensitivities

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

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

Company Profile

TZEPT was established with an initial registered capital of RMB1.18 million in 2024. The registered capital and paid-in capital were both RMB2 billion at end-June 2024. The shareholders of the company changed several times, with TZIG ultimately holding 100% of TZEPT's equity. TZIG is the only shareholder of the company, while the ultimate controller of the company is the Taizhou government.

TZEPT is an important state-owned entity for infrastructure construction in Taixing HTZ. It has gradually formed its main business in construction engineering (e.g., greening engineering, road



engineering and earthmoving engineering etc.), manufacturing and trading, all of which are closely related to regional infrastructure construction and urban development planning.

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