

CCXAP affirms Taizhou Huaxin Pharmaceutical Investment Co., Ltd's long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 30 September 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Taizhou Huaxin Pharmaceutical Investment Co., Ltd's (“Huaxin” or the “Company”) long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of Taizhou Huaxin Pharmaceutical Investment Co., Ltd's (“Huaxin” or the “Company”) reflects (1) Taizhou Municipal Government's very strong capacity to provide support; and (2) the local government's high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Taizhou Municipal Government's capacity to provide support reflects Taizhou City's status as the 9th largest prefecture-level city by GRP in Jiangsu Province with a strong industrial base, stable fiscal metrics, and a moderate debt profile.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important policy role in Taizhou Medical High-tech Industrial Development Zone (“Taizhou Medical Zone”) and Taizhou City; (2) good track record of receiving government payments; and (3) good access to funding. However, the Company's rating is constrained by its (1) moderate exposure to commercial business activities; (2) moderate debt management and weak liquidity profile; and (3) large exposure to contingent liabilities.

Corporate Profile

Founded in 2005, Huaxin is one of the most important local infrastructure investment and financing companies (“LIIFCs”) in Taizhou Medical Zone, Taizhou City. The Company is mainly engaged in sales of pharmaceutical and industrial products, land transfer, construction management, leasing, and sales of real properties in Taizhou Medical Zone. As of 31 March 2022, the Taizhou Municipal Government held 99.45% of the Company's shares, and CDB Development Fund Co., Ltd. held the remaining 0.55%. The Taizhou Municipal Government is the ultimate controlling shareholder of the Company.

Rating Rationale

Credit Strengths

Important policy role in Taizhou Medical Zone and Taizhou City. Huaxin is the largest LIIFC in terms of total assets in Taizhou City as of end-2021 and the primary LIIFC wholly owned and effectively controlled by the Taizhou Municipal Government to participate in the development of Taizhou Medical Zone. The Company is designated by the Management Committee of Taizhou Medical Zone to undertake land primary development and other construction management businesses such as infrastructure construction and resettlement housing in the Taizhou Medical Zone. Moreover, Huaxin has played an important role in attracting medical companies to settle in Taizhou Medical Zone by providing lands, leasing factories, R&D buildings, and services such as cold storage and distribution of pharmaceutical products.

Good access to fundings. Huaxin's sufficient stand-by liquidity cushion and diversified funding channels can partially alleviate the liquidity situation. As of 31 March 2022, the Company's total credit facilities amounted to RMB31.7 billion, of which the unutilized portion was RMB9.9 billion. They were mainly provided by diversified large domestic banks such as policy bank, China Development Bank. Furthermore, the Company has a proven track record of accessing both onshore and offshore debt markets for financing.

Good track record of receiving government payments. Huaxin has a good track record of receiving payments from the local government in terms of capital injections, debt swaps, financial subsidies, infrastructure repayments and land repayments. From 2019 to 2022Q1, the local government injected capital of RMB3.5 billion into the Company, enhancing its capital strength. Furthermore, the local government consistently provides subsidies to the Company to support its operation, with a total amount of RMB1.0 billion from 2019 to 2022Q1.

Credit Challenges

Moderate exposure to commercial business activities. Huaxin's exposure to commercial business is medium at 25% to 30% of total assets, which has constrained its rating. The Company's commercial businesses include property development, property leasing, sales and distribution of pharmaceutical products, and sales of industrial products. While some of these activities are more policy-driven and related to its public policy businesses, if its commercial exposure significantly increases, the government's willingness to provide support could be lower as it is more difficult for the government to support Huaxin's commercial activities.

Moderate debt management and weak liquidity profile. Huaxin demonstrated a heightened debt burden with high debt leverage as a result of slow payment collections and large capital demands for construction projects. As of 31 March 2022, the Company's total debt amounted to RMB52.7 billion, increasing by RMB13.1 billion as compared to that of end-2019, while its total capitalization ratio rose from 60.7% to 63.3% over the same period. In addition, the liquidity profile was weak with cash to short-term debt ratio of 0.2x at end-2021, indicating that its cash balance was insufficient to cover its short-term debt.

Large exposure to contingent liabilities. Huaxin's credit profile is constrained by its large external guarantees relative to its equity. As of 31 March 2022, Huaxin's external guarantees amounted to RMB9.0 billion, accounting for 29.3% of its net assets, all of which were provided to state-owned enterprises in Taizhou City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks.

Rating Outlook

The stable outlook on Huaxin's rating reflects our expectation that Taizhou Municipal Government's capacity to provide support will remain stable, and the Company will maintain its vital position in the Taizhou Medical Zone.

What could upgrade the rating?

The rating could be upgraded if (1) Taizhou Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as an expanded policy role, a substantial reduction in external guarantees, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Taizhou Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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