

Credit Opinion

30 January 2023

Ratings

Senior Unsecured Debt Rating	A _g -
Long-Term Credit Rating	A _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Peter Chong +852-2860 7124
Senior Credit Analyst
peter_chong@ccxap.com

Jonathan Kwong +852-2860 7132
Assistant Analyst
Jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Kunshan Guochuang Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Kunshan Guochuang Investment Group Co., Ltd. with stable outlook.

Summary

The A_g- long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. (“KGIG” or the “Company”) reflects Suzhou Kunshan City Government’s very strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Kunshan City Government’s capacity to provide support reflects its strong comprehensive strength, ranking 1st among Top 100 counties/county-level cities in China, with good fiscal stability and fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in public policy activities of Kunshan Economic and Technological Development Zone (“Kunshan ETDZ”), which has a leading position among the national-level ETDZs; (2) solid track record of receiving government payments; and (3) good access to financing channels.

However, the Company’s rating is constrained by the Company’s (1) high exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclicality; and (2) relatively high debt growth driven by a large number of project pipelines.

The stable outlook on KGIG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its strategic role in public policy activities of Kunshan ETDZ.

Rating Drivers

- Essential role in public policy activities of Kunshan ETDZ
- Solid track record of receiving government payments
- Relatively high debt growth driven by a large number of project pipelines
- High exposure to commercial activities, the profitability of which is susceptible to macro-environment and industry cyclicity
- Good access to financing channels
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as decreasing exposure to commercial activities or improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

Key Indicators

	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	81.9	90.4	97.2	96.7
Total Equity (RMB billion)	25.0	26.1	28.6	32.4
Total Revenue (RMB billion)	4.6	5.2	7.6	4.0
Total Debt/Total Capital (%)	63.9	66.2	66.5	63.5

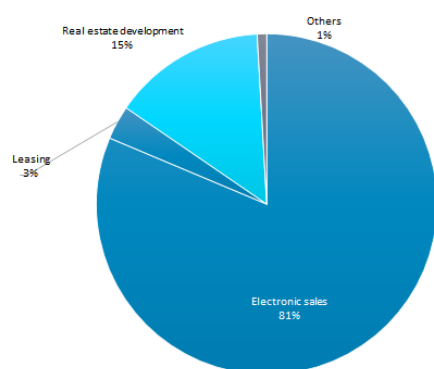
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 1992, KGIG is the largest local infrastructure investment and financing companies ("LIIFCs") by total asset in Kunshan City. The Company is primarily responsible for infrastructure construction and land development in Kunshan ETDZ. Apart from its main business, the Company is also engaged in other commercial businesses, such as real estate development, leasing, electronic sales and greening. As of 30 June 2022, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Office of Kunshan Municipal Government ("Kunshan SASAO").

Exhibit 1. Revenue structure in 2021



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Kunshan City Government has a very strong capacity to provide support for the Company, given its strong comprehensive strength, with good fiscal stability and fiscal balance.

Suzhou City is the largest city in Jiangsu province and is a highly developed economic region in China. Suzhou City is also the economic center and logistics hub of Jiangsu province. Its economy is characterized by industries such as pharmaceutical, electronic goods, automobile and logistics. In 2021, GRP of Suzhou achieved increased by 8.7% year-over-year ("YoY") to RMB2.2 trillion, ranking 1st among all prefecture-level cities in Jiangsu province. Suzhou government's general budgetary revenue increased from RMB222.2 billion in 2019 to RMB251.0 billion in 2021. Suzhou has a relatively good fiscal strength with a fiscal balance ratio of 97.1%. Suzhou City also has a healthy debt profile. In 2021, Suzhou City's outstanding debt was RMB158.8 billion, accounting for 7.0% of its GRP. In 2022Q3, Suzhou City recorded a GRP of RMB1.7 trillion, an increase of 1.3% YoY.

Exhibit 2. Key Economic and Fiscal Indicators of Suzhou City

	2019FY	2020FY	2021FY
GRP (RMB billion)	1,923.6	2,017.0	2,271.8
GRP Growth (%)	5.6	3.4	8.7
General Budgetary Revenue (RMB billion)	222.2	230.3	251.0
General Budgetary Expenditure (RMB billion)	214.1	226.4	258.4
Local Government Debt (RMB billion)	139.1	153.2	158.8

Source: CCXAP research

Kunshan City is a county-level city in southeast of Jiangsu Province, with a total area of 931 square kilometers. In 2022, it ranked 1st among Top 100 counties/county-level cities in China, in terms of comprehensive strength. Supported by its pillar industries, such as digital information, optoelectronic semiconductor, intelligent equipment and new energy automobile, Kunshan City demonstrated ongoing economic growth for the past three years. In 2021, the GRP of Kunshan City increased by 7.8% YoY to RMB474.8 billion, ranking 1st among all districts/counties in Suzhou City. Its general budgetary revenue increased from RMB40.7 billion in 2019 to RMB46.7 billion in 2021. Kunshan City has good fiscal stability and fiscal balance. In 2021, the tax revenue accounted for 88.1% of its general budgetary revenue, and its fiscal self-sufficiency rate was 117%. In addition, Kunshan City also has a manageable debt profile, with a government debt to GRP ratio of 4.7% as of 31

December 2021. However, due to the pandemic disruptions, the economic growth of Kunshan City slowed down in 2022Q3, with GRP increasing by 0.8% YoY to RMB346.6 billion.

Exhibit 3. Key Economic and Fiscal Indicators of Kunshan City

	2019FY	2020FY	2021FY
GRP (RMB billion)	404.5	427.7	474.8
GRP Growth (%)	6.1	4.0	7.8
General Budgetary Revenue (RMB billion)	40.7	42.8	46.7
General Budgetary Expenditure (RMB billion)	34.2	36.6	39.9
Local Government Debt (RMB billion)	17.7	21.3	22.1

Source: CCXAP research

Founded in 1985, Kunshan ETDZ is a state-level ETDZ in Kunshan City that mainly focuses on optoelectronic, digital information, intelligent equipment and new energy automobile industries, with strong comprehensive strength. In 2021, Kunshan ETDZ ranked 5th among 217 national-level ETDZs in China, in terms of comprehensive strength. Kunshan ETDZ recorded GRP of RMB176.5 billion in 2021. KGIG is solely entrusted by the government to undertake public activities in Kunshan ETDZ.

Government's Willingness to Provide Support Essential role in public policy activities of Kunshan ETDZ

There are 9 LIIFCs in Kunshan City, among which KGIG is the largest by total asset and the sole LIIFC in Kunshan ETDZ. The Company is mandated by the local government to undertake public policy activities, such as infrastructure construction and land development in Kunshan City. As of 30 September, 2022, KGIG has successfully completed a series of large-scale infrastructure construction projects over the past few years, including roads, schools, bridges and relocation houses, with total investment of RMB4.1 billion. Considering KGIG's essential role in regional economic and social development in Kunshan ETDZ as well as Kunshan City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company conducts infrastructure construction projects by agency construction model and construction management fee model. Under the agency construction model, the Company will self-funded the construction costs, and upon project completion, the local government would repurchase the project and make payments to the Company within 3-5 years. Under the construction management fee model, construction costs will be provided by the entrusting parties, and the Company receives construction management fees for return, typically 0.3-3%. As of 30 September 2022, the Company had 5 infrastructure construction projects under construction, with a total investment amount of RMB1.2 billion and an outstanding amount of RMB691 million.

KGIG is entrusted by the local government to undertake land development projects in Kunshan City. The Company will first consolidate the lands, then the local government will inject the land-use rights into the Company for further development. The injected lands will be sold in the auction market and the local government will make payments to the Company within 3-5 years. The Company owns a large amount of injected land, indicating a strong sustainability for its land development business. As of 30 September 2022, the Company had a total injected land of 10,431.8 mu, of which 5,625.1 mu were available for transfer.

High exposure to commercial activities

In addition to public welfare activities, KGIG is also engaged in other commercial activities such as electronic

sales, property development, and property leasing. We consider KGIG's commercial business exposure to be high, accounting for more than 30% of its total assets.

Electronic sales business is the main income source of KGIG. The Company conducts its electronic sales business through its subsidiary Infovision Optoelectronics (Kunshan) Co., Ltd. ("Infovision Optoelectronics", Stock Code: 688055.SZ). Infovision Optoelectronics focused on research, development, production and sales of thin-film-transistor liquid crystal displays ("LCD"). In 2021, the Company recorded revenue of RMB5.5 billion and gross profit of RMB1.6 billion from electronic sales business, which accounted for 73.1% and 58.9% of the its total revenue and total gross profit, respectively. However, the LCD industry is susceptible to macro-environment as well as the resurrection of the pandemic, which may cause fluctuation to the profitability of the Company.

KGIG also conducts property development business in Kunshan ETDZ, involving construction and sale of resettlement housing, commercial properties and talent apartments. As of 30 September 2022, the Company had completed 6 real estate projects, with a total invested amount of RMB2.0 billion and total sales amount of RMB2.8 billion. However, the business is susceptible to the volatility of local real estate market, which may cause fluctuations to its property sales. In addition, the Company has large number of projects in the pipelines, exerting high capital expenditure pressure. As of 30 September 2022, the Company had 8 property development projects under construction, with an expected investment amount of RMB5.5 billion and an outstanding amount of RMB3.4 billion.

The Company also leases out its self-owned properties, such as factories, office buildings, residential and commercial properties. As of 30 September 2022, the Company has a total leasable area of approximately 1.6 million square meters, with an overall occupancy rate of 74%. The property leasing business is stable, providing annual rental income of more than RMB200 million to the Company for the past three years.

Solid track record of receiving government payments

KGIG has a proven track record of receiving government payments from Kunshan SASAO in forms of government subsidies, land injections, and capital injections, to support its businesses and operations. From 2006 to 2013, the local government had injected 119 land parcels with area of 10,431.8 mu into the Company, significantly enhancing its capital strength and business scope. The Company also regularly receives repurchase payments from the local government for its infrastructure construction projects. Considering that the Company plays a strategic position in regional economic and social development in Kunshan City, we expect the Company will continue to receive support from the Kunshan SASAO.

Exhibit 4. Government support from 2019 to 2022Q3

(RMB million)	2019FY	2020FY	2021FY	2022Q3
Government Subsidies	212.9	79.5	78.2	94.4
Capital Injections	-	456.2	-	-
Project Repayments from Government	15.6	14.2	15.1	7.0
Total	228.5	549.9	93.3	101.4

Source: CCXAP research

Relatively high debt growth driven by a large number of project pipelines

KGIG has a relatively high debt growth mainly attributable to the fast expansion of the infrastructure construction and property development projects. Its total debts (including perpetuals) increased from RMB44.2 billion at the

end of 2019 to RMB56.2 billion as of 30 September 2022, with relatively high total capitalization ratio of 63.5%. Given the Company's large capital expenditure pressure, we expect the Company's debt leverage to remain at a relatively high level for the next 12-18 months.

Moderate asset liquidity

KGIG has moderate asset liquidity. As of 30 September 2022, the Company's total asset consists mainly of inventories and other receivables, accounting for 67.2% of its total asset. Inventories are mainly investment cost of infrastructure projects and land development cost. Other receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. In addition, KGIG had restricted assets of RMB4.8 billion as of 30 September 2022, accounting for 5% of its total assets.

Good access to financing channels

The Company has good access to financing channels, such as bank loans and bond market. It has sufficient standby liquidity. As of 30 September 2022, the Company had total credit facilities of RMB43.2 billion and available credit facilities of RMB16.4 billion. In addition, the Company has access to onshore debt capital market and equity capital market. As of 30 September 2022, it has issued several types of debt products, including MTNs, PPNs, and private bonds, with outstanding amount of RMB25.6 billion. The overall financing cost of the Company was about 4.2%. The Company also has access to equity capital market through Infovision Optoelectronics. In addition, the Company has relatively low reliance on non-standard financing, which accounted for around 8% of its total debt.

Contingent risks associated with external guarantees

KGIG's credit profile is undermined by a relatively large number of external guarantees. As of 30 September 2022, the total amount of external guarantees was RMB2.6 billion, which accounted for 8.0% of KGIG's net assets. Although the amount of external guarantees has reduced in recent years, the Company may face certain contingent liability risks once a credit event occurs, which could negatively impact its credit quality.

ESG Considerations

KGIG assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction.

KGIG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Kunshan City. Demographic changes, public awareness and social priorities shape the government's development strategy and will affect the government's propensity to support the Company.

Governance considerations are also important for KGIG as it is subject to oversight and reporting requirements of the local government, reflecting its public policy role and status as a government-owned entity.

Structural Considerations

KGIG's senior unsecured debt rating is equal to its long-term credit rating. We believe that the government support will flow through the Company given its dominant position in public services of Kunshan ETDZ, thereby mitigating any differences in expected loss that could result from structural subordination.

Rating Methodology

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656