Credit Opinion

11 March 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g+
Outlook	Stable

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Taizhou Gangcheng Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Taizhou Gangcheng Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Taizhou Gangcheng Investment Group Co., Ltd. ("TZGI" 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 its good industrial base and ongoing economic growth. The economic and fiscal strength of the Taizhou Medical Hi-tech Zone (Gaogang District) ("TMZ") has also grown steadily for recent years.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important role in infrastructure construction and shantytown renovation in TMZ; (2) status as the major developer of resettlement and affordable housings in TMZ; and (3) good track record of receiving government support.

However, the rating is constrained by its (1) moderate exposure to commercial activities; (2) relatively high debt burden and weak asset liquidity; and (3) large exposure to external guarantees with certain contingent risk.

The stable outlook on TZGI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and that the Company will maintain its important position in the development of TMZ over the next 12-18 months.

Rating Drivers

- Important role in infrastructure construction and shantytown renovation in TMZ
- Major developer of resettlement and affordable housings in TMZ
- Moderate exposure to commercial activities
- Relatively high debt burden and weak asset liquidity
- Access to different funding channels
- Good track record of receiving government support
- Large exposure to external guarantees with certain contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as strengthened strategic position, a significant reduction in external guarantee exposure, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in the importance of its policy role, or reduced government supports.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	56.3	59.2	64.9	67.4
Total Equity (RMB billion)	17.6	20.4	23.7	23.9
Total Revenue (RMB billion)	3.6	4.1	3.4	1.4
Total Debt/Total Capital (%)	61.1	59.2	58.5	60.4

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2010, TZGI is one of the important local infrastructure investment and financing companies ("LIIFCs") in TMZ in Jiangsu Province. In August 2023, in order to deepen the transformation and development of state-owned enterprises ("SOEs"), the local government transferred 100% equity interests of Taizhou Xinbinjiang Development Co., Ltd. ("TXBJ") and Taizhou Yinjiang Urban Development Construction Co., Ltd. ("TZYJ") to the Company, officially positioned the Company as an urban investment and operation SOE. The Company is mainly responsible for the infrastructure construction in Taizhou Chemical New Materials Industrial Park ("Binjiang Industrial Park") as well as the infrastructure construction, shantytown renovation, and resettlement and affordable housing construction in the original Gaogang District. The Company also engages in commercial activities such as self-operated projects, commodities trading and property sales. As of 30 June 2024, the Company is wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Taizhou Government ("Taizhou SASAC").

Exhibit 1. Revenue structure in 2023

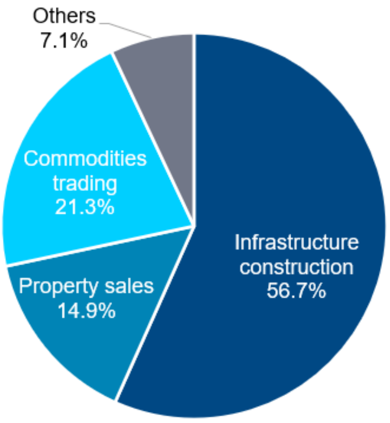
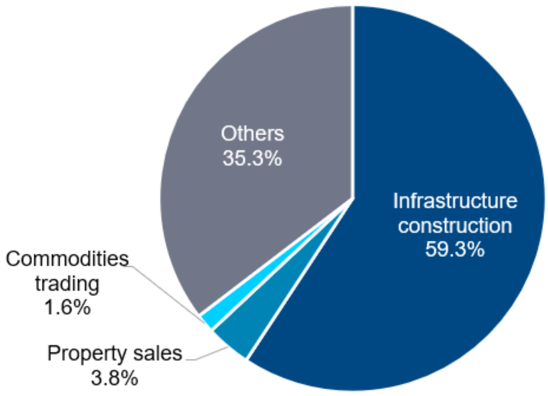


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Taizhou Municipal Government has a very strong capacity to provide support given its good industrial base and ongoing economic growth.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2024, Jiangsu Province's total GRP amounted to RMB13.7 trillion, a year-over-year ("YoY") increase of 5.8%, ranking second among all provinces in the country.

Taizhou City is a prefecture-level city located in the central region of Jiangsu Province, with pharmaceuticals, electricity, chemicals, and shipbuilding as its pillar industries. Over the past years, Taizhou City has achieved sustained economic growth. Taizhou City's preliminary GRP increased to RMB702.1 billion in 2024, representing a YoY growth of 5.1%. Meanwhile, Taizhou Municipal Government's general budgetary revenue increased steadily from RMB44.0 billion in 2023 to RMB45.3 billion in 2024. Taizhou City also has a good fiscal balance, with a fiscal balance ratio (general budgetary revenue to general budgetary expenditure) averaging 62.6% for the past three years. As at end-2024, the outstanding debt of Taizhou Municipal Government increased to RMB131.6 billion, accounting for 18.7% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Taizhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	640.2	673.2	702.1
GRP Growth (%)	4.4	6.8	5.1
General Budgetary Revenue (RMB billion)	41.7	44.0	45.3
General Budgetary Expenditure (RMB billion)	70.4	69.7	69.6
Local Government Debt (RMB billion)	100.1	107.1	131.6

Source: Taizhou Municipal Government, CCXAP research

Taizhou Medical High-tech Zone is the first national-level high-tech zone in the pharmaceutical field in China approved in 2009 and is a strategic region leading the development of pharmaceutical industry in Jiangsu Province. With ongoing development, it is home to more than 1,300 bio-pharmaceutical enterprises, with top companies including AstraZeneca (Taizhou), Boehringer Ingelheim, and Nestle Health Science (China) Co Ltd. According to China National Center for Biotechnology Development, Taizhou Medical High-tech Zone ranked 9th (out of 215) in the 2023 National Biomedicine Industrial Park Comprehensive Competitiveness Ranking, indicating the strong competitiveness and good development prospect Taizhou Medical High-tech Zone, especially in pharmaceutical industry.

Gaogang District is the main riverside urban area of Taizhou City. In June 2021, Taizhou Medical High-tech Zone and Gaogang District were integrated to optimize Taizhou City's pharmaceutical industry and create a future China Medical City. After the integration, TMZ has a relatively large planned area, about 402.9 square kilometers, with five functional zones covering biomedicine, new chemical materials, electronic information, high-end equipment manufacturing and port logistics. In addition, the economic and fiscal strength of TMZ has been steadily enhanced. Its GRP amounted to RMB112.1 billion 2024, representing a YoY growth of 3.9%, and its general budget revenue increased from RMB10.3 billion in 2023 to RMB10.5 billion in 2024, ranking 3rd by GRP and 1st by general budget revenue among all districts and counties in Taizhou City. Taizhou Municipal Government has introduced a series of policies, in terms of investment promotion, and talent introduction, to support the development of TMZ.

Government's Willingness to Provide Support

Important role in infrastructure construction and shantytown renovation in TMZ

TZGI is one of the important infrastructure developers in the TMZ, making great contribution to the construction and development of the region. Its infrastructure construction business is mainly conducted through TXBJ and TZYJ, the wholly owned subsidiaries of the Company. Specifically, TXBJ focuses on the infrastructure development and ancillary project construction in the Binjiang Industrial Park, and TZYJ is mainly responsible for the renovation of shantytowns and the construction of municipal engineering projects within the original Gaogang District.

TXBJ engages in infrastructure construction projects in Binjiang Industrial Park through government purchase model, of which TXBJ enters into repurchase agreements with the local government or the relevant state-owned enterprises and would receive project repayments (generally a mark of 25.0%) after the audit and acceptance. For the ancillary facilities, TXBJ is entrusted by enterprises settled in the Binjiang Industrial Park to carry out construction projects through agency construction model, including production equipment, factory buildings, warehousing, and pipeline construction. As of 30 June 2024, the Company had invested around RMB6.1 billion into the completed projects, such as land consolidation, water supply network, roads and bridges, but with large uncollected payments from the local government due to slow pace of settlement. At the same time, the Company had 1 project under construction and planning, respectively, with a total investment amount of RMB3.7 billion and an uninvested amount of RMB3.6 billion. The future continuity of the Company's infrastructure construction in Binjiang Industrial Park depends on the local government's planning, the progress of industrial development and business attraction.

TZYJ is responsible for the renovation of shantytowns and the construction of municipal engineering projects within the original Gaogang District, adopting the government purchase and agency construction model respectively, with the counterparties generally being government departments. As of 30 June 2024, the majority of the shantytown renovation projects had been completed and the Company had invested RMB7.7 billion, with the remaining amount of RMB439.0 million. Meanwhile, there were 3 municipal projects under construction with a total investment of RMB434.0 million and an outstanding amount of RMB422.0 million. There were no shantytown renovation and municipal construction projects under planning.

Major developer of resettlement and affordable housings in TMZ

Commissioned by the local government, the Company also engages in resettlement and affordable housings in TMZ, providing fundamental environment for regional livelihoods and industrial development. In Binjiang Industrial Park, TXBJ purchased commercial properties from the market and transferred to the government for resettlement at a 25% repurchase premium. As of 30 June 2024, the Company had affordable housing projects of approximately RMB544.0 million yet to be repurchased. At the same time, the Company had no affordable housing projects under construction or planning. In addition, TZYJ is responsible for the investment, financing, construction and sales of resettlement housing projects in the original Gaogang District. The Company would achieve fund balance by selling the resettlement housing to resettlement households. As of 30 June 2024, the Company had one resettlement housing project under construction, with a total estimated investment of RMB1.6 billion and an uninvested amount of RMB970.0 million.

Moderate exposure to commercial activities

Apart from infrastructure construction projects in TMZ, TZGI has built up a diversified business portfolio, including self-operated projects, commodities trading, and property sales. Based on our estimation, TZGI has a moderate commercial exposure, accounting for around 15% to 20% of its total assets. In addition, we expect TZGI’s commercial exposure to increase as the its industrial transformation layout deepens and investments continue.

TZGI has some self-operated projects, mainly aimed at improving the supporting capabilities of the Binjiang Industrial Park. The Company is expected to achieve fund balancing through operating revenue of the projects, mainly leasing income. As of 30 June 2024, the Company had one self-operated project completed, namely the Health New Materials Industry Cluster, with a total investment of RMB599.0 million and a rental rate of around 80.0%, bringing supplementary income to the Company. Meanwhile, there were 4 self-operated projects under construction, with a total investment amount of RMB1.3 billion and an outstanding amount of RMB483.7 million. The investment needs of its self-operated projects put some pressure on the Company's capital expenditure, moreover, the future leasing situation is affected by the progress of regional investment promotion.

TZGI conducts commodities trading business through its subsidiaries and is mainly involved in the trading of steel, coal and oil. The Company places purchasing orders based on the procurement to mitigate price risk. However, the business faces relatively high concentration risk, as the top 5 customers and suppliers accounted for over 90% of sales and procurement in 2023. Owing to the change in accounting policies, the revenue scale of this business segment is expected to decline in 2024, as the Company has started to recognize revenue using net revenue reporting since 2023.

TZGI also engages in sales of commercial housing and currently has some remaining properties for sale. As of 30 June 2024, the Company had one completed property project, namely Huihong Jingyun, with a total investment of RMB1.4 billion and a total sale amount of RMB935.0 million. However, the destocking as well as the profitability of the project has been affected by the downturn of the Chinese real estate market. Meanwhile, the Company had no further investment plans for the property development business.

Relatively high debt burden and weak asset liquidity

With the continuous financing of construction projects, TZGI shows continued debt growth and high debt burden. As of 30 June 2024, the Company's total debt had increased to RMB36.4 billion from RMB27.7 billion at end-2021, and the total capitalization ratio (total debt/total capital) remained high as 60.4%. Meanwhile, the Company faced relatively high short-term debt pressure as its short-term debt contributed to a relatively large portion of total debt, accounting for 46.1% as of 30 June 2024. At the same time, the cash to short-term debt ratio was 0.4x at mid-2024, indicating that its cash balance could not fully cover its short-term debt. We expect that the Company's debt to grow and the debt burden to remain high as the ongoing investment in projects over the next 12-18 months.

TZGI's asset liquidity was relatively low, as its assets consisted mainly of inventories and receivables, all of which have low liquidity. As of 30 June 2024, the Company's inventories accounted for 23.9% of the total assets, which were mainly costs for infrastructure construction and resettlement housing projects and land to be developed. Meanwhile, the accounts receivable and other receivables represented for approximately 51.8% of the total assets, which were outstanding amounts owed by the local government or SOEs in the district. Moreover, the Company has pledged a certain amount of its assets, including cash and investment properties, for loans, accounting for 12.6% of total assets as of 30 June 2024.

Access to different funding channels

TZGI has access to different funding channels, such as bank loans, issuance of debt securities in domestic and offshore capital markets, and non-standard financing, which can partially relieve the pressure on debt repayment and capital expenditure. Bank loans contribute the most to the Company's total debt, accounting for around half of the total debt as of 30 June 2024. The Company has built good relationships with policy banks and diversified large domestic banks, such as the Agricultural Development Bank of China and the Bank of China. As of 30 June 2024, the Company's total credit facilities amount was RMB25.4 billion, of which the unutilized portion was RMB5.9 billion.

Furthermore, the Company's subsidiaries, TXBJ and TZYJ, have an active track record of fund-raising activities in the debt capital markets by issuing various debt instruments, including corporate bonds, commercial paper, and medium-term notes. For example, in January 2025, TXBJ issued two tranches of 5-year private corporate bonds, raising RMB1.1 billion, with coupon rates of 2.93% and 2.97%, respectively. Moreover, TXBJ also has a presence in the offshore debt capital market since 2020. In addition, the Company has a relatively high reliance on non-standard financing products such as financial leasing, trust, and factoring, accounting for around 28.4% of the total debt as of 30 June 2024. The average cost for non-standard financing products is 7.0%-7.5%.

Good track record of receiving government support

In light of its strategic importance to Taizhou City and TMZ, TZGI has received ongoing support from the local government in terms of capital injections, financial subsidies, project repayments, and special fund support since its establishment. In August 2023, in order to deepen the transformation and development of SOEs, the local government transferred 100% equity interests of TXBJ and TZYJ to the Company, officially positioned the Company as an urban investment and operation SOE. At the same time, the local government increased TZGI's paid-in capital by RMB1.5 billion in the same year, enhancing the Company's capital strength. The Company also received operating subsidies from the local government totaling RMB1.8 billion from 2021 to 2024H1. In addition, the Company has received project repayments from the local government related to its infrastructure construction projects. Moreover, the Company's subsidiary, TXBJ, received a special fund of RMB115 million from the local government in 2023, to support its debt repayment.

Given the important position of TZGI in TMZ, we expect the Company will continue to receive support from the local government over the next 12 to 18 months.

Large exposure to external guarantees with certain contingent risk

TZGI's credit profile is constrained by its large external guarantees. As of 30 June 2024, TZGI's external guarantees amounted to RMB14.0 billion, accounting for 58.7% of its net assets. Vast majority of these external guarantees are provided to SOEs in Taizhou City, which have relatively low credit risks considering the government support in times of need. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. In addition, the Company's operating subsidiary, Taizhou Xingang Financing Guarantee Co., Ltd., provided guarantees to some private-owned enterprises in the amount of RMB81.5 million, which accounted for 0.6% of the total guarantees. The Company's external guarantees to private-owned enterprises are provided with counter-guarantee measures, such as pledges of property or equity. We consider the Company's contingent liability risk is relatively controllable.

ESG Considerations

TZGI faces environmental risks because it has undertaken infrastructure construction and resettlement housing projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

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

TZGI's governance considerations are also material as the Company is subject to oversight by the local government and must meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

Rating Methodology

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

Appendix

Exhibit 5. Peer comparison

	Taizhou Gangcheng Investment Group Co., Ltd.	**Taizhou Huaxin Pharmaceutical Investment Co., Ltd.**
Long-Term Credit Rating	BBB_g+	BBB_g+
Shareholder	Taizhou State-owned Assets Supervision and Administration Commission (100.0%)	Taizhou Guotou Investment Group Co., Ltd. (99.55%) and CDB Development Fund Co., Ltd.（0.45%)
Positioning	Important entity in infrastructure construction, shantytown renovation and resettlement housing construction in the Binjiang Industrial Park and the original Gaogang District	Important entity in infrastructure construction, resettlement housing construction, and land development in the core area of Taizhou Pharmaceutical High-tech Zone
Total Assets (RMB billion)	64.9	94.7
Total Equity (RMB billion)	23.7	31.1
Total Revenue (RMB billion)	3.4	3.7
Total Debt/Total Capital (%)	58.5	64.5

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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