

## Credit Opinion

14 September 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

### Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Allen Lin +852-2860 7128

Assistant Analyst

[allen\\_lin@ccxap.com](mailto:allen_lin@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto: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

## Chuzhou Economic and Technological Development General Corporation

### Surveillance credit rating report

**CCXAP upgrades Chuzhou Economic and Technological Development General Corporation's long-term credit rating to BBB<sub>g</sub>, with stable outlook.**

### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Chuzhou Economic and Technological Development General Corporation ("CETD" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, reflecting the fast economic growth of the Chuzhou Economic and Technological Development Zone ("Chuzhou ETDZ") and increasing importance in the industrial development of Chuzhou City.

The BBB<sub>g</sub> long-term credit rating of CETD reflects that (1) the local government's strong capacity to provide support; and (2) the government's extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the local government's capacity to provide support reflects Chuzhou City's status as the 3<sup>rd</sup> largest prefecture-level city by GRP in Anhui Province, and Chuzhou ETDZ's status as the national-level ETDZ in Chuzhou City, with increasing economic strength and good fiscal profile.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important role in undertaking public policy projects within Chuzhou ETDZ; and (2) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; and (2) fast debt growth and moderate liquidity profile.

The stable outlook on CETD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Chuzhou ETDZ.

## Rating Drivers

- Important role in undertaking public policy projects within Chuzhou ETDZ
- Good track record of receiving government payments
- Moderate exposure to commercial activities
- Fast debt growth and moderate liquidity profile
- Good access to diversified funding

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) the local 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 decrease in government payments or increase in exposure to commercial activities.

## Key Indicators

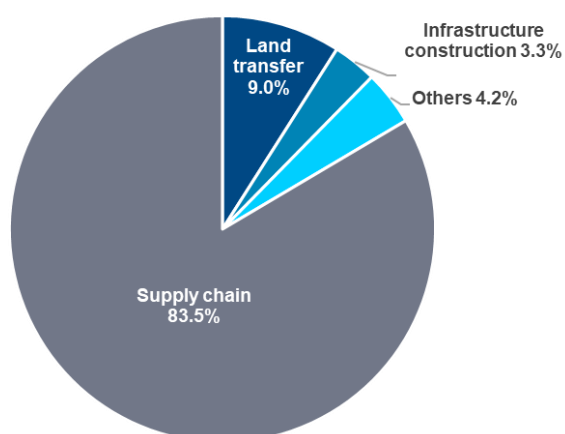
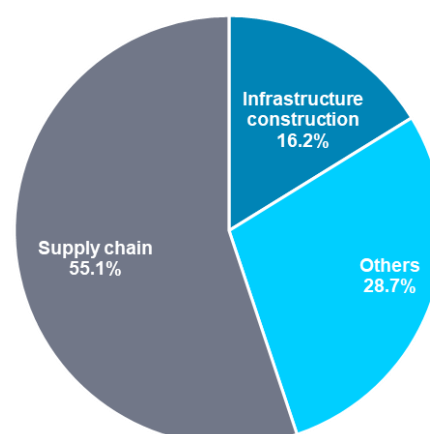
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	38.9	42.1	50.3	53.8
Total Equity (RMB billion)	10.0	10.0	16.6	16.6
Total Revenue (RMB billion)	6.5	9.0	11.7	0.8
Total Debt/Total Capital (%)	63.0	69.1	66.6	63.3

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

Source: Company information, CCXAP research

## Corporate Profile

Founded in 1993, CETD is wholly owned and ultimately controlled by the Management Committee of Chuzhou ETDZ. The Company is the most important local infrastructure investment and financing company ("LIIFC") in Chuzhou ETDZ which undertakes the responsibility of the local public policy activities such as infrastructure construction and primary land development. It is also engaged in commercial activities such as supply chain, property leasing, and loan service businesses.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding as of 31 March 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the local government has a strong capacity to provide support given its status as the national-level ETDZ in Chuzhou City, with increasing economic strength and good fiscal profile.

Located in the eastern part of Anhui Province, Chuzhou City is the central city of Nanjing Metropolitan Circle and Hefei Economic Circle. Chuzhou City has relatively good economic and fiscal strengths, ranking first-tier among all prefecture-level cities in Anhui Province. It has 10 development zones and actively develops eight industrial lines, including photovoltaics, semiconductors, equipment manufacturing, new energy batteries, medical equipment, smart home appliances, new chemicals, healthy food industry. In 2022, its GRP increased to RMB361.0 billion from RMB336.2 billion in 2021, with a year-over-year ("YoY") growth rate of 5.5%, ranking third by GRP among all prefecture-level cities in Anhui Province and growing faster than the provincial average level. The general budgetary revenue of Chuzhou Municipal Government also increased to RMB27.7 billion in 2022 from RMB22.6 billion in 2020. Chuzhou Municipal Government's fiscal balance is moderate but improving, with the ratio of general budgetary revenue to general budgetary expenditure being 54.7% in 2022, compared to 48.8% in 2020. However, Chuzhou Municipal Government's debt profile is relatively weak. As of end-2022, its government debt balance amounted to RMB105.9 billion, accounting for 29.3% of GRP and 147.7% of its total fiscal revenue.

**Exhibit 4. Key economic and fiscal indicators of Chuzhou City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	303.2	336.2	361.0
GRP Growth (%)	4.4	9.9	5.5
General Budgetary Revenue (RMB billion)	22.6	25.1	27.7
General Budgetary Expenditure (RMB billion)	46.3	46.2	50.6
Local Government Debt (RMB billion)	73.1	86.9	105.9

Source: Chuzhou Municipal Government, CCXAP research

Chuzhou ETDZ was established in June 1992 and approved as a national-level Economic and Technological Development Zone in April 2011, and a provincial-level High-Tech Industrial Development Zone in June 2012. It has formed four leading industries including smart home appliances and electronic information, advanced equipment manufacturing, green food, and photovoltaic new energy. In 2022, the comprehensive strength of Chuzhou ETDZ ranked 49<sup>th</sup> among national-level ETDZs in China. The importance of Chuzhou ETDZ in Chuzhou City's industrial development has increased in recent years, with fast economic growth rate. Since 2022, there have been more famous high-tech and new energy enterprises settling in Chuzhou ETDZ, such as Trina Solar Co., Ltd.

Chuzhou ETDZ's economic and fiscal strength has improved in recent years. In 2022, the total industrial output value of Chuzhou ETDZ has exceeded RMB120 billion, accounting for 26.4% of Chuzhou City. Moreover, the fixed assets investment and the value added of industrial enterprises above designated size increased by 15.4% YoY and 9.3% YoY, respectively. In 2022, its general budgetary revenue increased to RMB5.5 billion from RMB5.3 billion in 2020, with tax revenue accounting for 87.7%. However, the tax revenue decreased to RMB4.8 billion in 2022 from RMB5.0 billion in 2021 due to tax rebate policy. In addition, Chuzhou ETDZ has a good fiscal balance, its average ratio of general budgetary revenue to general budgetary expenditure was 108.2% over the past three years. Chuzhou ETDZ makes a relatively large contribution to Chuzhou City's fiscal revenue, as its general budgetary revenue and tax revenue accounted for 19.8% and 32.5% of Chuzhou City in 2022, respectively.

**Exhibit 5. Key Economic and Fiscal Indicators of Chuzhou ETDZ**

	2020FY	2021FY	2022FY
GRP (RMB billion)	38.7	43.7	-
GRP Growth (%)	10.7	12.5	-
General Budgetary Revenue (RMB billion)	5.3	5.4	5.5
General Budgetary Expenditure (RMB billion)	5.0	4.5	5.5
Local Government Debt (RMB billion)	2.3	3.0	-

Note: GRP, GRP growth and local government debt are not provided separately in 2022.

Source: Chuzhou ETDZ Government, Company information, CCXAP research

**Government's Willingness to Provide Support****Important role in undertaking public policy projects within Chuzhou ETDZ**

As the largest LIIFC in Chuzhou ETDZ, CETD plays an important role in undertaking public policy projects, including relocation housing development, municipal road construction and land transfer business through its subsidiaries, including Chuzhou Tongchuang Construction Investment Co., Ltd. ("Tongchuang"), in Chuzhou ETDZ. As of 31 March 2023, the Company has completed 19 relocation housing projects and 42 municipal road projects with a total investment of RMB 4.1 billion.

As the key entity undertaking infrastructure construction projects in Chuzhou ETDZ, the Company is mainly entrusted by the Management Committee of Chuzhou ETDZ or other local governmental entities to carry out relocation housing development and municipal road construction businesses through its subsidiary, Tongchuang. The relocation housing development and municipal road construction projects are generally conducted using the agent construction model, where the Company is responsible for project financing and is entitled to a payment equal to the project costs incurred plus a premium at a pre-fixed percentage of such costs after the projects have been completed, inspected and accepted. However, the sustainability of the infrastructure construction business is moderate. As of 31 March 2023, the Company has infrastructure construction projects under construction or planning, with an estimated total investment of RMB1.2 billion and an uninvested amount of around RMB816 million.

The Company's land transfer business involves land acquisition and land transfer, which are mainly conducted by its subsidiaries, Tongchuang and Anhui Tongkang Industry Development Co., Ltd ("Tongkang"). The Company first acquires land parcels through public market or government injection, then transfers such land parcels to the Management Committee of Chuzhou ETDZ according to its request. The cost of acquiring the land is equal to the income from transferring it to the Management Committee of Chuzhou ETDZ, resulting in no gross profit for the land transfer business. However, the local government will provide subsidies to the Company to compensate for its financing costs and tax for land use during the period of holding the land. As of 31 March 2023, the Company owned 41 land parcels, with an area of 2.7 million square meters and a book value of RMB7.5 billion. However, the land transfer business is subject to conditions in the local land market and policies in Chuzhou ETDZ.

#### **Good track record of receiving government payments**

The Company has a good track record of receiving support from the local government in terms of subsidies, debt swaps and capital injections. The Company received government subsidies of over RMB1.6 billion from 2020 to 2022. In 2019, the Chuzhou ETDZ Management Committee injected RMB983 million of debt swap funds into the CETD, and in 2021, it transferred relocation housing assets with the value of around RMB1 billion to the Company. In 2022, the local government increased its capital by RMB6.0 billion in cash, which was completed on 31 March 2023, further enhancing its capital strength. In addition, the Company continues to receive project payments from the local government. Given the Company's important position and its close relationship with the local government, we expect that the Company will continue to receive support from the local government.

#### **Moderate exposure to commercial activities**

The Company's commercial activities include supply chain, property leasing such as equipment and vehicles, sales of plant, loan services and industrial investment. Although, the commercial activities can provide supplementary income to the Company. They also bring exerting certain capital expenditure pressure at the same time. We estimate that the Company's commercial exposure is moderate with the assets of commercial activities accounting for 25% to 30% of its total assets.

In 2018, the Company commenced supply chain business through Tongkang. The supply chain business involves the provision of supply chain and trading services for the industrial enterprises and some state-owned enterprises in Chuzhou ETDZ. Although the supply chain business is the Company's largest revenue generator and the percentage keeps increasing, its profitability remains low. The revenue from the supply chain business amounted to RMB9.7 billion in 2022, accounting for 83.5% of the total revenue, with a gross profit margin of

1.0%. The supply chain business provides certain account period to the customers which may enlarge the Company's risk exposure to the credit quality of its customers.

The Company conducts leasing business through its subsidiaries, Tongchuang, Tongkang and Chuzhou Tongye Investment Development Co., Ltd. The Company leases its self-operated properties or facilities to generate income, including factories, buildings, and facade shops. As of 31 March 2023, the Company has leased 641.7 thousand square meters of properties. The main lessees are enterprises in Chuzhou ETDZ. As of 31 March 2023, the Company has 11 self-operated projects under construction or planning, mainly including industrial parks, standard factories, and dormitory, with an estimated total investment of RMB7.3 billion and an uninvested amount of RMB3.6 billion, indicating high capital expenditure pressure.

### **Fast debt growth and moderate liquidity profile**

Due to the ongoing financing for construction projects, the Company's total debt has been growing rapidly for the past three years. The Company's total debt increased to RMB28.6 billion on 31 March 2023 from RMB22.5 billion at end-2021. At the same time, its capitalization ratio decreased to 63.3% mainly due to capital injection from local government, but it still maintained at a high level. As of 31 March 2023, its short-term debt amounted to RMB13.2 billion, and the cash to short-term debt ratio was 0.6x, indicating certain short-term debt repayment pressure. We expect its scale of debt to continue to increase over the next 12-18 months given the large capital needs of self-operated projects.

In addition, CETD's liquidity profile is moderate. As of 31 March 2023, the receivables and other receivables totally accounted for 46.9% of total assets, which mainly consist of government-related receivables. At the same time, there were around 11.1% of total assets restricted and were mainly cash or cash equivalent and inventory. However, we expect the Company's liquidity risk to be manageable, given its good access to funding.

### **Good access to diversified funding**

CETD has good access to financing channels, mainly including bank loans and bond financing. However, the proportion of bond financing in the debt structure is relatively high, which exposed the Company to higher uncertainties from the volatility of the capital market and changes in policy. The Company's current bond financing channels are relatively smooth. From January 2022 to June 2023, the Company and its subsidiaries raised RMB9.5 billion in the onshore debt market by issuing various types of bonds, including corporate bonds, medium-term notes, commercial papers, and private placement notes. Also, the Company issued 2 tranches of offshore bonds to raise CNH960 million, further diversifying its financing channels. As of 31 March 2023, the Company has obtained a total of RMB22.6 billion in bank credit, with an unused portion of around RMB8 billion, a relatively sufficient liquidity buffer. Furthermore, the Company's exposure to non-standard financing mainly including financial leasing and debt financing is relatively manageable, accounting for around 11% of total debts.

### **Certain contingent liabilities risk from external guarantees**

CETD bears certain contingent risk resulting from its external guarantees for joint venture and private-owned enterprises. As of 31 March 2023, the Company's external guarantees amounted to RMB1.2 billion, accounting for 7.42% of its net assets. There were around 72.1% of the Company's external guarantees provided to joint venture enterprise Chuzhou Huike Optoelectronic Technology Co., Ltd. and the remained 27.9% of external guarantees provided to private-owned enterprises in Chuzhou ETDZ. The Company provided external guarantees of RMB30 million to Chuzhou Integrated Electrical Appliances Co., Ltd, which was listed as a judgment debtor and running into business difficulties. This guarantee has been partially compensated, CETD

would file a preservation lawsuit against this guarantee. The amount of this guarantee accounted for a relatively small proportion, accounting for around 0.2% of its net assets.

## ESG Considerations

The Company is exposed to environmental risks due to undertaking infrastructure construction and relocation housing projects. Such risks could be mitigated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase. It is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by governmental authorities in the PRC. In 2019, Tongchuang issued a non-public green corporate bond in the onshore market.

In terms of social awareness, the Company has played a crucial role in the social welfare of Chuzhou by undertaking relocation housing and municipal road construction projects.

In terms of corporate governance, the Company has established an effective internal control system, and regularly organizes annual trainings for its employees to ensure that the internal control system for its infrastructure construction business, supply chain, leasing businesses and other operational activities is effective. The Company is subject to monitoring and reporting requirements of the Chuzhou ETDZ Management Committee, which has overall control and oversight of the Company's operations. It implements the general manager responsibility system and does not have a board of directors or a board of supervisors. The general manager is responsible for the operation and management of the Company.

## 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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656