

Credit Opinion

3 December 2024

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

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Lai'an County New Industrial Technology Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Lai'an County New Industrial Technology Investment Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Lai'an County New Industrial Technology Investment Co., Ltd. ("LAI" or the "Company") reflects the local government's (1) strong capacity to provide support; and (2) very 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 Lai'an County's economic importance in Chuzhou City, with increasing economic strength and stable fiscal profile.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important position in public projects and industrial park development of Lai'an Economic Development Zone ("Lai'an EDZ"); and (2) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities; (2) fast debt growth driven by ongoing investments in construction projects; and (3) moderate asset quality.

The stable outlook on LAI'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 Lai'an County and Lai'an EDZ.

Rating Drivers

- Important position in public projects and industrial park development of Lai'an EDZ
- Good track record of receiving government payments
- Moderate exposure to commercial activities
- Fast debt growth driven by ongoing investments in construction projects
- Moderate asset quality
- Relatively low reliance on non-standard financing

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

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	4.2	5.4	11.4	13.7
Total Equity (RMB billion)	2.1	2.7	7.5	7.6
Total Revenue (RMB billion)	0.4	0.6	0.7	0.5
Total Debt/Total Capital (%)	15.3	31.5	28.5	38.6

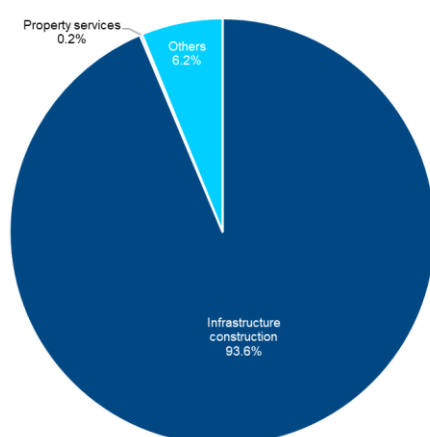
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Founded in 2021, the Company has developed into an important investment and construction platform in Lai'an County, especially in Lai'an County Economic Development Zone ("Lai'an EDZ"), and serves as the core operating entity responsible for infrastructure construction. It is also engaged in commercial activities such as product sales, liquefied petroleum gas sales and property sales. As of 30 June 2024, LAII was wholly owned and ultimately controlled by the Lai'an County Finance Bureau.

Exhibit 1. Revenue structure in 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 economic importance in Chuzhou City, with increasing economic strength and stable 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 actively develops eight industrial lines, including photovoltaics, semiconductors, equipment manufacturing, new energy batteries, medical equipment, smart home appliances, new chemicals, healthy food industry. Moreover, Chuzhou City is rich in mineral resources with 39 types of discovered minerals and 134 mining deposits and sites, reserves of which occupies an important position in East China and even in the whole country. In 2023, its gross regional product ("GRP") increased to RMB378.2 billion from RMB361.0 billion in 2022, with a year-over-year ("YoY") growth rate of 6.4%, ranking third by GRP among all prefecture-level cities in Anhui Province and growing faster than the provincial average level. In the first three quarter of 2024, its GRP amounted to RMB302.4 billion, up 2.1% YoY. The general budgetary revenue of Chuzhou Municipal Government also increased to RMB29.8 billion in 2023 from RMB27.7 billion in 2022. Chuzhou Municipal Government's fiscal balance is moderate but improving, with the ratio of general budgetary revenue to general budgetary expenditure being 55.9% in 2023, compared to 54.7% in 2022. However, Chuzhou Municipal Government's debt profile is relatively weak. As of end-2023, its government debt balance amounted to RMB129.0 billion, accounting for 34.1% of GRP and 160.2% of its total fiscal revenue.

Exhibit 2. Key economic and fiscal indicators of Chuzhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	336.2	361.0	378.2
GRP Growth (%)	9.9	5.5	6.4
General Budgetary Revenue (RMB billion)	25.1	27.7	29.8
General Budgetary Expenditure (RMB billion)	46.2	50.6	53.4
Local Government Debt (RMB billion)	86.9	105.9	129.0

Source: Chuzhou Municipal Government, CCXAP research

Lai'an County is located in the eastern part of Anhui Province and adjacent to Nanjing City. With location advantages, it has accommodated part of transferred industries from Nanjing City and formed leading industries including fine chemicals, deep processing of agricultural and sideline products, new energy, rail transportation and stationery. According to CCID, in 2023, Lai'an County ranked 92th among top 100 counties in Central China. Lai'an County's has ongoing economic growth in recent years. From 2021 to 2023, Lai'an County's GRP increased from RMB36.3 billion to RMB41.2 billion, ranking 3rd among 8 districts and counties in Chuzhou City. In the three quarter of 2024, its GRP amounted to RMB31.8 billion, down 7.2% YoY. Its general budgetary revenue also increased to RMB2.8 billion from RMB2.3 billion in 2021, with tax revenue accounting for 60.2% on average for the past three years, indicating moderate fiscal stability. In addition, Lai'an County has modest financial profile, its average ratio of general budgetary revenue to general budgetary expenditure was 57.6% over the past three years, indicating a relatively weak self-sufficiency. As of end-2023, Lai'an County's government debt balance was RMB11.2 billion, accounting for 27.1% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Lai'an County

	2021FY	2022FY	2023FY
GRP (RMB billion)	36.3	39.2	41.2
GRP Growth (%)	10.8	6.6	7.4
General Budgetary Revenue (RMB billion)	2.3	2.5	2.8
General Budgetary Expenditure (RMB billion)	4.0	4.3	5.0
Local Government Debt (RMB billion)	7.6	9.7	11.2

Source: Lai'an County Government, Company information, CCXAP research

Lai'an EDZ was established in 2003 and approved as a provincial economic development zone in 2006, with a planned construction land area of about 16.9 square kilometers. It has formed characteristic industries including equipment manufacturing, new energy, new materials, electronic information and life health. According to Chinese professional consulting agency "Yicheng Think Tank", the development potential of Lai'an EDZ ranked 16th among Provincial Development Zones in China in 2023. In the first quarter of 2024, the total industrial output value of Lai'an County amounted to RMB2.9 billion, up 15% YoY. Moreover, the fixed assets investment and the fiscal revenue increased by 19% YoY to RMB800 million and 26% YoY to RMB140 million, respectively.

Government's Willingness to Provide Support

Important position in public projects and industrial park development of Lai'an EDZ

LAI is one of the most important industrial investment, industrial park development and infrastructure construction platforms in Lai'an County and Lai'an EDZ, through largely contributing to the local infrastructures and capital attraction. With the continuous industry park development and industry attraction, the Company also undertake the responsibility of industrial park operations, including self-operating projects and talent attraction, which can contribute more revenue for LAI and secure its leading position. Given the Company's important role in the local economic development, we expect LAI is unlikely to be replaced by other local SOEs in the foreseeable future.

LAI conducts its infrastructure construction and land development business in Lai'an EDZ under agency construction model. The Company signs construction agreements with entrusting parties, and usually receives payments with a certain degree of markup after project completion. As of 30 June 2024, the Company had mainly completed 28 infrastructure construction projects, with an invested amount of RMB1.4 billion and received payments of RMB1.6 billion. Moreover, the Company had completed 6 land development projects, with an invested amount and received payments of RMB612.0 million. However, as the Company shifts its focus to

self-operated construction projects, there is no proposed infrastructure construction or land development projects, indicating uncertain sustainability of the agency construction business.

Moderate exposure to commercial activities

LAI's commercial businesses mainly include industrial park development, industrial investment, and product sales. The Company's exposure to commercial businesses is moderate but rising as LAI is increasing its investment in self-operated projects, accounting for around 20-25% of its total assets. These activities have been a good supplement to the Company's operating revenue but would pose the Company to higher business risks that require prudent risk control.

The Company participates in the industrial park development business in Lai'an EDZ under the self-operated model, engaging in the development, construction, operation and management of industrial parks. The Company plans to achieve fund balance through sales and leasing of the completed projects. However, income from this business is subject to uncertainty due to relatively long construction period and uncertain future sales, and future investment in industrial park projects will further increase the Company's capital pressure. As of 30 June 2024, the Company had 8 self-operated projects under construction with a total estimated investment of RMB712.5 million and an uninvested amount of RMB471.5 million. Meanwhile, the Company had 8 self-operated projects under planning, with a total estimated investment of RMB2.5 billion, indicating large capital expenditure pressure.

Moreover, the Company is also responsible for operating other businesses such as liquefied petroleum gas sales, industrial investment, and leasing. The Company conducts liquefied petroleum gas sales business based on a demand-driven business model. In accordance with the development plans of the local government to attract enterprises and investments in Lai'an EDZ, the Company also engages in the industrial investment business. As of 30 June 2024, the Company had invested in 2 industrial funds, with a total outstanding investment of about RMB90 million, focusing on equipment manufacturing and new energy industries. However, most of investments are at the initial investment stage which requires a long holding period, which may expose the Company to larger investment and execution risks. The Company also leases out 3,762 public rental housing, with a total area of 201.3 thousand square meters and a total estimated value of RMB5.7 billion. These businesses contribute less to the Company's overall revenue as each accounted for less than 5% of the Company's total revenue in 2023.

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, asset transfers, and capital injections. In 2021, the local government transferred its shareholdings of a number of local SOEs to the Company, diversifying the business scope of the Company. In 2022, the local government transferred RMB312.0 million of parking space operation rights to the Company without compensation. In 2023, the local government transferred multiple engineering construction projects and affordable housing with a total book value of RMB4.1 billion to the Company without compensation. From 2021 to 2024H1, the Company also received capital injection of RMB395.5 million in cash, enhancing the capital strength of the Company. From 2021 to 2024H1, the Company also received government subsidies with a total amount of around RMB11.2 million, to support its operations. 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.

Fast debt growth driven by ongoing investments in construction projects

Due to the ongoing financing for construction projects, the Company's total debt has been growing for the past three years. The Company's total debt increased to RMB4.8 billion as of 30 June 2024 from RMB381.9 million at end-2021. At the same time, its total capitalization ratio increased to 38.6% from 15.3%. In addition, the Company's debt maturing structure is reasonable. As of 30 June 2024, its short-term debt accounted for around 16.9% of total debt. Meanwhile, after excluding restricted cash, the cash to short-term debt ratio was 1.5x. Considering the Company's ongoing investment needs, we expect that the Company will rely on external financings to meet its capital expenditures and its total debt level will continue to increase.

Moderate asset quality

LAI's asset quality is moderate. As of 30 June 2024, the account receivables, inventories and other receivables totally accounted for 67.5% of total assets. The total receivables mainly consist of government-related receivables, while inventories mainly consist of land assets and costs for agency construction projects, all with low liquidity. On top of that, the Company's long term equity investment, investment properties, and other equity instruments, accounted for around 5.0% of its total assets, generating supplementary income and cash flow.

Relatively low reliance on non-standard financing

LAI shows moderate access to funding, as it mainly relies on bank loans and non-standard financing. As of 30 June 2024, about 91.1% of the Company's debt financing was provided by domestic banks. As of 30 June 2024, it held a total bank credit facility of RMB8.0 billion, and the available credit facility was RMB3.5 billion, indicating sufficient standby liquidity. Furthermore, the Company's exposure to non-standard financing, mainly including financial leasing and debt financing, is manageable, accounting for around 8.9% of total debts. Given the Company's large outstanding investment amount on its infrastructure construction projects, we consider additional funding channel is needed to fulfil its large capital expenditure, such as onshore and offshore debt capital market.

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 terms of social awareness, the Company has played a crucial role in the social welfare of LAI 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 Lai'an County 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.

Structural considerations

LAI's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its key roles in the development of Lai'an County and Lai'an EDZ, thereby mitigating any differences in an 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 \(July 2022\)](#).

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