

Credit Opinion

24 October 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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Wuxi Liangxi City Operation Service Group Co. Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Wuxi Liangxi City Operation Service Group Co. Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Wuxi Liangxi City Operation Service Group Co. Ltd. ("LXCO" or the "Company") reflects (1) the Liangxi District Government's very strong capacity to provide support; and (2) the local government's 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 Liangxi District's status as the traditional commercial and financial center of Wuxi City with good economic fundamentals. Its gross regional production ("GRP") exceeds RMB160 billion in 2023, ranking 4th among county-level cities in Wuxi City.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) essential role in resettlement housing and land consolidation in Liangxi District; and (2) track record of receiving support from the local government and its shareholders.

However, the rating is constrained by the Company's (1) moderate sustainability of the resettlement housing business; and (2) moderate access to funding channels.

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

Rating Drivers

- Essential role in resettlement housing and land consolidation in Liangxi District
- Track record of receiving support from the local government and its shareholders
- Moderate sustainability of the resettlement housing business
- Moderate access to funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability 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 increased regional importance, improved financing ability, and increased stability and consistency of public activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance, weakened access to funding or increased risk exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	8.9	10.3	19.7	22.3
Total Equity (RMB billion)	1.2	2.5	10.7	10.7
Total Revenue (RMB billion)	0.1	0.5	1.0	0.1
Total Debt/Total Capital (%)	44.5	33.0	25.5	37.0

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

Source: Company data, CCXAP research

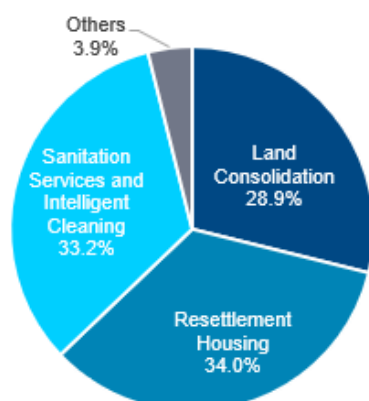
Corporate Profile

Established in April 2017, LXCO is one of the local infrastructure investment and financing companies ("LIIFCs") in Liangxi District. The Company consolidated several local state-owned enterprises ("SOEs") through equity transfers in 2023, solidifying its functional positioning as an urban service provider.

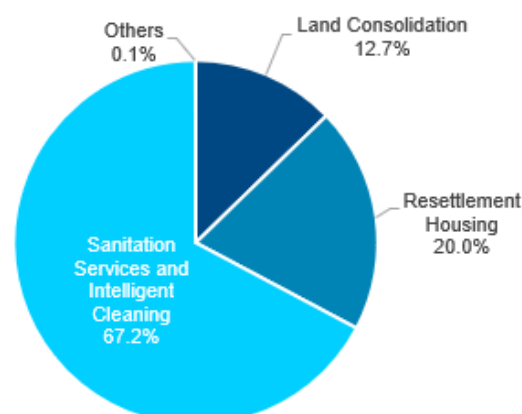
As of 30 June 2024, the State-owned Assets Supervision and Administration Office of Liangxi District, Wuxi ("Liangxi SASAO") directly held 70.0% of the Company's shares, while indirectly holding 30.0% of the Company's shares through Wuxi Liangxi City Development Group Co. Ltd. ("LXCD"). LXCO has undertaken the functions of urban operation, land consolidation and resettlement housing in Liangxi District. It is also involved in commercial businesses including sanitation services, intelligent cleaning and parking lots operation.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Liangxi District Government has a very strong capacity to provide support to the Company, given its status as the traditional commercial and financial center of Wuxi City. Liangxi District's economic and fiscal strength has improved over years of development. However, its fiscal metrics are moderate.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China. In the first half of 2024, Jiangsu Province realized a GRP of RMB6.3 trillion, up 5.8% YoY.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third-highest GRP at the prefectural level in Jiangsu Province for more

than 5 consecutive years. In 2023, it achieved a GRP of RMB1.5 trillion with a YoY growth rate of 6.0%; and in the first half of 2024, the GRP of Wuxi City amounted to RMB743.7 billion, with a YoY growth rate of 5.9%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry. Wuxi City's fiscal profile is strong and characterized by high fiscal sufficiency and a strong revenue-generating ability. In 2023, its general budgetary revenue increased to RMB119.5 billion and an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) was above 85%. As of 31 December 2023, the local government's outstanding debt amounted to RMB217.1 billion, accounting for 14.0% of the GRP.

Exhibit 4. Key economic and fiscal indicators of Wuxi City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,400.3	1,485.1	1,545.6
GRP Growth (%)	8.8	3.0	6.0
General Budgetary Revenue (RMB billion)	120.1	113.3	119.5
General Budgetary Expenditure (RMB billion)	135.8	136.6	139.0
Local Government Debt (RMB billion)	160.8	187.4	217.1

Source: Statistics Bureau of Wuxi City, CCXAP research

Liangxi District is the central urban area of Wuxi City, which was officially established on 20 February 2016, merging the former districts of Chong'an, Nanchang and Beitang, with an area of 71.5 square kilometers. As a representative of Wu culture and Jiangnan water culture, Liangxi District has rich tourism resources. In July 2024, there are 40 newly signed cultural and tourism projects landed in Liangxi District with a total investment of more than RMB20 billion. In recent years, Liangxi District has developed four major high-tech industries including precision equipment manufacturing, sensor information technology, new materials and new energy, and environmental protection. It has attracted many large corporations to invest in key projects or set up R&D centers, such as Zeekr Auto Regional Headquarters Project, Baidu Model Builder (Wuxi) Innovation Centre and Hillhouse Core Technology & Carbon Neutral Fund Project, forming multi-industrial clusters.

Liangxi District also has an excellent geographical location and transportation system, supporting the growth of economic activities in Liangxi District. Over the past three years, the GRP of Liangxi District has ranked 4th in Wuxi City. From 2021 to 2023, the GRP of Liangxi District GRP has demonstrated a sustained growth trajectory, recording RMB162.4 billion in 2023 with a YoY growth rate of 6.3%. In 2023, Liangxi District reported that the general budgetary revenue increased to RMB5.8 billion from RMB5.5 billion in 2022 as pandemic impact and the value-added tax credit refund weakened. Taxes represent the primary source of the general budgetary revenue in Liangxi District, accounting for an average of 83.1% of the general budgetary revenue over the past three years. However, Liangxi District Government's fiscal balance ratio, as calculated by general budgetary revenue over general budgetary expenditure, is moderate, averaging 63.6% over the past three years, reflecting a reliance on fiscal support from higher-tier governments. As of 31 December 2023, the local government's outstanding debt amounted to RMB22.7 billion, accounting for 14.0% of the GRP.

Exhibit 5. Key economic and fiscal indicators of the Liangxi District

	2021FY	2022FY	2023FY
GRP (RMB billion)	146.9	156.0	162.4
GRP Growth (%)	7.7	3.3	6.3
General Budgetary Revenue (RMB billion)	6.4	5.5	5.8
General Budgetary Expenditure (RMB billion)	8.8	9.5	9.6

Local Government Debt (RMB billion)	11.8	17.5	22.7
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Source: Statistics Bureau of Liangxi District, CCXAP research

Government's Willingness to Provide Support

Essential role in resettlement housing and land consolidation in Liangxi District, but has moderate sustainability and stability

LXCO's primary public activities include construction projects for resettlement housing and land consolidation in Liangxi District, which cooperate with the local government's investment promotion plans. These projects are essential to local economic development and provide benefits to the public.

The Company carries out the demolition of shantytowns and construction of resettlement housing in the northern part of Liangxi District. LXCO raises funds for demolition, land consolidation and construction. Upon the completion of construction, it gives priority to the sale of resettlement housing to locally relocated households in accordance with the rehousing policy of Liangxi District. In order to safeguard the profitability of the Company's business, the sales price includes an expected profit of approximately 5% of the cost. However, there are a few project reserves for LXCO's resettlement housing business, which weakens the stability and continuity of the business. The Company's resettlement housing projects are primarily sourced from the local government's regional planning. The pace of demolition and relocation in the northern part of Liangxi District has slowed as a consequence of the prevailing conditions in the real estate market. As of 30 June 2024, the resettlement housing projects were completed and there were no projects under planning.

LXCO's land consolidation projects are mainly carried out in Wuxi Optoelectronic New Material Science and Technology Park. Under the agent construction model, the Company implements land pre-development within budget and signs construction agreements with Wuxi Jinshanbei Science and Technology Industry Development Co., Ltd., one of the local SOEs held by Wuxi Liangxi District Beitang Industrial and Trade Asset Management Office. The Company receives payment based on the total cost of land consolidation with a markup rate, usually 5-10%. As of 30 June 2024, the Company had completed land preparation of approximately 2,000 acres, with a total investment of around RMB4.0 billion. The Company has no land consolidation projects under construction or planning for the time being.

Low risk exposure to commercial activities

LXCO is also engaged in some commercial activities such as sanitation services, intelligent cleaning and parking lot operation business. Based on our assessment, its risk exposure to commercial activities is relatively small but increasing as the Company focuses more on urban operational services.

LXCO provides sanitation services to a total of 9 sub-districts in Liangxi District. The Company confirmed the role of the operating entity for the sanitation business through the bidding process and signed a three-year integrated sanitation operation service agreement with the Liangxi District City Administration Bureau ("Liangxi CAB"). The sanitation business is expected to generate an annual revenue of RMB314.0 million. LXCO is also engaged in the operation and construction of the public parking business including street and indoor parking within Liangxi District. As of 30 June 2024, the Company had four parking lots under construction, with a total investment of RMB259.5 million and an outstanding investment of RMB182.9 million.

Track record of receiving support from the local government and its shareholders

LXCO has a track record of receiving support from its shareholders, including Liangxi SASAO and LXCD in the form of cash subsidies and equity share transfers. In 2023, the local government transferred the equity of several

subsidiaries of Wuxi Liangxi City Investment Development Group Co. Ltd. to LXCO at no cost, which became operating entities for LXCO's resettlement housing, land consolidation, and sanitation services. In July 2023, a portion of the shareholdings in two regional SOEs were transferred to the Company from Liangxi SASAO, which substantially increased the paid-in capital of the Company. After the transfer of equity, capital reserves of the Company increased from RMB1.3 billion in 2022 to RMB5.6 billion in 2023 and its shareholders' equity increased from RMB2.5 billion in 2022 to RMB10.7 billion in 2023. Besides, from 2021 to 2023, the Company continuously received subsidies from the local government with total amount of RMB1.78 million. We expect government support to LXCO to remain stable over the next 12 to 18 months, given its important urban service operator role.

Long return realization period for resettlement housing and land consolidation business

LXCO's lagging settlement of resettlement housing and land consolidation business longer the return realization period. The Company's resettlement housing and land consolidation businesses require substantial upfront capital investment, and the sales of resettlement housing and land grants have a certain cyclicity and lag in returns. The Company's resettlement housing de-stocking are progressing slowly, and are susceptible to regional resettlement progress. As of 30 June 2024, the Company has completed a resettlement housing project with a total investment of RMB1.7 billion, which was pending for sale to generate project payback. Due to the slow progress of the land allocation in the industrial park, there are still some completed land plots waiting to be settled which are booked in development costs of RMB2.8 billion.

In 2023, LXCO's total assets increased significantly by 91.6% YoY to RMB19.7 billion mainly due to equity transfer of several local SOEs from the local government and the increase in the scale of transactions with other local SOEs. The Company's inventory, other receivables and long-term equity investments constituted a significant portion of total assets, representing approximately 91.4% on a consolidated basis. The Company's inventory primarily comprises development costs of land consolidation and resettlement housing projects, which have longer recovery periods and lower liquidity. As of 30 June 2024, the Company's restricted assets accounted for 2.6% of its total assets.

Moderate access to funding channels

LXCO has moderate access to funding its operations and investments, mainly including bank loans and non-standard financing but lacks open market financing. As of 30 June 2024, the Company's total debt and total capitalization ratio increased to RMB6.3 billion and 37%, respectively. The short-term debt represented 35.3% of its total debt, while the cash to short-term debt ratio was around 1.0x. The Company's exposure to nonstandard financing was moderate, accounting for around 20.8% of total debt as of 30 June 2024. The cost of nonstandard financing was relatively reasonable with an average cost of around 4.2%. Considering the Company's future investment in land consolidation and parking lot construction projects and reliance on external financing, we expect its debt level to continue to increase in the next 12-18 months. The financing environment for public activities such as land consolidation is tightening for the regulation demand on risk control. However, Liangxi District is an economically developed area where diversified financial institutions provide a favorable financing environment for the Company. As of 30 June 2024, the Company had sufficient liquidity reserves with unused credit facilities of RMB1.5 billion mainly from joint-stock commercial banks.

ESG Considerations

LXCO faces environmental risks because it has undertaken land consolidation and parking lots construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

The Company is exposed to social risks as a public services provider. Demographic changes, public awareness, and social priorities shape the government's target for LXCO and affect the government's propensity to support the Company.

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

Structural Consideration

LXCO'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 important position in resettlement housing, land consolidation and urban operation in Liangxi District, 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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