

## Credit Opinion

28 January 2025

Ratings	
Senior Unsecured Debt Rating	A <sub>g</sub>
Long-Term Credit Rating	A <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Kunshan Guochuang Investment Group Co., Ltd.

### Surveillance credit rating report

**CCXAP upgrades the long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. to A<sub>g</sub>, with stable outlook.**

### Summary

CCXAP has upgraded the long-term credit rating of Kunshan Guochuang Investment Group Co., Ltd. ("KGIG" or the "Company") to A<sub>g</sub> from A<sub>g</sub><sup>-</sup>, reflecting the improved comprehensive strength of Kunshan City and the Company's importance and strategic role in Kunshan Economic and Technological Development Zone ("Kunshan ETDZ").

The A<sub>g</sub> long-term credit rating of KGIG reflects Kunshan City Government's excellent 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 1<sup>st</sup> among the Top 100 counties/county-level cities in China, with good fiscal profile.

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 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 rating is constrained by the Company's (1) high exposure to commercial activities, the profitability of which is susceptible to economic and industry cyclicalities; and (2) high financial leverage with short-term debt burden.

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 Kunshan ETDZ.

## Rating Drivers

- Essential role in public policy activities of Kunshan ETDZ
- Track record of receiving government payments
- High financial leverage with the short-term debt burden
- High exposure to commercial activities, the profitability of which is susceptible to economic and industry cyclicality
- 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 ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide 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 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 reducing strategic significance or weakening access to financing channels.

## Key Indicators

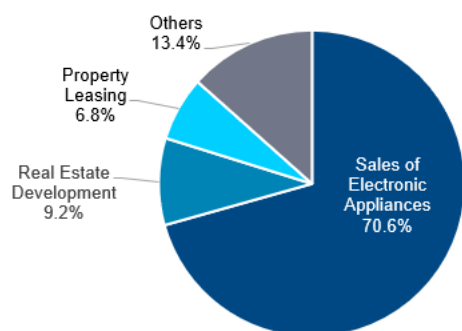
	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	97.2	98.2	105.2	111.2
Total Equity (RMB billion)	28.6	32.9	34.2	36.2
Total Revenue (RMB billion)	7.6	5.3	5.1	4.7
Total Debt/Total Capital (%)	67.3	67.5	68.7	69.4

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

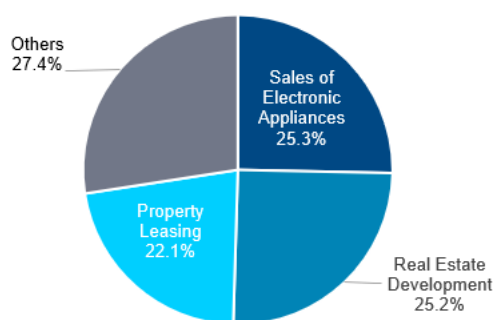
Source: Company data, CCXAP research

## Corporate Profile

Founded in 1992, KGIG is a local infrastructure investment and financing company ("LIIFC") in Kunshan City, Suzhou City. The Company is primarily responsible for infrastructure construction and land development in Kunshan ETDZ, playing an important role in the urban development and operation of Kunshan City. The Company is also engaged in commercial activities such as real estate development and sales, property leasing, and sales of electronic appliances. As of 30 September 2024, the Company is directly and wholly owned by the State-owned Assets Supervision and Administration Office of Kunshan City Government ("Kunshan SASAO").

**Exhibit 1. Revenue structure in 2023**

Source: Company information, CCXAP research

**Exhibit 2. Gross profit structure in 2023**

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Kunshan City Government has an excellent capacity to provide support to the Company, given its strong comprehensive strength combined with good fiscal profile.

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 2023, Jiangsu Province's total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%; the GRP per capita was RMB150,487, ranking first among all provinces in the country. In the first three quarters of 2024, Jiangsu Province achieved a GRP of RMB9.8 trillion with a YoY increase of 5.7%.

Suzhou City is a prefecture-level city located in the southeast of Jiangsu Province and is regarded as one of the top Chinese cities for its advanced economic and social developments. Suzhou City has a rich historical background and is known for its canals, classical gardens and bridges. Suzhou City owns 14 national hi-tech zones, the most national hi-tech zones in one single city in China. Supported by its good location advantages, completed industrial chain, intensive layout of national-level carriers, world-class traditional cultural resources and water ecological resources, Suzhou City's economic strength has long been ranked first in Jiangsu Province. In 2023, Suzhou City achieved a GRP of RMB2,465.3 billion with a YoY growth rate of 3.1%, and the general budgetary revenue increased to RMB245.7 billion from RMB232.9 billion in 2022. The contribution of tax revenue in Suzhou City has been stable, accounting for over 80% of general budgetary revenue over the past three years. Suzhou City also has a strong fiscal balance and good debt profile with a self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of over 90% in the past three years and a low debt/GRP ratio of 8.3% as of the end of 2023. During the first three quarters of 2024, Suzhou City's GRP rose by 6.0% YoY to RMB1,848.4 billion.

**Exhibit 3. Key economic and fiscal indicators of Suzhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	2,271.8	2,395.8	2,465.3
GRP Growth (%)	8.7	2.0	3.1
General Budgetary Revenue (RMB billion)	251.0	232.9	245.7
General Budgetary Expenditure (RMB billion)	258.4	258.9	262.1
Local Government Debt (RMB billion)	158.8	177.2	204.6

Source: Statistics Bureau of Suzhou City, CCXAP research

Kunshan City is a county-level city in southeast Jiangsu Province, with a total area of 931 square kilometers. Kunshan City ranked 1<sup>st</sup> for consecutive 20 years among the Top 100 counties/county-level cities in China, in terms of comprehensive strength. Supported by its pillar industries, such as digital information, optoelectronic semiconductors, intelligent equipment and new energy automobiles, Kunshan City demonstrated ongoing economic growth for the past three years. In 2023, the GRP of Kunshan City increased by 5.0% YoY to RMB514.1 billion, ranking 1<sup>st</sup> among all districts/counties in Suzhou City. In the first half year of 2024, Kunshan City achieved a GRP of RMB251.1 billion, with an increase of 6.3% YoY. The general budgetary revenue of Kunshan City increased to RMB45.7 billion in 2023 from RMB43.0 billion in 2022, with tax revenue rising to RMB40.5 billion from RMB37.2 billion. Kunshan City has good fiscal stability and fiscal self-sufficiency ability. The 3-year average fiscal stability ratio (tax revenue/ general budgetary revenue) was relatively high at 87.7% over the past three years, and the average self-sufficiency rate (general budgetary revenue to general budgetary expenditure) was 113.8%. In addition, Kunshan City has a manageable debt profile, with a government debt to GRP ratio of 5.8% as of 31 December 2023.

#### **Exhibit 4. Key economic and fiscal indicators of Kunshan City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	474.8	500.7	514.1
GRP Growth (%)	7.8	1.8	5.0
General Budgetary Revenue (RMB billion)	46.7	43.0	45.7
General Budgetary Expenditure (RMB billion)	39.9	37.9	41.2
Local Government Debt (RMB billion)	22.1	25.7	30.0

Source: Statistics Bureau of Kunshan City, CCXAP research

Founded in 1984, Kunshan ETDZ is a state-level Economic and Technological Development Zone (“ETDZ”) in Kunshan City that mainly focuses on optoelectronic, digital information, intelligent equipment and new energy automobile industries, with strong comprehensive strength, as evidenced by ranking among the top five for more than 20 consecutive years in the comprehensive assessment of state-level ETDZs. In 2023, Kunshan ETDZ ranked 5<sup>th</sup> among 229 national-level ETDZs, according to the Ministry of Commerce’s assessment of the comprehensive development of national-level ETDZs.

#### **Government’s Willingness to Provide Support**

##### **Essential role in the public policy activities of Kunshan ETDZ**

KGIG is the primary state-owned assets operation entity in Kunshan City and is mandated by the government to develop Kunshan ETDZ. The Company is one of the core entities undertaking public policy activities, such as infrastructure construction and land development in Kunshan City. KGIG has completed a series of large-scale infrastructure construction projects over the past few years, including roads, schools, bridges and relocation houses, which significantly benefit people’s livelihood and promote the urbanization development of Kunshan City.

The Company conducts infrastructure construction projects by agency construction model and construction service model. Under the agency construction model, the Company self-funds the construction, and upon project completion, the local government would repurchase the project and make payments to the Company within 3 to 5 years. On the other hand, under the construction service model, construction costs will be provided by the entrusting parties, and the Company receives construction management fees for return, typically around 3%. As of 30 June 2024, the Company had 11 key infrastructure construction projects under construction, with a total estimated investment of around RMB6.2 billion and an uninvested amount of RMB287.0 million. Among

them, projects such as resettlement housing are under the agency construction model, with a total investment amount of RMB3.2 billion and an outstanding amount of RMB69.0 million. Projects such as upgrading municipal facilities, schools, roads, and industrial park infrastructure are under construction service model, with a total investment amount of RMB3.0 billion and an uninvested amount of RMB218.0 million. In July 2024, the Company and the Planning and Construction Bureau of Kunshan ETDZ signed centralized agency construction agreement, agreeing to carry out proposed projects under the construction service model. The Company will start to construct more than 8 projects with an estimated investment of RMB5.1 billion in 2025. KGIG's infrastructure construction business is sustainable given its relatively large number of construction project reserves.

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. When the injected lands being sold in the market, the local government will make payments to the Company within 3 to 5 years. As of 30 June 2024, the Company had lands of 229.7 thousand square meters in inventory, with a book value of RMB24.0 billion. The lands would be transferred according to local government planning based on land market conditions.

Overall, considering KGIG's essential role in regional economic and social development in Kunshan ETDZ as well as Kunshan City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

### **High exposure to commercial activities**

KGIG is also engaged in other commercial activities such as sales of electronic appliances, real estate development, and property leasing. Based on our assessment, KGIG's commercial activities exposure is high, accounting for more than 30% of its total assets.

The electronic appliances sales business is the major income source of KGIG, accounting for 70.6% of its total revenue in 2023. The Company conducts its electronic sales business through its subsidiary Infovision Optoelectronics (Kunshan) Co., Ltd. ("Infovision Optoelectronics", Stock Code: 688055.SZ). Infovision Optoelectronics was listed on the Shanghai Stock Exchange in 2020, and the Company is its largest shareholder, holding 45.9% of its shares as of 30 September 2024. Infovision Optoelectronics focused on research, development, production, and sales of thin-film-transistor liquid crystal displays ("LCD"), with a rich customer base in various application fields. In the field of consumer display applications, Infovision Optoelectronics has established long-term strategic cooperation with famous brand customers such as HP, Lenovo, Dell and Acer; in the field of in-vehicle display, it has formed a stable relationship with system integrators such as Panasonic and VCK. However, the financial performance of Infovision Optoelectronics has suffered from the weakened LCD industry since 2021. It recorded a net loss of RMB278.4 million in 2023 and a net loss of RMB168.1 million in 2024Q3. The poor financial performance of Infovision Optoelectronics has negatively affected KGIG's income and profit in recent years. Meanwhile, this segment exerts more operating and market risks than its policy businesses.

KGIG also conducts real estate development and sales business in Kunshan ETDZ, involving the construction and sale of resettlement housing, commercial properties and talent apartments. As of 30 June 2024, the Company had completed 6 real estate projects and most of them were sold. The Company has slowed down the pace of land acquisition, and the Company only newly acquired a piece of land for property development business in 2024, with a land area of 50 mu and an invested amount of RMB155.0 million. However, the Company had a large number of projects in the pipeline, which exerted certain capital expenditure pressure on

the Company. As of 30 June 2024, the Company had 3 property development projects under construction, with an expected investment amount of RMB1.8 billion and an outstanding amount of RMB858.0 million. Meanwhile, the Company had 3 projects under planning with a total estimated investment amount of RMB4.7 billion. In addition, the sales performance of the real estate development business is still adversely impacted by the real estate market downturn.

Furthermore, the Company leases out its self-owned properties, such as factories, office buildings, residential and commercial properties. As of 30 June 2024, the Company increased its total leasable area to approximately 2.0 million square meters, with an overall occupancy rate of 67.2%. The property leasing business is stable, providing annual rental income of more than RMB200 million to the Company for the past three years.

The Company also carries out financial investment through direct equity investment and private equity fund. For equity investment, the Company mainly invests in emerging industries such as new energy, medical, and information technology. For fund investment, the Company mainly acts as an LP, and the investees cover a wide range of industries, including real estate development, medical, finance, optical equipment, information technology, and automobile manufacturing, aiming to promote the development of local industries. However, some of the underlying investees invested by the fund are start-ups, exerting uncertainty to the investment recovery. In October 2023, the subsidiary of the fund investee, WM Motor Technology Group Co., Ltd., filed for bankruptcy reorganization. In October 2024, the related fund shares were transferred at par to a state-owned enterprise in Kunshan City, and the Company did not incur any investment losses.

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

As the core LIIFC in Kunshan ETDZ, KGIG has a proven track record of receiving government payments in the forms of government subsidies, asset and cash injections, to support its businesses and operations. From 2023 to 2024Q3, the Company continuously received financial subsidies from the local government with a total amount of RMB138.6 million. Among them, the Company's main business, electronic appliance sales, has been able to continue to receive subsidies for research and development in recent years. From 2023 to 2024Q3, the local government provided a cash injection of RMB2.2 billion to the Company. The Company also regularly received payments from the local government for its infrastructure construction projects under both agent construction and construction service models. 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 local government over the next 12 to 18 months.

#### **High financial leverage with short-term debt burden**

KGIG's debt has kept increasing over the recent years mainly attributable to the ongoing financing for the infrastructure construction and property development projects. As of 30 September 2024, its total debt (including perpetual debts) increased to RMB68.5 billion from RMB59.5 billion as of 30 September 2023. The Company's total capitalization ratio gradually increased to a relatively high level of around 69.4% as of the same date. Meanwhile, the Company has a relatively high short-term debt burden. Its short-term debt recorded RMB42.1 billion, accounting for 38.5% of total debt, exerting the Company's short-term debt repayment pressure. The cash to short-term debt ratio of around 0.2x, which could not fully cover its short-term debt. We expect that the debt leverage will remain at a relatively high level in the next 12-18 months, considering the capital needs from project construction.



### **Moderate asset liquidity**

KGIG maintained moderate asset liquidity, with a large number of low-liquid inventories and other receivables. As of 30 September 2024, the Company's total asset consists mainly of inventories and other receivables, accounting for 65.7% of the total assets, which are considered relatively low liquidity. The inventories amounted to RMB34.6 billion, accounting for 33.7% of total assets, and mainly consisted of construction development costs and land development costs. The Company's other receivables mainly consist of transactions with the government and other state-owned enterprises, accounting for 32.2% of total assets. In addition, the Company pledged a number of assets for loans, mainly inventories and investment properties, accounting for 8.1% of total assets as of 30 September 2024.

### **Good access to financing channels**

KGIG has sufficient stand-by liquidity and diversified funding channels, including bank loans, bond issuances, and non-standard financing products, which may partially release capital expenditure pressure and liquidity profile. As of 30 September 2024, the Company had a total credit facility of RMB60.7 billion with an unused portion of RMB28.7 billion. They were mainly provided by diversified large domestic banks, such as the Bank of China, and the Industrial and Commercial Bank of China.

Furthermore, KGIG has a proven track record of financing from both onshore and offshore debt capital markets and equity capital markets. The Company has issued several types of debt products, including commercial papers ("CPs"), medium-term notes ("MTNs"), private placement notes ("PPNs"), private corporate bonds and perpetual bonds. For instance, in January 2025, the Company issued a tranche of corporate bond to raise RMB1.0 billion, with a coupon rate of 2.0% in the onshore bond market. The Company also has access to the offshore capital market. For example, it issued a 3-year offshore bond with a coupon rate of 3.6% to raise RMB1.0 billion in June 2023. Moreover, the Company maintained a manageable exposure to non-standard financing, accounting for less than 15% of its total debt as of 30 September 2024.

### **Contingent risk associated with external guarantees**

The Company is exposed to a certain contingent risk from its external guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the total amount of external guarantees decreased from RMB2.6 billion at the end of September 2023 to RMB1.9 billion, accounting for 5.2% of KGIG's net assets. Among them, 27.5% of external guarantees were provided to state-owned enterprises in Kunshan City amounting to RMB514.6 million, and the remaining 72.5% were provided to private-owned enterprises in Kunshan City amounting to RMB1.4 billion, with counter-guarantee measures.

### **ESG Considerations**

KGIG bears environmental risks through 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 the construction phase.

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, or affect the government's propensity to support the Company.

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

## Structural Consideration

KGIG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that the government support will flow through the Company given its dominant position in 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 \(July 2022\)](#).



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