

## Credit Opinion

22 May 2025

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

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## Meishan Dongpo State-owned Capital Investment and Operation Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Meishan Dongpo State-owned Capital Investment and Operation Group Co., Ltd., with stable outlook**

### Summary

The BBB<sub>g</sub> long-term credit rating of Meishan Dongpo State-owned Capital Investment and Operation Group Co., Ltd. (“DSCI” or the “Company”) reflects Dongpo District Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of the Dongpo District Government’s capacity to support reflects Dongpo District’s economic and fiscal importance as the central urban area of Meishan City, with ongoing economic growth.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) status as the major urban construction entity in Dongpo District; (2) high sustainability of public business sectors; and (3) solid track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) Ongoing debt growth and weak asset liquidity; (3) medium contingent risk resulting from external guarantee; and (4) relatively large reliance on non-standard financing.

The stable outlook on DSCI’s rating reflects our expectation that the Dongpo District Government’s capacity to provide support will remain stable, and the Company’s characteristics, as its important role in the development of Dongpo District will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Major urban construction entity in Dongpo District
- High sustainability of public business sectors
- Solid track record of receiving government support
- Medium exposure to commercial activities
- Ongoing debt growth and weak asset liquidity
- Relatively large reliance on non-standard financing
- Medium contingent risk resulting from external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in the Company's characteristics enhance the local government's willingness to support, such as decreasing exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in the Company characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	51.8	65.4	73.2	71.4
Total Equity (RMB billion)	21.4	30.7	30.9	27.3
Total Revenue (RMB billion)	0.7	2.6	2.9	2.1
Total Debt/Total Capital (%)	43.6	37.4	39.3	44.7

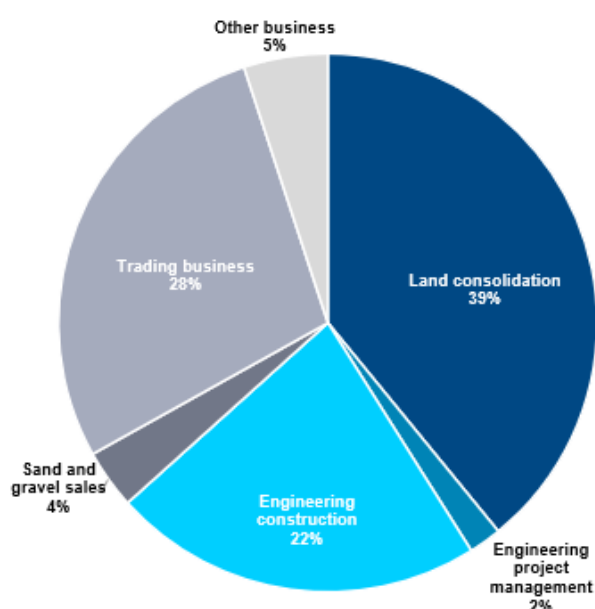
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

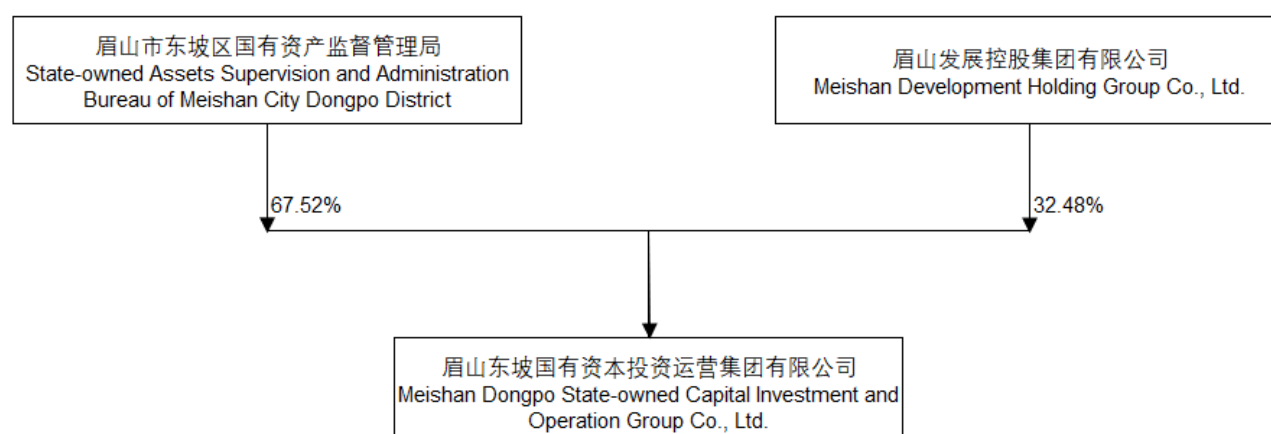
Established in 2017, DSCI is the most important Local Infrastructure Investment and Financing Company ("LIIFC") in Dongpo District, Meishan City. DSCI is primarily engaged in infrastructure construction and land consolidation in Dongpo District. It also undertakes commercial activities, such as engineering construction, sand and gravel sales, trading, guarantee services, cemetery sales and management, labor service, and asset leasing. As of 30 September 2024, the State-owned Assets Supervision and Administration Bureau of Meishan City Dongpo District ("Dongpo SASAB") was the Company's actual controller and largest shareholder, holding 67.5% of the shares. Meishan Development Holding Group Co., Ltd. ("MDHG"), a municipal-level state-owned enterprise in Meishan City, held the remaining 32.5% of the shares.

### Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

### Exhibit 2. Shareholding chart as of 30 September 2024



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Meishan Dongpo District Government has a strong capacity to provide support, reflecting that Dongpo District's economic and fiscal importance in Meishan City, with ongoing economic growth.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2024, Sichuan recorded a Gross Regional Product ("GRP") of RMB6.5 trillion, with a year-on-year ("YoY") increase of 5.7%, ranking 5<sup>th</sup> in terms of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB563.5 billion in 2024, up by 1.9% YoY.

Meishan City is a prefecture-level city of Sichuan Province. It is a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone, and a key area of the Cheng (Du) Le (Mountain) Golden Corridor. In 2024, Meishan City achieved a GRP of RMB189.0 billion with an

increase of 7.0% YoY. Its general budgetary revenue amounted to RMB16.1 billion in 2024, ranking 9<sup>th</sup> among all cities in Sichuan Province. However, its government fund revenue significantly decreased from RMB26.7 billion in 2022 to RMB15.7 billion in 2024 due to the land market downturn and real estate market fluctuations. The government debt increased from RMB63.6 billion in 2022 to RMB84.5 billion in 2024, representing 44.7% of its GRP.

### Exhibit 3. Key economic and fiscal indicators of Meishan City

	2022FY	2023FY	2024FY
GRP (RMB billion)	163.6	173.7	189.0
GRP Growth (%)	3.8	6.2	7.0
General Budgetary Revenue (RMB billion)	15.6	16.0	16.1
General Budgetary Expenditure (RMB billion)	31.1	36.9	35.2
Local Government Debt (RMB billion)	63.6	71.6	84.5

Source: Statistic Bureau of Meishan City, CCXAP research

Situated in the central urban area of Meishan City, Dongpo District is the political, economic, and cultural center of Meishan City. Dongpo District has formed a convenient transportation network and is an important transportation hub and material distribution center connecting the Chengdu Plain with southern and western Sichuan. Dongpo District is actively developing a modern industrial system, with new energy, new materials, food, and pharmaceuticals as its pillar industries. The GRP of Dongpo District increased steadily from RMB57.2 billion in 2022 to RMB64.9 billion in 2024, but its general budgetary revenue decreased from RMB3.3 billion to RMB2.7 billion, mainly due to the decline in non-tax revenue. The GRP ranks 1<sup>st</sup>, and the general budgetary revenue ranks 2<sup>nd</sup> among 6 districts/counties in Meishan City. Dongpo District had a moderate average self-sufficiency rate of 52.9% over the past 3 years. However, its general budgetary revenue relied heavily on non-tax sources, of which the tax revenue only accounted for 45.0% of the total general budgetary revenue in 2024. Additionally, its government fund income declined sharply from RMB2.4 billion in 2022 to RMB1.4 billion in 2024, primarily due to the downturn in the land market and real estate sector. As of 31 December 2024, Dongpo's outstanding government debt was RMB13.5 billion, accounting for 20.8% of its GRP.

### Exhibit 4. Key economic and fiscal indicators of Dongpo District

	2022FY	2023FY	2024FY
GRP (RMB billion)	57.2	62.9	64.9
GRP Growth (%)	5.2	7.1	5.8
General Budgetary Revenue (RMB billion)	3.3	3.0	2.7
General Budgetary Expenditure (RMB billion)	5.1	6.6	5.8
Local Government Debt (RMB billion)	8.8	11.0	13.5

Source: Statistic Bureau of Dongpo District, CCXAP research

## Government's Willingness to Provide Support

### Major urban construction entity in Dongpo District

Since 2022, the Dongpo District Government has gradually transferred a significant portion of local state-owned enterprise equity to the company. After the consolidation, DSCI has become the most important LIIFC and the major urban construction entity in Dongpo District, with a pivotal role in regional development. The Company has strong regional franchise advantages in various public-related activities, such as local land consolidation

and infrastructure construction. Considering the Company's strategic position in Dongpo District, we believe that the replacement cost for the Company's role is high, as these public services are essential for local residents and regional development.

### **High sustainability of public business sectors**

The Company is responsible for the land consolidation and transfer in Dongpo District. The Company conducts land consolidation business with self-raised funds. Upon completion, the consolidated land is publicly auctioned through the local land transaction center. The net proceeds after deducting tax and certain fees are then returned to the Company. From 2021 to 2024Q3, the Company completed land consolidation of over 2.1 million square meters, with a total investment of RMB2.3 billion, and has almost received all repayments. While the Company has few land consolidation projects in the pipeline, its substantial remaining land reserves provide potential capability for future development. As of the end of 2023, the book value of land development costs in the Company's inventory amounted to RMB8.8 billion. Nevertheless, this business remains susceptible to government land transfer policies and real estate market conditions, resulting in a degree of uncertainty regarding its land transfer income.

The Company also undertakes urban infrastructure construction projects, including resettlement house construction and shantytown redevelopment in the region, which are mainly carried out through an agency construction model. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The repurchase payment is calculated based on the construction cost plus a 15% construction management fee. As of 30 September 2024, the Company had 7 infrastructure construction projects under construction or planning, with a total planned investment of RMB6.5 billion, with an outstanding balance of RMB3.7 billion, exerting certain capital expenditure pressure.

### **Medium exposure to commercial activities**

DSCI is also engaged in commercial activities such as self-operated construction, sand and gravel sales, trading, guarantee services, cemetery sales and management, labor service, and asset leasing. We consider the Company's commercial business risk to be medium because its commercial activities account for around 20% to 30% of its total assets.

The Company's self-operated projects include wastewater treatment plants, reservoirs, tourist attractions, industrial parks, new energy charging piles, and parking lots. The Company constructs these projects with self-raised funds and government fiscal funds, and achieves breakeven through receiving operating income. As of 30 September 2024, the Company had a total estimated investment amount of RMB5.6 billion and an outstanding amount of RMB5.1 billion in self-construction projects under construction or planning. Given the large number of self-operated projects in the pipeline, the Company has large expenditure pressure, and there is uncertainty in its future funding balance.

The Company's engineering construction business is primarily undertaken by its subsidiary, Meishan Dong'an Construction Co., Ltd. ("MDAC"), which holds a Grade II general contracting qualification for construction projects, as well as Grade III general contracting qualifications for municipal public works and water conservancy/hydropower projects. MDAC acts as a contractor to conduct engineering construction business in Dongpo District. In 2023, engineering construction revenue amounted to RMB653.5 million, accounting for 22.3% of the Company's total revenue. The segment's gross profit increased by 38.0% YoY to RMB122.3 million, primarily attributable to effective cost control in ongoing projects and wide variations in profit margins across different projects. As of 30 September 2024, the Company had RMB 1.2 billion in contracts on hand, supporting

the sustainability of its engineering construction business. As for the trading business, the Company is primarily engaged in the sale of construction materials such as steel products, ready-mix concrete, asphalt concrete, cement, and cables. In 2023, the Company further expanded its product portfolio to include radiata pine logs and zinc ingots. The trading business is subject to concentration risk. In 2023, the segment's revenue grew 11.8% YoY to RMB823.0 million, but with a low gross profit margin of 2.9%. As of 30 September 2024, the top five suppliers accounted for 53.4% of total procurement, and the top five clients contributed 58.9% of total sales.

DSCI is also engaged in the sand and gravel sales business, including mining, processing, and sales of sand and gravel. The top two clients are both private-owned companies and account for more than 90% of the segment revenue. Therefore, this segment has relatively high client concentration and credit risk. In 2023, the Company recorded RMB104.0 million in sand and gravel sales revenue, with a negative gross margin, mainly due to price volatility in the sand and gravel market. The Company also operates in labor dispatch, official vehicle leasing, and archival binding management services, which provide supplementary income to the Company. However, the small operating scale of these businesses limits their contribution to the Company's overall cash flow and profit.

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

As a major LIIFC in charge of infrastructure construction in Dongpo District, the Company has a solid track record of receiving support from the local government in the past few years, such as government subsidies, asset injections, and equity transfers. Since 2022, Dongpo SASAB has transferred 6 state-owned enterprises and their subsidiaries to the Company. The businesses of these entities span infrastructure development, engineering construction, cultural tourism, and cemetery sales and management. From 2021 to 2024Q3, the Company received total government subsidies of RMB1.0 billion. Additionally, the Company received asset injections of RMB12.5 billion from 2021 to 2024Q3, mainly including sand mining concession rights, urban redevelopment project assets. The Company also receives repurchase payments for its public projects and government special bonds for some of the self-operating projects. Given DSCI's pivotal role in the development of Dongpo District, we expect the Company to receive ongoing support from the local government in the future.

### **Ongoing debt growth**

DSCI has demonstrated an increasing debt amount as a result of relatively large capital demands for the construction projects. DSCI's total debt rose from RMB16.5 billion in 2021 to RMB22.1 billion as of 2024Q3, while its total capitalization ratio increased from 43.6% to 44.7% over the same period. The proportion of short-term debt amounted to 29.6% of total debt, and DSCI's cash position of RMB1.8 billion as of 30 September 2024 was insufficient to cover its short-term obligations. With a cash-to-short-term-debt ratio of just 0.3x, the Company might face certain liquidity pressure. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months. Fortunately, some of the Company's project expenditure can be supported by government special bonds, which can partially reduce the Company's capital expenditure pressure.

### **Weak asset liquidity**

The Company has weak asset liquidity. Its total restricted assets were RMB13.1 billion, which accounted for 18.3% of total assets and were mainly used for financing as of 30 September 2024. Moreover, around 80.6% of the Company's assets were inventory, receivables, and construction in progress. The Company's inventory primarily consists of land assets, contract fulfillment costs, and land development costs. Construction in



progress mainly comprises self-operated and agency construction projects. Receivables include receivables from local government institutions.

### **Relatively large reliance on non-standard financing**

DSCI's large investment needs could be partly supported by its financing channels, mainly through bank borrowings and bond issuance. DSCI has good access to diversified funding, such as bank loans and onshore bond financing. Around 46.6% of the Company's debt was from bank loans as of 30 September 2024. The Company also possesses abundant credit resources with a total credit facility of RMB20.6 billion, of which the unused credit line amounted to RMB7.0 billion as of 30 September 2024. Bond financing accounted for 25.5% of its total debts as of 30 September 2024. From January 2022 to March 2025, Meishan Dongpo Development and Investment Group Co., Ltd., a subsidiary of the Company and the sole publicly bond-issuing LIIFC in Dongpo District, raised RMB2.4 billion from the onshore debt market by issuing corporate bonds and private placement notes with coupon rates ranging from 3.0% to 6.9%. However, the Company has a relatively large exposure to non-standard financing, such as financial leasing and trust financing, which represented 27.8% of its total debt. The Company also plans to issue offshore bonds to reduce its reliance on non-standard financing. As of 30 September 2024, the overall financing cost was 6.6%, of which the costs of bank loans and bond financing were 5.8% and 6.9%, respectively.

### **Medium contingent risk resulting from external guarantees**

The Company bears medium contingent credit risk arising from external guarantees. As of 30 September 2024, the Company had outstanding external guarantees of RMB6.1 billion, representing 22.4% of its net assets. The guaranteed parties are primarily local state-owned enterprises in Dongpo District and Meishan City, but also include 3 private-owned enterprises. The scale of guarantees provided to private-owned enterprises was RMB58.1 million, which was small compared to the total amount of external guarantees. However, the beneficiary of one private-owned enterprise has been involved in enforcement proceedings and cases terminated due to insufficient assets, exposing the Company to certain contingent risks.

## **ESG Considerations**

DSCI bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects, and close supervision during construction.

DSCI bears social risks as it implements public policy initiatives by building public infrastructure in the Dongpo District. Demographic changes, public awareness, and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

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

## **Structural Considerations**

DSCI'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 the infrastructure construction in Dongpo 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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