

Credit Opinion

2 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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Chengdu Jianzhou New Town Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Chengdu Jianzhou New Town Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Chengdu Jianzhou New Town Investment Group Co., Ltd. (“JNTI” or the “Company”) reflects Chengdu East New District Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects Chengdu East New District’s vital position in Chengdu City, given its status as a provincial new district with good development potential, but constrained by the relatively small economic scale.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) most important role in industrial development in Jianzhou New Town; (2) solid track record of receiving development support; and (3) good relationship with banks for financing.

However, the rating is constrained by the Company’s (1) increasing debt leverage with certain short-term repayment pressure; and (2) weak assets liquidity.

The stable outlook on JNTI’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its dominant position in the industrial development in Jianzhou New Town.

Rating Drivers

- Most important role in industrial development in Jianzhou New Town
- Solid track record of receiving development support
- Increasing exposure to commercial activities
- Increasing debt leverage with certain short-term repayment pressure
- Good relationship with banks and little non-standard financing exposure
- Weak asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved debt management and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced government payments.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	25.2	30.6	36.9	38.1
Total Equity (RMB billion)	9.2	11.3	12.5	12.6
Total Revenue (RMB billion)	0.8	0.9	0.9	0.3
Total Debt/Total Capital (%)	50.1	49.0	52.1	56.0

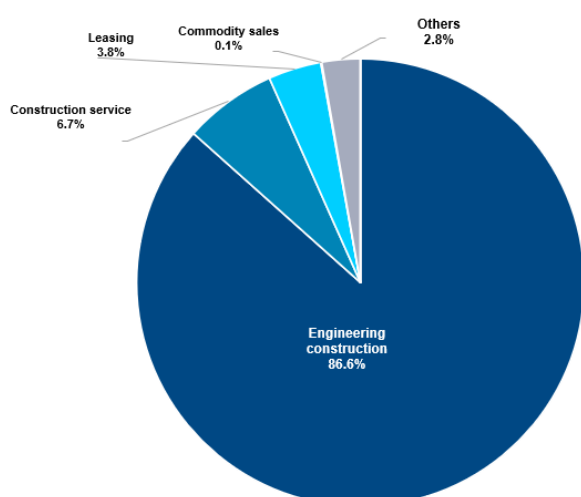
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

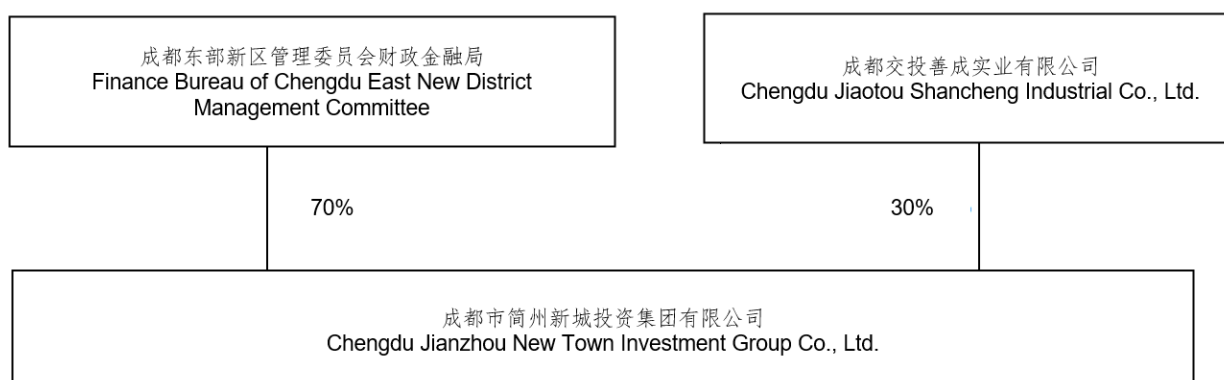
Founded in 2017, JNTI plays an important role in the industrial development of Jianzhou New Town, a part of Chengdu East New District. Apart from public development projects, the Company also derives revenue from businesses such as leasing and construction service business. As of 30 June 2024, Chengdu East New District Management Committee controlled 70% of JNTI's shares and was the ultimate controller.

Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholding structure as of 30 June 2024



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the local government has a strong capacity to provide support to the Company, given its good industrial base, but relatively small economic scale and increasing debt burden.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a gross regional product ("GRP") of RMB6.0 trillion, with a year on year ("YoY") increase of 6.0%, ranking 5th in terms of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB522.9 billion in 2023, up by 13.3% YoY. In 2024H1, Sichuan recorded a GRP of RMB2.9 trillion, with a YoY increase of 5.4%.

Chengdu City is a sub-provincial city that serves as the capital city of Sichuan Province. Chengdu City is also an important economic and financial center, as well as a transportation and communication hub in Southwest China, with a solid economic foundation. Its economy is characterized by industries such as electronic

information product manufacturing, machinery, automotive, metallurgy, building materials and light industry. Chengdu's GRP increased to RMB2.2 trillion in 2023, representing a YoY increase of 6.0%. The Chengdu government's general budgetary revenue amounted to RMB192.9 billion in 2023, a YoY increase of 12.0%. Its fiscal balance ratio was 74.6%, which was at a moderate level. Chengdu's debt burden is manageable. In 2023, Chengdu's outstanding government debt increased to RMB522.9 billion with an increase trend, accounting for 101.3% of its total fiscal revenue and 23.7% of its GRP. In 2024H1, the GRP of Chengdu City recorded a YoY increase of 4.8% and the general budgetary revenue slightly increased to RMB1,012 billion.

Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,991.7	2,081.8	2,207.5
GRP Growth (%)	8.6	2.8	6.0
General Budgetary Revenue (RMB billion)	169.8	172.2	192.9
General Budgetary Expenditure (RMB billion)	223.8	243.5	258.7
Local Government Debt (RMB billion)	404.3	464.1	522.9

Source: Statistic Bureau of Chengdu City, CCXAP research

Chengdu East New District is the second provincial-level new district approved by Sichuan Province after Yibin Sanjiang New District. The Chengdu Eastern New District includes five major areas: Airport New Town, Jianzhou New Town, Tianfu Olympic Sports Park, Tuojiang Development Axis, and Jinjianren Industrial Development Belt. As a provincial-level new district, Chengdu Eastern New District has developed several major industries, including aviation, modern logistics, international consumption, intelligent manufacturing. Meanwhile, Jianzhou New Town is a crucial component of Chengdu Eastern New District, with pillar industries including high-end equipment and automobile manufacturing.

Benefited by Chengdu Eastbound strategy, Chengdu Eastern New District Government's general budgetary revenue increased to RMB1.8 billion in 2023 from RMB574 million in 2021, of which tax revenue accounted for 58.1%. Currently, Chengdu Eastern New District has low fiscal self-sufficiency, with an average fiscal balance ratio of 17.7% over the past three years. With the development over the past three years, Chengdu Eastern New District debt burden increased significantly to RMB15.5 billion in 2023 (2022: RMB6.3 billion). Meanwhile, the Chengdu East New District has received various support from the upper-tier government. Chengdu Eastern New District received subsidies with an average amount of RMB1.5 billion over the past few years. It is also given the priority to obtain newly planned construction land, as well as the authority to exercise land transfer.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu East New District

	2021FY	2022FY	2023FY
GRP (RMB billion)	-	20.3	30.3
GRP Growth (%)	-	34.2	21.3
General Budgetary Revenue (RMB billion)	0.6	0.4	1.8
General Budgetary Expenditure (RMB billion)	3.1	5.7	6.6
Local Government Debt (RMB billion)	0.0	6.3	15.5

Source: Statistic Bureau of Chengdu East New District, CCXAP research

Government's Willingness to Provide Support

Important role in Industrial development in Jianzhou New Town

There are two major construction and operation entities in Chengdu East New District, namely Chengdu Eastern Group Co., Ltd. (“CDEG”) and Chengdu Jianzhou New Town Investment Group Co., Ltd. CDEG is the main entity responsible for engineering construction in the Eastern New District except for the Jianzhou New Town area. The Company is the most important construction entity in Jianzhou New Town. In addition, the Company has gradually expanded in areas other than Jianzhou New Town within the Chengdu East New District. Considering the Company’s high strategic significance to the development of Jianzhou New Town, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company has successfully completed a series of large-scale construction projects over the past few years. As of 30 June 2024, the Company had completed two construction projects, with a total investment of RMB4.5 billion. As of 30 June 2024, the Company had 3 construction projects under construction or planning, with a total estimated investment amount of RMB14.0 billion and an outstanding amount of RMB4.2 billion. We expect that large outstanding amount in the pipelines can ensure the sustainability of the construction business, but exert large capital expenditure pressure on the Company.

Increasing exposure to commercial activities

JNTI is also involved in various commercial activities such as construction service and self-operating projects. Given the large amount of construction of self-operating projects and market-oriented construction projects, we expect the Company will increase its commercial activities exposure in the future.

Construction service is one of the commercial businesses the Company engages, which mainly includes construction waste disposal business. The Company signed contracts with other infrastructure construction companies, stipulating the abandoned soil transportation route, abandoned soil disposal site location, technical indicators, disposal time, abandoned soil disposal unit price and other information. Relevant payment is settled with customers on a monthly or quarterly basis. In 2023, the segment recorded revenue of RMB62.3 million, with a high gross margin of 61.1%.

JNTI also engaged in the construction of self-operating projects and market-oriented construction projects, such as agricultural science and technology park, logistics center, resettlement housing and research and development center. As of 30 June 2024, it had 8 major self-operated and market-oriented construction projects under construction or planning, with a total estimated investment of RMB16.1 billion and an outstanding investment amount of RMB12.4 billion.

Track record of receiving supports

JNTI has a track record of receiving supports from the local government. These supports take various forms, mainly as government subsidies and capital injections, which has effectively improved the Company’s financial leverage. From 2021 to 2023, the Company received government subsidies of RMB9.9 million from the local government. Besides, the Company also regularly receives capital injection over the same period, with a total amount of RMB5.6 billion. Given JNTI’s important strategic role, we expect the Company will continue to receive support from local government in the future.

Increasing debt leverage with certain short-term repayment pressure

JNTI’s total debt had increased from RMB9.2 billion at end-2021 to RMB16.0 billion as of 30 June 2024, and its total capitalization increased from 50.1% to 56.0% over the same period. The increase in debt was mainly attributable to the expansion of its construction projects. The Company has certain short-term repayment

pressure. As of 30 June 2024, its short-term debt accounted for around 27.0% of its total debt. Meanwhile, its cash to short-term debt ratio was 0.5x. As of 30 June 2024, the Company had 11 major projects under construction or planning, with an expected investment of RMB30.1 billion and an outstanding amount of RMB16.6 billion. Given the Company's relatively large capital expenditure pressure, we expect the Company will maintain a fast debt growth and relatively high debt leverage for the next 12-18 months.

Weak asset liquidity

Furthermore, JNTI has weak asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 89.6% of its total asset as of 30 June 2024. Inventories are mainly investment costs for construction projects. Receivables are mainly uncollected amount from the local state-owned enterprises, all of which are considered low liquidity.

Good relationship with banks and little non-standard financing exposure

JNTI has access to funding as mainly reflected by its good banking relationships. Around 82.2% of the Company's debt was provided by bank loan. As of 30 June 2024, it held available credit facilities of RMB3.3 billion. Another 14.4% of funding is supported by bond issuance. As of the reporting date, the Company has an onshore bond outstanding amount of around RMB2.3 billion. In addition, the Company has little exposure to non-standard financing. The Company's overall financing cost was low, with a level of around 4.1%. The proposed issuance of the offshore bonds may further broaden its financing channel.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. JNTI assumes environmental risks for its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

JNTI is also exposed to social risks as it implements public-policy initiatives in Chengdu East New District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. JNTI believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Structural Consideration

JNTI'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 role in the regional development in Jianzhou New Town, 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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