Credit Opinion

4 August 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A_g+
Outlook	Stable

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Changchun Urban Development & Investment Holdings (Group) Co., Ltd.

Surveillance credit rating report

CCXAP affirms Changchun Urban Development & Investment Holdings (Group) Co., Ltd.'s long-term credit rating at A_g+, with stable outlook.

Summary

The A_g+ long-term credit rating of Changchun Urban Development & Investment Holdings (Group) Co., Ltd. ("CCDG" or the "Company") reflects (1) Changchun Municipal Government's very strong capacity to support, and (2) the local government's extremely high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Changchun Municipal Government's capacity to support reflects its vital role as capital city in Jilin Province, with good economic fundamentals and fiscal quality, but constrained by its reduced fiscal income and weakened self-sufficiency ratio. As an important economic and political center in Jilin Province, it is more likely for Changchun City to get support from the provincial government.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) dominant role as the largest local infrastructure investment and financing company ("LIIFC") in Changchun City and Jilin Province; (2) good track record of receiving government's support; and (3) good access to capital.

However, the Company's rating is constrained by its (1) weakened liquidity position; and (2) increasing debt burden.

The stable outlook on CCDG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its dominant role in the regional development and provision of public services in Changchun City.

Rating Drivers

- Dominant role as the largest LIIFC in Changchun City and Jilin Province
- Monopoly position in utility services
- Good track record of receiving government's support
- Low exposure to commercial activities
- Increasing debt burden
- Weakened liquidity position but mitigated by good access to capital

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Changchun Municipal Government's capacity to provide support strengths; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support such as consistently increasing government payments that covers the Company's operational and debt-serving needs.

What could downgrade the rating?

The rating could be downgraded if (1) the Changchun Municipal Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as deteriorated debt management and financing ability, or materially increased exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	253.9	273.6	301.0	304.2
Total Equity (RMB billion)	135.2	143.0	145.7	146.0
Total Revenue (RMB billion)	4.9	8.3	6.7	1.3
Total Debt/Total Capital (%)	38.5	39.4	43.9	44.9

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

Corporate Profile

CCDG was established by the State-owned Assets Supervision and Administration Commission of Changchun Municipal Government ("Changchun SASAC") in September 2013. The Company is the largest LIIFC in terms of total assets in Changchun City and Jilin Province. It has been designated as the main entity in Changchun City for infrastructure construction, public housing development, water supply and sewage treatment. CCDG also has diversified its business into commercial activities such as product sales, leasing, and financial services. As of 31 March 2023, Changchun SASAC held 100% of the Company's shares, which was its ultimate shareholder.

Exhibit 1. Shareholding chart as of 31 March 2023

长春市人民政府国有资产监督管理委员会
State-owned Assets Supervision and Administration Commission of Changchun Municipal Government

100%

长春市城市发展投资控股（集团）有限公司
Changchun Urban Development & Investment Holdings (Group) Co., Ltd.

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

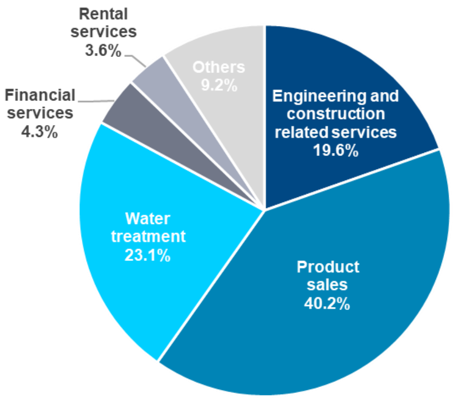
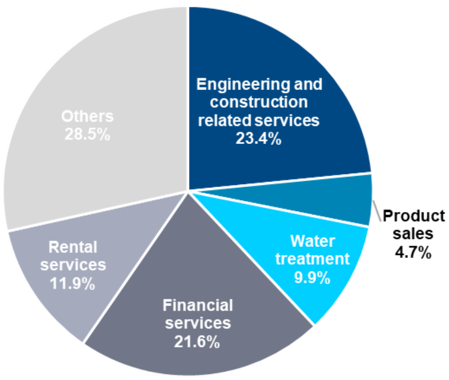


Exhibit 3. Gross profit structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Changchun Municipal Government has very strong capacity to provide support given its vital role as capital city in Jilin Province, with good economic fundamentals and fiscal quality, but constrained by its reduced fiscal income and weakened self-sufficiency ratio. As an important economic and political center city in Jilin Province, it is more likely for Changchun City to get support from the provincial government.

Jilin Province has a developed industrial economy represented by established automobile manufacturing and petrochemical industries, and emerging pharmaceutical and electronic information industries. Changchun City, the provincial capital of Jilin Province, plays a vital role in the province's economy. It is one of the traditional industrial cities in China with three pillar industries, namely automobile manufacturing, agricultural product processing, and transportation equipment manufacturing. In 2022, Changchun City's gross regional product ("GRP") decreased by 4.5% year-over-year ("YoY") to RMB674.5 billion due to the reduction in secondary industry-added value, contributing more than 50% of Jilin Province's GRP.

Changchun City had a relatively healthy fiscal profile given its good tax revenue, but with weakened self-sufficiency. Its general budgetary revenue was RMB46.0 billion in 2022, decreasing by 25.5% YoY due to the pandemic and tax refund policy; while the budgetary self-sufficiency ratio dropped from 63.8% in 2021 to 47.1%. Among them, Changchun City's tax revenue was RMB37.7 billion and accounted for 82.0% of general budgetary revenue. The government fund income of Changchun City significantly decreased from RMB72.0 billion in 2021 to RMB18.9 billion in 2022, mainly due to substantial decrease in income from transfer of state-owned land use rights, especially during the downturn of the real estate market. Nevertheless, Changchun City has received continuous transfer income from Jilin Province, which partially reduced the pressure caused by the reduction of fiscal revenue. As of 31 December 2022, Changchun City reported government debt of RMB232.0 billion, accounting for 34.4% of its GRP. In the first quarter of 2023, Changchun City showed improvement in economic and fiscal performance. It reported GRP and general budgetary revenue of RMB149.4 billion and RMB15.5 billion, which increased by 10.3% YoY and 9.0% YoY, respectively.

Exhibit 4. Key economic and fiscal indicators of Changchun City

	2020FY	2021FY	2022FY
GRP (RMB billion)	663.8	710.3	674.5
GRP Growth (%)	3.6	6.2	-4.5
General Budgetary Revenue (RMB billion)	44.0	61.7	46.0
General Budgetary Expenditure (RMB billion)	108.4	96.6	97.7
Local Government Debt (RMB billion)	153.9	195.6	232.0

Source: Statistics Bureau of Changchun City, CCXAP research

Government Willingness to Provide Support

Dominant role as the largest LIIFC in Changchun City and Jilin Province

CCDG's essential role in Changchun City is consolidated after Changchun SASAC transferred its ownership of some key local state-owned enterprises to the Company in 2014, acting as the largest and the most important LIIFC in Changchun City and Jilin Province. The Company has a dominant position in engineering constru ction in Changchun City, including urban infrastructure construction and welfare housing construction. Since 2017, the Company has undertaken a number of major construction projects in Changchun City, such as urban renewal, automobile industrial park and smart city industrial base.

CCDG primarily engages in the urban construction business with a project management model. The government will repurchase the projects within five to eight years after the projects are completed. The Company is commissioned by the Changchun Municipal Government to act as the main entity in undertaking various infrastructure construction and land development projects in Changchun City, involving the construction of municipal roads, transportation hubs, bridges, and stadiums. As of 31 March 2023, there were 8 projects under construction with gross investment of RMB10.4 billion and invested amount of RMB9.9 billion.

The Company also adopts the PPP model for urban renewal projects and it is responsible for the financing, investing, development, operation, and maintenance of the project. As of 31 March 2023, Shantytown Renovation Redevelopment Project is the key construction project under PPP model, with gross investment amount of RMB25.2 billion, of which invested amount of RMB17.3 billion. This project has obtained bank project loan with credit facility of RMB20 billion and interest rate of 4.90%.

Moreover, CCDG participates in welfare housing construction under the government purchase model and self-sale model. Under government purchase model, the government will pay the Company 30% of the project's construction cost during the development period and will pay the rest of the construction cost with a 10% total cost mark-up in the next 12 years after project completion. Under self-sale model, the Company is responsible to develop housing projects on the land resources that are allocated by the Changchun Municipal Government and the Company directly sells the projects to residents at the selling prices specified by the local government.

The cash collection from the completed construction projects under the government purchase model is lagging behind. As of 31 March 2023, the Company had 7 major welfare housing projects under government purchase model, with gross investment of RMB13.5 billion and the total cash collection was RMB3.9 billion. Fortunately, the financing pressure from welfare housing projects is mitigated by low-cost policy loans. The Company was granted credit facilities of RMB18.1 billion for project development, including a special loan of RMB13.3 billion from China Development Bank with relatively low financing costs and long loan tenors.

Overall, given the abundant projects in the pipeline and the beginning of government payback of its PPP project, the Company's infrastructure construction business is sustainable in the foreseeable future. However, the Company is required to use its cash and other resources to finance the projects before receiving payments from the local government sufficient to cover the expenditures.

Monopoly position in utility services

CCDG is the sole water supplier and the key sewage treatment provider with more than 90% market coverage in Changchun City. As of 31 March 2023, the Company had five water supply plants, serving more than 2.2 million households in Changchun City. It also had 16 sewage treatment plants with a sewage treatment capacity of 1,535 thousand tons per day. Meanwhile, the CCDG had 4 water supply projects under construction, with planned investment amount of RMB3.4 billion and uninvested amount of RMB2.1 billion, which are expected to enhance the Company’s water supply capacity after completion. These projects have been funded by external financing and government special bonds. The Company generated income from water treatment of RMB1.5 billion in 2022, increasing by 11.9% YoY.

The Company also leases its drainage pipelines in Changchun City to the Changchun Municipal Government, after entering into long-term lease agreements. As of 31 March 2023, it had the leasable amount of RMB26.1 billion and these state-owned assets were transferred by the local government. For the past three years, the annual rental income had stabilized at around RMB4 billion, which was recorded as non-operating subsidies and other incomes in its income statement, supporting the Company’s ongoing development.

Good track record of receiving government’s support

Changchun Municipal Government has a proven track record of providing support to CCDG. From 2013 to 2019, the government injected cash of RMB2.1 billion and equities of RMB2.9 billion to the Company. From 2010 to 2013, the local government transferred a total of RMB29.4 billion worth of drainage pipelines to the Company and leased the right to use the pipeline assets for about 50 years. Also, the Company received government subsidies of RMB6.0 billion in 2022, maintaining a relatively high level. Meanwhile, the local government paid purchase service fees and PPP procurement fees of RMB200 million and RMB356 million, respectively. Apart from that, the Company received special funds from Changchun Municipal Government of RMB1.9 billion in 2022.

We expect that, as the largest local state-owned enterprise in Changchun City, the Company’s vital role in the development and operation of Changchun City is irreplaceable, and Changchun Municipal Government has an extremely high willingness to provide support to the Company. However, the fiscal income of Changchun City recorded a decrease in 2022, which may adversely affect the government payments. In addition, CCDG is also the largest LIIFC in Jilin Province and is responsible for part of major infrastructural development in the province. It is expected that the Jilin Provincial Government will also provide support to the Company in times of need.

Low exposure to commercial activities

Apart from public businesses, CCDG has diversified its business into commercial activities such as product sales, leasing, and financial services. We estimate the Company’s risk exposure to commercial business is relatively low as the assets in commercial activities accounted for between 10% and 20% of the total assets as of end-2022.

CCDG engages in the production and sales of concrete, as well as sales of other building materials including steel. This business is the Company's largest source of income source, accounting for around 40% of total revenue over the past few years. However, product sales revenue decreased by 21.6% YoY to RMB2.7 billion in 2022 due to the reduction of municipal engineering construction projects in Changchun City. This income source has shown relatively high volatility and is highly dependent on local construction projects.

CCDG also conducts general rental business including building, car park, fam, shops in railway station and airport, recording as operating revenue of RMB241.7 million in 2022. Additionally, as of 31 March 2023, the Company had two self-operated infrastructure projects, with gross investment of RMB8.8 billion and invested amount of RMB7.9 billion. These two projects are the Changchun Automobile Economic Development Zone Prosperity Intelligent Manufacturing Industrial Park Project and the Changchun Jingyue Intelligent City Industry Base Project, which are expected to provide the Company with recurring rental income after completion.

CCDG's financial service business involves the provision of financial services to agricultural and small and medium-sized enterprises, providing guarantees, financial leasing, securities services, commercial factoring, and equity investment. The Company generated RMB20.7 million in revenue from the microfinance business, significantly decreasing by 65.6% YoY. However, the Company faces higher operational risk exposure to private-owned enterprises in this business.

Overall, we expect the Company will not aggressively grow its commercial exposure because its major role is still to the urban construction and development of Changchun City.

Increasing debt burden

CCDG maintained high debt growth as compared with the growth rate of practical project investment and business expansion. As of 31 March 2023, the Company reported total debt of RMB118.9 billion and total capitalization ratio of 44.9%, compared with RMB92.9 billion and 39.4% at end-2021. The Company maintained a balanced debt structure. Bank loans and bond issuance accounted for majority of its total debt and there were also some non-standard products. However, taking into account the large capital expenditure needs of the Company's sizable projects under construction or planning, we expect its debt leverage will moderately increase over the next 12-18 months.

Weakened liquidity position but mitigate by good access to capital

CCDG's liquidity position has been weakened due to the increasing amount of short-term debt. The Company's short-term debt increased from RMB30.0 billion at the end of 2021 to RMB37.9 billion in 2023Q1, while its cash/short-term debts ratio weakened from 0.6x to 0.4x. We believe that the Company's liquidity risk is manageable, as mitigated by its adequate standby liquidity buffer and good access to the bond markets. CCDG has built long-term relationships with the major banks in China, which provide sufficient facilities to maintain its continuous investment. As of 31 March 2023, the Company had total credit facilities of RMB222.4 billion, of which the unutilized credit facilities amounted to RMB58.5 billion. Moreover, the Company has good access to both onshore and offshore debt capital markets. From January 2022 to June 2023, the Company raised RMB10.7 billion through the onshore debt market with coupon rates between 3.8% and 5.5%. Also, the Company issued one offshore bond with a total amount of USD250 million and coupon rate of 5.0% in June 2022.

Taking into account the strong support from the local government as well as the Company's liquidity buffer, we believe that the Company will have a relatively low liquidity risk over the next 12 to 18 months.

ESG Considerations

CCDG is exposed to environmental risks because it has undertaken infrastructure construction projects and public services. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase. The Company is required to comply with various environmental, as well as health and safety, laws and regulations promulgated by the PRC government. CCDG successfully issued a green bond in the offshore market on 14 June 2022. The Company developed Green Finance Framework and received NDRC Certificate. Its Green Finance Framework is also in compliance with the Green Bond Principle 2021 of the International Capital Market Association.

CCDG bears social risks as it plays a crucial role in the social welfare of the residents in Changchun City by providing public services, including water supply, sewage treatment, affordable housing, and building and leasing of public infrastructures. As the largest state-owned entity in Changchun City, the Company has also launched multiple measures to ensure the provision of utility and the daily needs of the residents during the pandemic control period.

In terms of corporate governance, CCDG has established a sound and effective internal control framework and has also set up a corporate governance structure, with the shareholders, directors, supervisors, senior management team, and internal departments performing their duties collectively and efficiently. The Company is subject to oversight and reporting requirements to the Changchun SASAC, which has full control and supervision of the Company's operation.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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