

Credit Opinion

7 November 2024

Chengdu Economic Development Industrial Investment Group Co., Ltd.

Initial credit rating report

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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CCXAP assigns first-time long-term credit rating of BBB_g+ to Chengdu Economic Development Industrial Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Economic Development Industrial Investment Group Co., Ltd. (“CEDI” or the “Company”) reflects (1) Longquanyi 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 Longquanyi District Government’s capacity to provide support reflects that Longquanyi District ranked 3rd among 20 districts/counties by gross regional product (“GRP”) in Chengdu City in 2023, with good economic fundamentals and fiscal strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) position as the key entity responsible for industrial development and operation in Longquanyi District; and (2) good record of receiving government payments; and (3) high sustainability of its public services business.

However, the rating is constrained by the Company’s (1) relatively high leverage level and short-term repayment pressure; and (2) relatively large reliance on high-cost non-standard financing.

The stable outlook on CEDI’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, being the key entity for infrastructure construction, and industrial development and operation entity in Longquanyi District.

Rating Drivers

- Key entity responsible for industrial development and operation in Longquanyi District
- High sustainability of its public services business
- Good record of receiving government payments
- Low exposure to commercial activities
- Relatively high leverage level and short-term repayment pressure
- Relatively large reliance on high-cost non-standard financing
- Relatively high contingent risk associated with external guarantee

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as reduced reliance on non-standard financing or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced strategic significance or increased exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	124.8	134.9	138.7	146.4
Total Equity (RMB billion)	39.8	41.7	43.0	42.0
Total Revenue (RMB billion)	5.6	6.8	7.1	1.6
Total Debt/Total Capital (%)	65.9	67.4	66.9	69.2

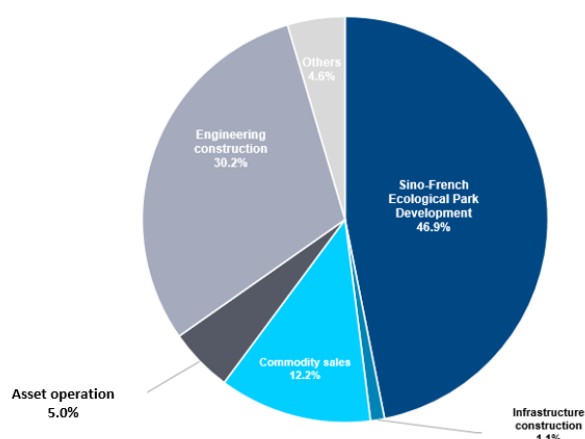
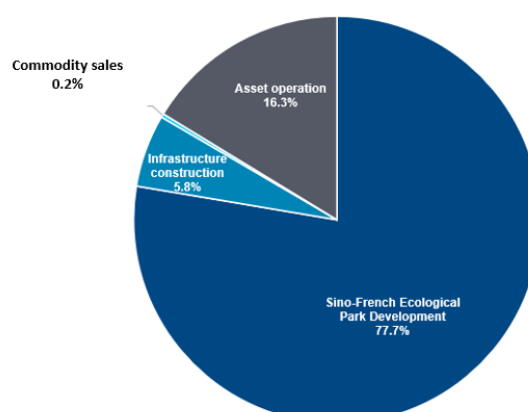
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

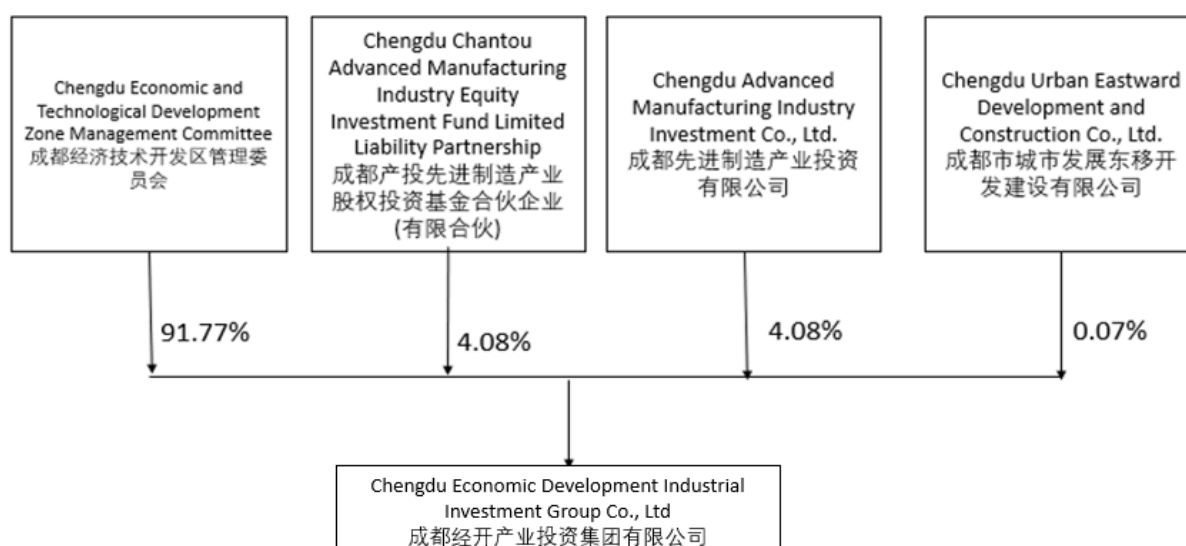
Corporate Profile

CEDI is a key entity responsible for infrastructure construction and industrial development and operation in the Longquanyi District, which is also known as the Chengdu Economic and Technological Development Zone ("Chengdu ETDZ"), Chengdu City. The Company is primarily responsible for the development and operation of the Sino-French Ecological Park, rural revitalization projects and infrastructure development in Longquanyi District. Apart from public projects, the Company also derives revenue from businesses such as self-operating projects, engineering construction and asset operation.

As of mid-2024, Chengdu Economic and Technological Development Zone Management Committee ("Chengdu ETDZ Management Committee"), the ultimate controller of CEDI, owned 91.77% of the Company's shares.

Exhibit 1. Revenue Structure in 2023**Exhibit 2. Gross Profit Structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding and organization chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Longquanyi District Government has a strong capacity to provide support for the Company given its good economic fundamentals and fiscal strengths, but relatively high regional debt ratio.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a 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 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 4. 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

Longquanyi District is close to the five central districts of Chengdu City, and is a high-end manufacturing center in southwest China. Located in Longquanyi District, Chengdu ETDZ was approved by the State Council as a national-level economic development zone in 2000. Chengdu ETDZ combined the government administration with Longquanyi District and unified in government management, local planning and financing. Longquanyi District is the major district of "Chengdu Eastbound Strategy". Relying on the development of the automobile and auto parts industries, the economy of Longquanyi District has developed rapidly in recent years.

Longquanyi District's GRP amounted to RMB150.3 billion in 2023, with a GRP growth rate of 6.1%. The GRP of Longquanyi District ranked 3rd among 20 districts/counties by GRP in Chengdu City in 2023, accounting for about 6.8% of Chengdu's GRP. Longquanyi District Government's general budgetary revenue increased from RMB7.9 billion in 2021 to RMB8.5 billion in 2023. Meanwhile, it managed to maintain high fiscal stability, in which tax revenue accounted for around 81.1% in 2023. Longquanyi also has moderate fiscal self-sufficiency, with an average fiscal balance ratio of 68.4% over the past three years. In addition, Longquanyi District's outstanding government debt amounted to RMB26.3 billion with an increasing trend, accounting for 20.8% of its GRP. In 2024H1, Longquanyi District recorded a GRP and general budgetary revenue of RMB74.9 billion and RMB5.8 billion respectively.

Exhibit 5. Key Economic and Fiscal Indicators of Longquanyi District

	2021FY	2022FY	2023FY
GRP (RMB billion)	150.4	154.6	150.3
GRP Growth (%)	7.2	1.8	6.1
General Budgetary Revenue (RMB billion)	7.9	7.5	8.5
General Budgetary Expenditure (RMB billion)	10.9	11.6	12.6
Local Government Debt (RMB billion)	25.6	26.3	31.2

Source: Statistic Bureau of Longquanyi District, CCXAP research

Government's Willingness to Provide Support

Key entity responsible for industrial development and operation in Longquanyi District

There are 3 major Local Infrastructure Investment and Financing Companies ("LIIFCs") in Longquanyi District, including CEDI, Chengdu Jingkai Guotou Investment Group Co., Ltd. ("CJGI"), and Chengdu Economic Development Holding Group Co., Ltd. ("CEDH"). CEDH has been mandated by the local government to consolidate the LIIFCs in Longquanyi District and is now operating as a holding company. CJGI is CEDH's major subsidiary, responsible for the urban development in Longquanyi District. CEDI is mainly responsible for the industrial development and operation in Longquanyi District, including the regional development of Sino French Ecological Park. In the future, further consolidation of the local LIIFCs maybe conducted according to government plans.

With industrial development projects covering different areas such as rural revitalization and Sino-French Ecological Park, we believe the Company's important position in Longquanyi District will not be easily changed in the foreseeable future.

High sustainability of its public services business

The major subsidiary of the Company, Chengdu Sino French Ecological Park Investment Development Co. Ltd. ("SFEP"), is the sole entity focusing on the development of major infrastructure construction in Chengdu Sino-French Ecological Park. Located in Chengdu ETDZ with a total area of 131 square kilometers, Chengdu Sino-French Ecological Park is a program under the cooperation between China and France concentrating on energy-saving and environment-friendly technologies and relevant products. The Company entered into a cooperation agreement with the Chengdu ETDZ Management Committee with respect to its main business projects. CEDI undertakes the construction work for the government regarding infrastructure and public facilities in the Sino-French Ecological Park. In return, the Company is entitled to obtain part of the government fund revenue generated from the sale of land use right in the Sino-French Ecological Park, and part of the value-added tax revenue generated within the Sino-French Ecological Park, as its operating revenue. As of 31 December 2023, CEDI had a large amount of Sino-French Ecological Park projects under construction or planning, with a total planned investment of RMB12.0 billion and outstanding amount of RMB7.1 billion.

Besides, the Company is also in charge of infrastructure construction projects in Longquanyi District other than Sino French Ecological Park under three models, namely agency construction, project repurchase and government purchase services. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The entrusting party is usually the government department. The repurchase payment is calculated based on the construction cost plus an agreed return. The projects the Company undertook covered different areas, mainly industrial park, ecological emigration, and rural revitalization projects. We believe these projects are closely in line with local development plan. As of end-2023, the Company had 22 major projects under construction, with a total planned investment of RMB31.7 billion and uninvested amount of RMB5.1 billion. We expect that the projects in the pipelines can ensure the sustainability of public policy business, but exert large capital expenditure pressure on the Company.

Good record of receiving government payments

CEDI has a track record of receiving payments from the Longquanyi District Government. These payments take various forms, such as government subsidies and asset injections. In terms of asset injections, the Company received asset injections from the local government with a total of RMB4.3 billion from 2021 to 2023, mainly equities of other local state-owned enterprise, land, and properties. Besides, the government also provided

subsidies of RMB974.3 million over the same period. Considering the economic and financial growth of Longquanyi District, as well as the progress of Chengdu Eastbound Strategy, we expect the Company will continue to receive support from the local government in the future.

Low exposure to commercial activities

Apart from public projects, the Company also engages in property leasing and the construction of self-operating projects. We consider CEDI's commercial business exposure to be medium, as its commercial business-related asset accounted for around 15% of the Company's total asset.

The Company engages in commodity sales business, with commodity mainly including mineral products, steel, coal, metal materials, building materials. Since 2021, the revenue from this segment recorded significant growth, from RMB192 million in 2021 to RMB869 million in 2023. The segment supplements the total operating income to a certain extent, but the gross profit margin in 2023 was lower than 1%. The upstream and downstream enterprises of this segment accounted for 64.9% of total procurement and 44.4% of total sales, indicating certain concentration risk. Nevertheless, as the counterparties are mainly state-owned enterprises, hence the counterparty risk is manageable.

The Company participates in the asset operation business, which mainly involves the leasing of office buildings, plant, and shops. As of the end of 2023, the Company's asset for lease had a leasable area of 1.2 million square meters, with an average occupancy rate of over 90%, indicating good leasing conditions. Overall, the leasing business provides a stable supplementary income to the Company. In 2023, the asset operation business recorded a revenue of RMB364 million and its segmental gross margin improved to 42.8%. In addition, the Company also engages in the construction of self-operating projects, and the Company mainly achieves a balance between revenue and expense through obtaining operating income from these projects. As of end-2023, the Company had 2 major self-operated projects under construction, with a total planned investment of RMB1.9 billion and uninvested amount of RMB514 million.

Relatively high leverage level and short-term repayment pressure

The Company's total debt slightly increased from RMB76.9 billion at end-2021 to RMB94.5 billion at mid-2024, while its capitalization ratio increased from 65.9% to 69.2% over the same period. In addition, the Company has an unbalance debt structure, with short-term debt accounting for 45.3% of its total debt. The cash to short-term debt ratio was merely 0.2x, indicating relatively high short-term repayment pressure. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

Meanwhile, the Company has a moderate asset liquidity profile. As of mid-2024, inventory and non-current assets collectively accounted for around 80% of its total asset. Inventory is mainly the construction cost, and non-current asset is mainly receivables arising from public projects and other non-current asset such as public projects and land reserve. We assess the liquidity of these assets to be low.

Relatively large reliance on high-cost non-standard financing

The funding channels of the Company is well-diversified but the portion of non-standard borrowing is high. As of 30 June 2024, the Company had relatively large amount of high-cost non-standard financing, which accounted for 19.5% of the total debt. The Company's overall financing cost was about 6.8%, while the non-standard financing cost was around 9.1%. Around 29.5% of debt was provided by both onshore and offshore debt capital market. The Company has track record of bond issuance in offshore capital market. As of 30 June

2024, the Company and its subsidiary SFEP had 4 outstanding offshore bonds, with a total outstanding amount of USD500 million and CNY300 million. In addition, the Company has maintained good relationship with large domestic banks, with an average financing cost of 6.4%. CEDI held a total facility of RMB102.5 billion and available facility of RMB41.8 billion, which is likely to provide credit cushion when necessary.

Relatively high contingent risk associated with external guarantee

CEDI has a relatively large exposure to contingent liabilities risk. As of mid-2024, the Company provided external guarantee of RMB15.9 billion, representing 37.8% of its net asset. Considering the external guarantee was provided to local state-owned enterprises, we believe the exposure of external guarantee is relatively high. If credit events occur, we believe the government is likely to provide necessary support, which may provide some buffer against relevant risks.

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. CEDI assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CEDI is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Longquanyi 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.

Structural considerations

CEDI'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 local industrial development and operation in Longquanyi 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Chengdu Economic Development Industrial Investment Group Co., Ltd.	Chengdu Xingdong Rural Development Group Co., Ltd.	Chengdu Sino French Ecological Park Investment Development Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g	BBB _g
Shareholder	Management Committee of Chengdu Economic and Technological Development Zone	CEDI	CEDI (96.77%), Chengdu ETDZ Jinfa Equity Investment Fund Center (3.23%)
Positioning	Responsible for development of Sino-French Ecological Park and infrastructure construction in Longquanyi District.	Responsible for agricultural development and rural revitalization in Longquanyi District.	Responsible for the construction of infrastructure and public facilities, investment promotion, and other relevant services in the Sino-French Ecological Park
Total Asset (RMB billion)	146.3	45.2	42.6
Total Equity (RMB billion)	42.0	16.0	10.7
Total Revenue (RMB billion)	1.6	0.1	0.5
Total Debt/Total Capital (%)	69.2	58.7	70.5

Source: Company information, CCXAP research

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