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

Hong Kong, 20 September 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BBB_g+ long-term credit rating to Chongqing Fuling Industrial Development Group Co., Ltd ("FIDG" or the "Company"), with stable outlook.

The BBB_g+ long-term credit rating of the Company reflects Chongqing Fuling District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of the Fuling District Government's capacity to support reflects that Fuling District ranked 5th among 38 districts in Chongqing City by gross regional product ("GRP") in 2021, and as a national shale gas demonstration zone in China, with a good industrial foundation and economic strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong strategic position as the most important state-owned assets operation entity in Fuling District; (2) solid track record of receiving government payments; and (3) increasing operating profit, with a large portfolio of high-quality equity in listed companies. However, the Company's rating is constrained by its (1) medium exposure to commercial business; and (2) fair debt growth and moderate assets liquidity.

Corporate Profile

Founded in 2011, formerly known as Chongqing Zhanxin Investment Co., Ltd., and designated by the Fuling District Government, FIDG has become the most important state-owned capital investment and assets operation entity in Fuling District after consolidating 3 subsidiaries in March 2022, of which Chongqing Fuling State-Owned Assets Investment Management Group Co., Ltd. is the core subsidiary. The Company has played an important role in operating and investing in the incubator industry in Fuling District as well as undertaking a number of strategically important urban infrastructure construction and land development projects. FIDG engages in diversified business segments, mainly responsible for public policy projects such as land consolidation, resettlement housing, and shantytown reconstruction in Fuling District; as well as market-oriented business such as food processing, aluminum product processing and sales, and sales of shale gas.

As of 30 June 2022, the State-owned Assets Supervision and Administration Commission of Fuling District ("Fuling SASAC") is the sole shareholder and actual controller of the Company.

Rating Rationale

Credit Strengths

Strong strategic position as the most important state-owned assets operation entity in Fuling District. FIDG is the biggest Local Infrastructure Investment and Financing Companies ("LIIFC") by assets scale in Fuling District, having strong capital strength with both functions of land consolidation and state-owned assets operation. As an important LIIFC of land consolidation and development in Fuling District, it is mainly responsible for the demolition and reconstruction of shanty towns in the old urban area and land consolidation in industrial parks. The Company focuses on the development of primary land consolidation projects in Fuling District. According to the overall land development and supply plan, the Fuling District Government entrusts the Company to carry out the construction of supporting infrastructures such as site leveling, road paving, water supply, power supply, and gas supply on the state-owned land in Fuling District. As of the end of June 2022, the Company had a total book land parcel of 133,898.71 mu, and the total area of land parcels being consolidated by the Company was 30,326.52 mu.

Increasing operating profit, with a large portfolio of high-quality equity in listed companies. FIDG entered food processing, sales of shale gas, processing of aluminum products and other businesses through equity investment, these businesses bring a good contribution to the Company's operating profit. Chongqing Fuling Zhacai Group Co., Ltd ("Fuling Zhacai", Stock Code: 002507.SZ) is the Company's holding subsidiary and one of the largest mustard processing enterprises in China. Fuling Zhacai mainly sold mustard under the brand of "Wu Jiang" to national wide and overseas. From 2019 to 2021, the gross profit margin of the food processing business was above 50%, of which the gross profit of the food processing business in 2021 is RMB1.3 billion, accounting for 61% of the Company's total profit.

Solid tracked record of receiving government payments. As a state-owned enterprise controlled by the Fuling SASAC, FIDG has a solid track record of receiving government payments from the Fuling District government. These payments come in various forms, such as government subsidies, asset injection, equity transfer and compensation for land consolidation. In order to expand the Company's business development, Fuling SASAC transferred 3 local LIIFCs to the Company in March 2022, the Company's registered capital has increased from RMB0.5 million in 2011 to RMB5 billion, and the paid-in capital was RMB4.6 billion.

Good access to funding. FIDG has good access to the onshore debt capital market and maintains a good relationship with large domestic banks, around 31.0% of the Company's debt financing was provided by domestic banks. It held a total credit facility of RMB55.7 billion and available credit facilities of RMB28.6 billion as of the end of June 2022. From 2021 to 2022H1, FIDG issued a total amount of RMB23.1 billion onshore bonds, with a coupon range from 3.39%-5.25%.

Credit Challenges

Medium exposure to commercial business. The Company conducts resettlement housing construction by entering agent construction and project management contracts with state-owned enterprises in Fuling District. The entrusted party sells the resettlement housing and related commercial facilities to the market, and returns the sales income to the Company. The Company's commercial businesses, such as food processing, sales of shale gas, processing of aluminum products are self-supporting, are more market-driven. The current and expected volumes of products' supply and demand which the Company has traded are vary over time-based on changes in demand in end markets that the products are consumed, government policies and regulation. Furthermore, declines in the price of products or increase of volume of products in the market could adversely impact the Company's business, results of operations and earnings in its business.

Fair debt growth and moderate assets liquidity. The Company's total debt increased from RMB43.9 billion in 2019 to RMB56.0 billion in 2021. Given the Company's investment in land consolidation and resettlement housing construction has been basically completed, and the Company's future financing will focus on repayment of debts and capital investment, we expect the Company's debt growth will remain within at the current level for the next 12-18 months. In addition, The Company held a large portfolio of listed companies' shares. According to the closing price at end of June 2022, the total market value of important listed companies held by the Company is about RMB13.0 billion, with a high market value and good asset profitability. However, the Company also held a large number of land use rights and accounts receivables, which are considered low liquidity. As of the June 2022, land use rights and accounts receivable recorded RMB25.8 billion, accounting for 19.3% of the Company's total assets.

Rating Outlook

The Stable outlook on FIDG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its key role as an important state-owned capital investment and assets operation entity in Fuling District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial business 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 regional significance or increased debt growth.

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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