

CCXAP assigns first-time long-term credit rating of BBB_g- to Chengdu Longke Urban and Rural Development Group Co., Ltd., with stable outlook.

Hong Kong, 30 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g- to Chengdu Longke Urban and Rural Development Group Co., Ltd. (“LURD” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of LURD reflects Chengdu Wenjiang District Government’s relatively strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Wenjiang District Government’s capacity to provide support reflects Wenjiang District’s gross regional product (“GRP”) maintains a moderate level in Chengdu City, with relatively good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) ultimate control by Chengdu Wenjiang District State-Owned Assets Supervision and Administration Bureau (“Wenjiang District SASAB”); (2) strategic position of infrastructure construction in the northern area of Wenjiang District; and (3) solid track record of receiving government payments. However, the Company’s rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) relatively high debt growth driven by a large number of construction projects.

Corporate Profile

Founded in 2014, formerly known as Chengdu Sanlian Property Management Co., Ltd., LURD was mainly engaged in the property service business. Since 2021, Wenjiang District SASAB has successively transferred the equity shares of Chengdu Longbo Investment Co., Ltd. (“Longbo Investment”) and other state-owned entities into the Company, LURD has become an important infrastructure construction entity in Wenjiang District. The Company is primarily responsible for infrastructure construction and demolition in the north of Wenjiang District. Apart from its main business, the Company is also engaged in other commercial businesses, such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. As of 30 September 2022, the Company is directly and wholly owned by the Wenjiang District SASAB.

Rating Rationale

Credit Strengths

Strategic position of infrastructure construction in the northern area of Wenjiang District.

After the injection of Longbo Investment, the Company has a clear positioning and is committed to promoting the rural revitalization and integrated development of urban and rural areas in Wenjiang District. The Company is mainly engaged in the construction of infrastructure, seedling bases, agricultural parks and other projects in the northern area of Wenjiang District, as well as demolition in the northern and southern areas of Wenjiang District.

Undertaking large infrastructure construction and demolition projects. LURD is mandated by the government to undertake local public activities, such as local infrastructure construction and demolition project. The Company's infrastructure projects are mainly undertaken by its subsidiaries, Longbo Investment. In addition, LURD is entrusted by the government to undertake demolition projects in the northern and southern areas of Wenjiang District since 2018. The scale of demolition project reserves is relatively small as it relies on the urban planning of Wenjiang District Government.

Solid track record of receiving government payments. LURD has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections and equity transfers. The Company also regularly receives repurchase payments for its infrastructure construction and demolition projects. In order to support the Company's business expansion, Wenjiang District SASAB transferred 100% shares of Longbo investment to the Company in 2021 and increased its capital reserve by RMB6.7 billion.

Credit Challenges

Medium exposure to commercial activities. In addition to public welfare activities, LURD is also involved in other commercial activities such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. We consider LURD's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets. We believe the Company will increase the exposure of its commercial business in the future given the Company's plan to develop its self-operated projects.

Relatively high debt growth driven by a large number of construction projects. LURD has had relatively high debt growth due to its debt-driven business expansion over the past few years. Total debt increased from RMB8.8 billion at the end of 2019 to RMB13.8 billion on 30 September 2022. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. In addition, LURD has moderate asset liquidity. As of 30 September 2022, the Company's total asset consists mainly of inventories and receivables, accounting for 82% of its total asset.

Rating Outlook

The stable outlook on LURD'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 as the important rural revitalization infrastructure construction entity in Wenjiang District.

What could upgrade the rating?

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

What could downgrade the rating?



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

Rating Methodology

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

Regulatory Disclosures

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