

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Dujiangyan Smart City Operation and Construction Development Group Co., Ltd., with stable outlook.**

Hong Kong, 16 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Dujiangyan Smart City Operation and Construction Development Group Co., Ltd. (“DSOC” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of DSOC reflects Dujiangyan City Government’s relatively 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 Dujiangyan City Government’s capacity to provide support reflects Dujiangyan City’s vital position in Chengdu City, given its good cultural and tourism resources, but relatively weak industrial base.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the major infrastructure constructor and urban operator in Dujiangyan City; and (2) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) relatively high reliance on non-standard financing; (2) medium exposure to contingent risk; and (3) moderate assets liquidity.

### **Corporate Profile**

Founded in 2016, formerly known as Dujiangyan Xincheng Equity Investment Co., Ltd., DSOC is one of the 5 key subsidiaries of Chengdu Dujiangyan Investment Development Group Co., Ltd. (“CDID”). The Company is primarily responsible for infrastructure construction and resettlement housing construction in Dujiangyan City. Apart from public development projects, DSOC has a clear positioning of urban operation. The Company also derives revenue from businesses such as property sales, material trading, property leasing and management, car parking services and human resource services. As of 31 December 2022, CDID held 90% and Sichuan Provincial Department of Finance held the remaining 10% of the Company’s shares. The Company was ultimately controlled by Dujiangyan State-owned Assets Supervision and Administration and Finance Bureau (“Dujiangyan SASAFB”).

### **Rating Rationale**

#### **Credit Strengths**

**Important role as the major infrastructure constructor and urban operator in Dujiangyan City.** DSOC has a clear positioning of urban operation of Dujiangyan City. The Company is responsible for resettlement housing construction, infrastructure construction, and parking lot operation in Dujiangyan City. Considering the Company’s high strategic significance to the development of Dujiangyan City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

**Solid track record of receiving government payments.** DSOC has a track record of

receiving payments from the Dujiangyan City Government. These payments take various forms, such as government subsidies and capital injections. From 2020-2022, the Company received a total of RMB166.4 million in government subsidies. The Company also regularly receives repurchase payments for its public policy projects. Given DSOC's important strategic role, we expect the Company will continue to receive support from the Dujiangyan City Government in the future.

### Credit Challenges

**Increasing debt burden and moderate asset liquidity.** DSOC's total debt had increased from RMB5.7 billion at end-2020 to RMB7.9 billion as of 31 December 2022, its total capitalization increased from 34.1% to 41.1% over the same period. The increase in debt was mainly attributable to the expansion of the construction of public activities and commercial activities projects. Furthermore, DSOC has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 85.3% of its total asset as of 31 December 2022.

**Relatively high reliance on non-standard financing.** DSOC has access to funding as reflected by its good banking relationships and access to the onshore debt capital market. However, the Company has a relatively high reliance on non-standard financing. Around 30% of debt financing was provided by non-standard financing, including trust financing and asset management financing. It also plans to issue offshore bonds to broaden its financing channel and reduce its reliance on non-standard financing.

**Medium exposure to contingent risks.** DSOC has medium exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 December 2022, its external guarantee amount was RMB3.8 billion, accounting for 33.3% of its net asset. All the external guarantees are provided to state-owned enterprises in Dujiangyan City. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

### Rating Outlook

The stable outlook on DSOC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important position in the infrastructure construction and urban operation in Dujiangyan City.

#### 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 decreased exposure to contingent risk 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 regional significance.

### **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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