

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

Hong Kong, 7 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Dujiangyan Urban and Rural Construction Group Co., Ltd. (“DURC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of DURC 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 in infrastructure construction and rural revitalization of Dujiangyan City; and (2) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) high exposure to contingent risk; and (2) moderate assets liquidity.

Corporate Profile

Founded in 2010, formerly known as Dujiangyan City Agglomeration Agriculture Co Ltd, DURC is one of the 5 key subsidiaries of Chengdu Dujiangyan Investment Development Group Co., Ltd. (“CDID”). DURC has a clear positioning of urban and rural construction, and is primarily responsible for infrastructure construction and land consolidation in Dujiangyan City. The Company also derives revenue from businesses such as property leasing and development, sandstone trading, self-operating projects, and grain sales.

The Company was originally owned by Dujiangyan New City Construction Investment Co., Ltd. (“Dujiangyan New City”), a subsidiary of CDID. In October 2022, Dujiangyan New City transferred 100% of DURC’s equity to CDID, and then CDID transferred 100% of Dujiangyan New City’s equity to DURC. The Company became the owner of Dujiangyan New City. As of 31 December 2022, the Company was wholly owned by CDID and ultimately controlled by Dujiangyan State-owned Assets Supervision and Administration and Finance Bureau (“Dujiangyan SASAFB”).

Rating Rationale

Credit Strengths

Important role in infrastructure construction and rural revitalization of Dujiangyan City.

DURC has a clear positioning of the rural revitalization of Dujiangyan City. The Company is responsible for land consolidation and infrastructure construction 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.

Low but increasing exposure to commercial activities. In addition to public activities, DURC is also involved in various commercial activities such as property development, sandstone trading, self-operating projects, and grain sales. We consider DURC's commercial business exposure to be low, as its market-driven businesses account for lower than 15% of its total assets. In addition, the Company also engaged in the construction of self-operated projects. Given the relatively large amount of self-operated projects under construction, we expected the Company's exposure to commercial activities will increase in the future.

Solid track record of receiving government payments. DURC has a track record of receiving payments from the Dujiangyan City Government. These payments take various forms, such as government subsidies and capital injections. The Company also receives repurchase payments for its public policy projects. Given DURC's important strategic role, we expect the Company will continue to receive support from the Dujiangyan City Government in the future.

Credit Challenges

Moderate asset liquidity. Furthermore, DURC has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 84.7% of its total asset as of 31 December 2022.

Good access to funding, but relatively high financing costs. Around 72% of its debt was provided by bank loans, with an average loan cost of 5.7%. The Company has also diversified its financing channel to the onshore debt capital market, with an average coupon range of 7.9%. Non-standard financing only accounted for 8% of the total debt, including trust financing and financial leasing. The financing cost of non-standard financing is around 7.9%.

High exposure to contingent risks. DURC has high exposure to contingent risks due to its large amount of external guarantees. As of 31 December 2022, its external guarantee amount was RMB9.8 billion, accounting for 81% of its net asset.

Rating Outlook

The stable outlook on DURC'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 urban and rural infrastructure construction 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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