

## Credit Opinion

17 April 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Chengdu Longke Urban and Rural Development Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Chengdu Longke Urban and Rural Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Chengdu Longke Urban and Rural Development Group Co., Ltd. ("LURD" or the "Company") reflects Chengdu Wenjiang District Government's (1) strong capacity to provide support, and (2) 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 that 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 Wenjiang District Government; (2) strategic position of infrastructure construction in the northern area of Wenjiang District; and (3) solid track record of receiving government payments.

However, the 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.

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 an important rural revitalization infrastructure construction entity in Wenjiang District.

## Rating Drivers

- Strategic position of infrastructure construction in the northern area of Wenjiang District
- Undertaking local infrastructure construction and demolition projects
- Solid track record of receiving government payments
- Relatively high debt growth driven by a large number of construction projects
- Medium exposure to commercial activities
- Access to multiple financing channels

## Rating Sensitivities

### What could upgrade the rating?

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

## Key Indicators

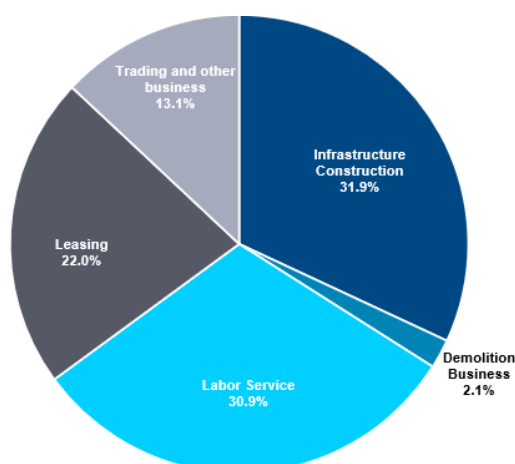
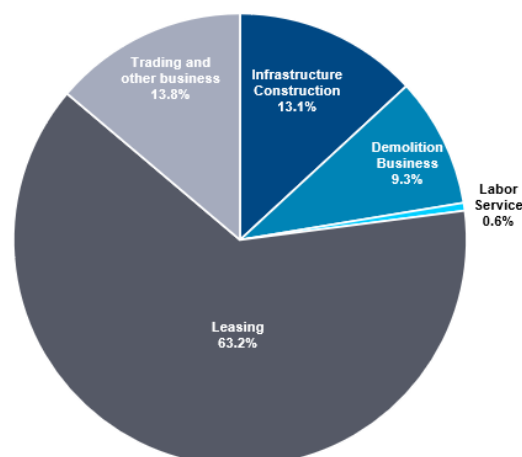
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	61.3	64.9	68.9	73.6
Total Equity (RMB billion)	48.0	48.7	47.4	47.6
Total Revenue (RMB billion)	2.2	2.5	2.1	1.5
Total Debt/Total Capital (%)	17.9	20.7	27.2	31.9

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

Source: Company data, CCXAP research

## 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 labor services, self-operating projects, leasing, material and plant trading, and greening. As of 30 September 2024, the Company is directly and wholly owned by the State-Owned Assets Supervision and Administration Bureau of Chengdu City Wenjiang District ("Wenjiang District SASAB").

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

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Wenjiang District Government has a strong capacity to provide support for the Company, given its moderate GRP level in Chengdu City and good fiscal self-sufficiency.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2024, Sichuan recorded a GRP of RMB6.5 trillion, with a GRP growth rate of 5.7% year on year ("YoY"). Its general budgetary revenue increased to RMB563.5 billion, up by 1.9% YoY.

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. In 2024, Chengdu achieved a GRP of RMB2.4 trillion, a YoY increase of 5.7%. The Chengdu Municipal Government's general budgetary revenue amounted to RMB195.0 billion in 2024, a YoY increase of 1.1%. However, the increase in general budgetary revenue was due to an increase in non-tax revenue, which is considered to be less sustainable. In 2024, the tax revenue of Chengdu City declined to RMB137.4 billion from RMB145.0 billion in 2023. In 2024, its fiscal balance ratio was 74.7%, which was at a relatively good level. In 2024, Chengdu's outstanding government debt increased to RMB620.7 billion with an increasing trend, accounting for 26.4% of its GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	2,081.8	2,207.5	2,351.1
GRP Growth (%)	2.8	6.0	5.7
General Budgetary Revenue (RMB billion)	172.2	192.9	195.0
General Budgetary Expenditure (RMB billion)	243.5	258.7	261.0
Local Government Debt (RMB billion)	464.1	522.9	620.7

Source: Statistic Bureau of Chengdu City, CCXAP research

Wenjiang District is located in the northwest of Chengdu City, with a total area of 277 square kilometers. Relying on its advantageous natural environment, Wenjiang District has been recognized as a national ecological system construction demonstration zone and a model city of green development in China. Supported by its pillar industries, such as flowers and plants, biopharmaceuticals, food and beverage, medical health and eco-tourism industries, Wenjiang District demonstrated ongoing economic growth in the past few years. In 2024, the GRP of Wenjiang District increased by 4.1% YoY to RMB77.1 billion; its general budgetary revenue was recorded as RMB5.9 billion. Wenjiang District had a relatively good fiscal self-sufficiency rate of 75.3% in 2024. Its tax revenue was RMB4.2 billion, constituting 71.3% of its general budgetary revenue in 2024. Moreover, the government fund income declined by 14% YoY to RMB3.8 billion, driven by reduced state-owned land sales. Wenjiang District maintains a moderate debt level, with a government debt to GRP ratio of 28.5% as of 31 December 2024.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Wenjiang District**

	2022FY	2023FY	2024FY
GRP (RMB billion)	71.7	72.9	77.1
GRP Growth (%)	3.0	5.5	4.1
General Budgetary Revenue (RMB billion)	5.2	5.6	5.9
General Budgetary Expenditure (RMB billion)	7.8	8.2	7.8
Local Government Debt (RMB billion)	18.4	20.1	22.0

Source: Statistic Bureau of Wenjiang District, CCXAP research

### **Government's Willingness to Provide Support**

#### **Strategic position of infrastructure construction in the northern area of Wenjiang District**

There are three major LIIFCs in Wenjiang District, including LURD, Chengdu Jiulian Investment Co Ltd. ("Jiulian Investment") Investment and Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. ("WXCO"). LURD is committed to promoting the rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District.

The Company has a clear position 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. Considering the Company's strategic significance for the development of the local economy and public activities, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

#### **Undertaking local infrastructure construction and demolition projects**

LURD is mandated by the local government to undertake local infrastructure construction projects, such as road upgrading projects and land consolidation. The scope of the business mainly focuses on the northern area of Wenjiang District. The Company conducts infrastructure construction projects in the repurchasing model and agency construction model. As of 31 March 2024, the Company had 5 infrastructure construction projects under construction, with a total investment amount of RMB1.1 billion and an outstanding amount of RMB95.0 million. The subsequent construction projects will be mainly conducted by the self-operating model. In addition, the Company undertake the agency construction service business, responsible for the relocation and resettlement in Longfeng community, Wenjiang District. As of 31 March 2024, the total investment amount for the Company's agency construction service was RMB2.6 billion, with an outstanding amount of RMB0.9 billion.

LURD has also been entrusted by the local government to undertake demolition projects in the northern and southern areas of Wenjiang District since 2018. The Company conducts demolition projects by entering an agency demolition agreement with the entrusting parties. As of 31 March 2024, the Company had 4 demolition projects under construction, with an invested amount of RMB409.8 million. The Company's demolition projects under construction were basically completed, and there were no demolition projects under planning. The sustainability of the demolition project heavily relies on the urban planning of the Wenjiang District Government.

### **Medium exposure to commercial activities**

In addition to public welfare activities, LURD is also involved in other commercial activities such as labor services, 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 20% to 30% of its total assets.

LURD engages in the construction of self-operating projects, such as the Agricultural High-tech Industrial Park project and Wenjiang District Youqing Flower Industry Base project. The self-operating projects mainly achieve income through assets operating, leasing and selling from these projects. As of 31 March 2024, the Company had 12 self-operating projects under construction or planning, with a total investment amount of RMB8.2 billion and an outstanding amount of RMB5.6 billion. As the investment scale of self-operating projects is relatively large and the payback period is long, the Company will face large capital expenditure pressure in the future. We believe the Company's exposure of its commercial business will increase in the future given its plan to develop its self-operated projects.

The Company has been providing water infrastructure facilities leasing and other commercial assets leasing since 2017, such as residences and commercial properties. Income from water infrastructure facilities leasing is stable as the Company signed a leasing agreement with Chengdu Kerong City Investment Co., Ltd. ("CKCI"), and the Company leased out the water infrastructure facilities to CKCI until 2028; the annual rent during the lease period is RMB171.0 million. The Company also leases residential units, offices, commercial spaces, and warehouses to government and private entities. However, income from other commercial assets leasing is more volatile as it is subject to market conditions and government policies. As of 31 March 2024, the Company recorded a leased area of 285,200 square meters with an annual rent income of RMB237.0 million.

LURD provides human resource outsourcing services to relevant government and public institutions in Wenjiang District and collects labor dispatch service fees. Due to the increasing labor demand in Wenjiang District, the revenue of the Company's labor service business significantly grew by 114% YoY to RMB640.0 million in 2023, becoming the second largest revenue source. This segment accounted for 30.9% of total revenue but reported a low gross profit margin of 0.4%, reflecting limited profitability despite rapid growth.

LURD conducts plant trading business by cultivating and selling plants, as well as providing a plant trading platform. The plant trading business has a relatively low profit margin as it is affected by market demand, transportation, and labor costs. LURD also sells construction materials to construction companies, such as steel. Moreover, the Company also operates property services, including building maintenance, public facility equipment repair and upkeep, cleaning services, and landscaping maintenance. However, their small operating scale limits the contribution to the Company's cash flow and revenue.

### **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 regularly receives subsidies from the government. In 2023, the local government provided a government subsidy of RMB264.0 million, and the Company received local government special bonds of RMB742.0 million. The local government also makes project payments to the Company for its public policy projects. Overall, given its important position and contribution to regional economic development, we believe that LURD will receive ongoing government support to support its business operations.

### **Relatively high debt growth driven by a large number of construction projects**

LURD has a relatively high debt growth. The total debt increased from RMB17.7 billion at the end of 2023 to RMB22.2 billion on 30 September 2024. The increase in debt was mainly attributable to the ongoing project construction. Moreover, the Company faces certain liquidity pressure as short-term debt accounted for 32.0% of total debt, with cash to short-term debt ratio of 0.4x as of 30 September 2024. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt growth for the next 12-18 months.

In addition, LURD has weak asset liquidity. As of 30 September 2024, the Company's total asset consists mainly of inventories and receivables, accounting for 81.8% of its total assets. Inventories are primarily comprised of land use rights and construction costs, while receivables consist mainly of unreceived payments from government agencies or other state-owned companies, all of which are considered to have low liquidity. Notably, the receivables exhibit a high concentration risk, with the fifth-largest client holding multiple adverse records, including enforcement defaults and suspended court cases, and therefore, posing certain recovery risks.

### **Access to multiple financing channels**

The Company's large investment needs could be partly supported by its financing channels, mainly through bank borrowings and bond issuance. As of 31 March 2024, the Company had a total credit facility of RMB19.6 billion provided by domestic banks, with an available credit facility of RMB5.5 billion, a level we believe to be moderate given the Company's debt scale. The Company also issues bonds in the onshore debt capital market. From January 2024 to March 2025, the Company and its subsidiary raised RMB2.0 billion from the onshore debt market by issuing corporate bonds and private placement notes. In addition, the Company is less dependent on non-standard financing, such as financial leasing and trust financing. The Company also plans to issue offshore bonds through its subsidiary.

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

LURD is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Wenjiang District. Demographic changes, public awareness, and social priorities shape the government's development strategy and will affect the government's propensity to support the Company.

The consolidation of state-owned assets in Wenjiang District is still in progress. Governance considerations are also important for LURD as it is subject to the oversight and reporting requirements of the local government, reflecting its public policy role and status as a government-owned entity.

## 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 5. Peer Comparison

	<b>Chengdu Longke Urban and Rural Development Group Co., Ltd.</b>	<b>Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.</b>	<b>Chengdu Medical City Urban Construction Development Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>	BBB <sub>g</sub>
Shareholder	Wenjiang District SASAB	Wenjiang District SASAB	Chengdu Jiulian Investment Group Co., Ltd.
Positioning	Responsible for rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District.	Responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District	Responsible for infrastructure construction and property leasing business in the Chengdu Medical City
Total Asset (RMB billion)	73.6	112.4	50.2
Total Equity (RMB billion)	47.6	55.3	23.0
Total Revenue (RMB billion)	1.5	3.0	1.0
Total Debt/Total Capital (%)	31.9	42.4	37.4

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2024Q3.

Source: Company information, CCXAP research



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