

Credit Opinion

7 July 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g -
Long-Term Credit Rating	BBB _g -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Olivia Feng +852-2860 7133
Senior Credit Analyst
olivia_feng@ccxap.com

Jonathan Kwong +852-2860 7132
Credit Analyst
jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Dujiangyan Urban and Rural Construction Group Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g- long-term credit rating of Dujiangyan Urban and Rural Construction Group Co., Ltd. (“DURC” or the “Company”) 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.

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.

Rating Drivers

- Important role in infrastructure construction and rural revitalization of Dujiangyan City
- Solid track record of receiving government payments
- Low but increasing exposure to commercial activities
- Moderate asset liquidity
- High exposure to contingent risk

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	26.9	26.7	29.0
Total Equity (RMB billion)	11.1	11.4	12.1
Total Revenue (RMB billion)	1.0	1.1	1.3
Total Debt/Total Capital (%)	44.5	43.3	39.4

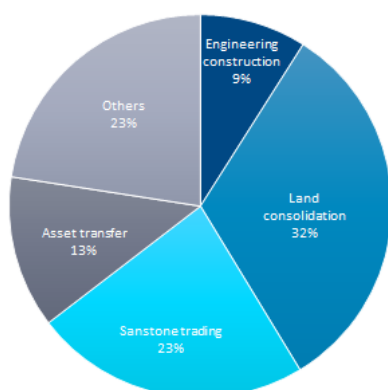
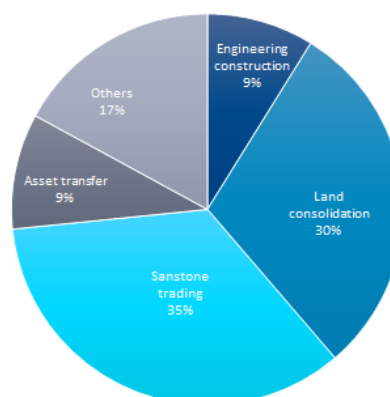
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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").

Exhibit 1. Revenue Structure in 2022**Exhibit 2. Gross profit Structure in 2022**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 December 2022

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Dujiangyan City Government has a relatively strong capacity to provide support to the Company, given its good cultural and tourism resources, but relatively weak industrial base.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up 2.3% 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 and building materials industry. Chengdu's GRP increased from RMB1.8 trillion in 2020 to RMB2.1 trillion in 2022. Affected by the pandemic and tax refund, the Chengdu government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. Its fiscal balance ratio was 70.7%, which was at a moderate level. Chengdu's debt

burden is manageable. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increasing trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,771.7	1,991.7	2,081.8
GRP Growth (%)	4.0	8.6	2.8
General Budgetary Revenue (RMB billion)	152.0	169.8	172.2
General Budgetary Expenditure (RMB billion)	215.9	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

Source: Statistic Bureau of Chengdu City, CCXAP research

Located in the northwest of Chengdu, with a total area of 1,208 square kilometers. Dujiangyan is known as an excellent tourist city in China. With its rich cultural heritage and beautiful natural landscapes, it attracts millions of tourists from all over the world every year. However, the industrial base of Dujiangyan is relatively weak, mainly focusing on mechanical manufacturing, food and beverage industries. Dujiangyan's GRP increased from RMB 44.2 billion in 2020 to RMB 48.4 billion in 2022, a YoY increase of 1.0% in 2022, and its GRP growth rate is lower than Sichuan Province and the national average. Affected by the economic slowdown and tax refund, Dujiangyan government's general budgetary revenue was RMB3.4 billion in 2022, a YoY decrease of 14.6%, of which tax revenue accounted for 61.3%. Dujiangyan has relatively good fiscal self-sufficiency, with an average general budgetary revenue/general budgetary expenditure ratio of 68% over the past three years. Dujiangyan's government debt balance has marginally declined over the past three years, but still has a relatively heavy debt burden, with outstanding debt accounting for 29.8% of its GRP in 2022.

Exhibit 5. Key Economic and Fiscal Indicators of Dujiangyan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	44.2	48.4	48.4
GRP Growth (%)	4.1	7.1	1.0
General Budgetary Revenue (RMB billion)	3.6	4.0	3.4
General Budgetary Expenditure (RMB billion)	5.7	5.3	5.2
Local Government Debt (RMB billion)	15.1	14.5	14.4

Source: Statistic Bureau of Dujiangyan City, CCXAP research

Government's Willingness to Provide Support

Important role in infrastructure construction and rural revitalization of Dujiangyan City

In order to optimize the layout of state-owned capital, the Dujiangyan Government established CDID in 2020, which is the only primary platform in Dujiangyan City for consolidating regional assets and resources. CDID has 5 main subsidiaries and each with different positioning, including cultural and tourism, urban operation, industrial development, rural revitalization, and social livelihood. 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.

The Company had successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, resettlement houses, and tourism projects. The Company

conducts infrastructure projects by signing agency construction agreements with the entrusting parties. The entrusting parties are mainly the local government or government departments, which would repurchase the constructions upon project completion. The repurchase payment is based on the construction cost plus an agreed return (about 18%). The Company conducts the construction of infrastructure projects mainly with self-raised funds and fiscal budget funds. As of 31 December 2022, the Company had 20 infrastructure construction projects under construction or planning, with a total investment amount of RMB426.7 million and an outstanding amount of RMB223.6 million.

The Company is an important primary land developer in Dujiangyan City, and mainly conducts land consolidation in Qingcheng Mountain Town, Binjiang New Area, Xujia Town, and Puyang Town, with a total area of 7,461.93 mu. The Company is responsible for the land acquisition, demolition, resettlement, and preliminary development. The Company signs an agreement with Dujiangyan City Land Reserve Center, which would pay the service fee quarterly in accordance with the fund disbursement schedule. As of 31 December 2022, the Company has completed 2 major land consolidation projects, with a total recognized income of RMB2.2 billion and received payment of RMB893.7 million. However, the Company has basically completed all land consolidation projects, and the sustainability of land consolidation projects is uncertain.

In addition, the book value of infrastructure construction projects and land consolidation projects in the Company's inventory was approximately RMB12.9 billion in 2022, which are mainly completed projects that have not yet recognized revenue. It guaranteed a certain source of income, but the payment plan was not implemented as planned, because the repurchase payments are subject to the government funding arrangement. Furthermore, the Company has a relatively large amount of unreceived repurchase payments from the government, and the book value was about RMB2.8 billion as the end of 2022. The repurchase payment period was relatively long.

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.

DURC's property development business is market-oriented, including the sales and leasing of a financial center, residential properties, and commercial shops. As of 31 December 2022, the Company had a total leasable or salable area of 162.9 thousand square meters ("sqm") and an unleased or unsold area of 105.6 thousand sqm. Affected by the pandemic, the income of the property development business dropped significantly from RMB70 million in 2020 to RMB14 million in 2022. As the Company's property development business is market-driven, the sales income is greatly affected by the recovery of the local real estate market.

The Company's sandstone trading mainly involves the mining, transportation, and sales of sandstone. The Company will first extract sandstone through river dredging or land development projects, and sell it in Dujiangyan City, and its surrounding areas. In September 2022, the Dujiangyan City Government granted a large area of sandstone resources and operation right to the Company, with a total minable sandstone reserve of 10.5 million cubic meters and an estimated book value of RMB513 million, indicating good sustainability of the business. However, the business is subject to a certain concentration risk. As of 31 December 2022, the top 5 customers accounted for 54.6% of the sales, while the top 3 suppliers accounted for 54.9% of the procurement.

In addition, the Company also engaged in the construction of self-operated projects, such as rural environmental improvement project, forest reserve project, and the construction of R&D Center. The Company constructs

these properties with self-raised funds and special funds, and achieves capital balance mainly through rental and sales income. As of 31 December 2022, it had 5 major self-operated projects under construction or planning, with an outstanding amount of RMB1.8 billion, exerting certain capital expenditure pressure. 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.

The Company also participated in asset transfer, building materials sales, municipal management services and grain sales business. Although these commercial activities have brought stable income to the Company, the small operating scales limit its contribution to the Company's overall income and cash flow.

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. From 2020-2022, the Company received a total of RMB412 million in government subsidies. In 2022, the local government and CDID injected capital of about RMB961 million into the Company, including cash, land, and operation right of sandstone resources, enhancing its capital strength, and broadening its business mix. 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.

Exhibit 6. Track Record of Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	168	140	104
Capital Injections	-	280	961
Repurchase Payments	-	-	205
Equity transfer	-	-	7,322
Total	168	420	8,592

Source: Company information, CCXAP research

Reasonable debt leverage and moderate asset liquidity

DURC's total debt had decreased from RMB8.9 billion at end-2020 to RMB7.9 billion as of 31 December 2022, its total capitalization decreased from 44.5% to 39.4% over the same period. The decrease in debt was mainly due to a relatively large amount of debt maturing in 2022. However, the Company's short-term debt accounted for approximately 40.6% of its total debt as of 31 December 2022, compared to 27.1% in 2020. Given the Company's relatively large capital expenditure pressure, we expect the Company will have a relatively fast debt growth for the next 12-18 months.

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. Inventories were mainly investment costs for its public projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

Good access to funding, but relatively high financing costs

DURC has access to funding as reflected by its good banking relationships and access to the onshore debt capital market. Around 72% of its debt was provided by bank loans, with an average loan cost of 5.7%. As of 31 December 2022, it held total credit facilities of RMB10.6 billion and available credit facilities of RMB2.6 billion. 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%. It also plans to issue offshore bonds to broaden its financing channel and reduce its reliance on non-standard financing.

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. Since the establishment of CDID, it is responsible for the overall debt control of state-owned enterprises in Dujiangyan City. Most of the external guarantees are provided to CDID or its subsidiaries. However, since there are no counter-guarantee measures, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

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

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

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. DURC believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates.

Structural Consideration

DURC's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic role in urban and rural infrastructure construction in Dujiangyan City, thereby mitigating any differences in an expected loss that could result from structural subordination.

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 7. Peer Comparison

	Dujiangyan Urban and Rural Construction Group Co., Ltd.	Dujiangyan Smart City Operation and Construction Development Group Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	CDID (100%)	CDID (90%) + Sichuan Provincial Department of Finance (10%)
Positioning	Responsible for rural revitalization in Dujiangyan City.	Responsible for urban operation in Dujiangyan City.
Total Asset (RMB billion)	29.0	27.7
Total Equity (RMB billion)	12.1	11.4
Total Revenue (RMB billion)	1.3	1.1
Total Debt/Total Capital (%)	39.4	41.1

Source: Company information, CCXAP research

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656