

Credit Opinion

4 August 2023

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

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Chongqing Wanzhou Economic and Technological Development (Group) Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chongqing Wanzhou Economic and Technological Development (Group) Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Chongqing Wanzhou Economic and Technological Development (Group) Co., Ltd. (“WETD” or the “Company”) reflects Chongqing Wanzhou District Government’s 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 Wanzhou District Government’s capacity to provide support reflects Wanzhou District’s good industrial base and strong fiscal strengths. It also reflects the important role of Wanzhou Economic and Technological Development Zone (“Wanzhou ETDZ”) in local industrial development and economic growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) major state-owned assets management and operation platform in Wanzhou District; (2) solid track record of receiving government payments; and (3) diversified financing channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) rapid debt growth with a relatively concentrated maturity period.

The stable outlook on WETD’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 state-owned assets management and operation in Wanzhou District.

Rating Drivers

- Major state-owned assets management and operation platform in Wanzhou ETDZ
- Solid track record of receiving government payments
- High sustainability of local public projects
- Medium exposure to commercial activities
- Rapid debt growth with a relatively concentrated maturity period
- Diversified financing channels

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 reduced exposure to commercial activities.

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	2023Q1
Total Asset (RMB billion)	64.1	73.3	84.5	88.5
Total Equity (RMB billion)	20.4	22.0	26.0	26.2
Total Revenue (RMB billion)	30.4	48.0	51.9	14.1
Total Debt/Total Capital (%)	65.8	67.6	67.2	67.7

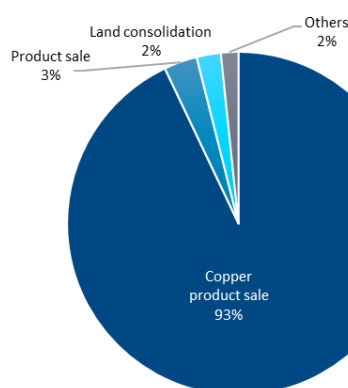
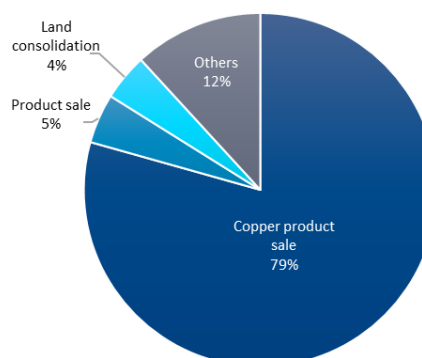
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

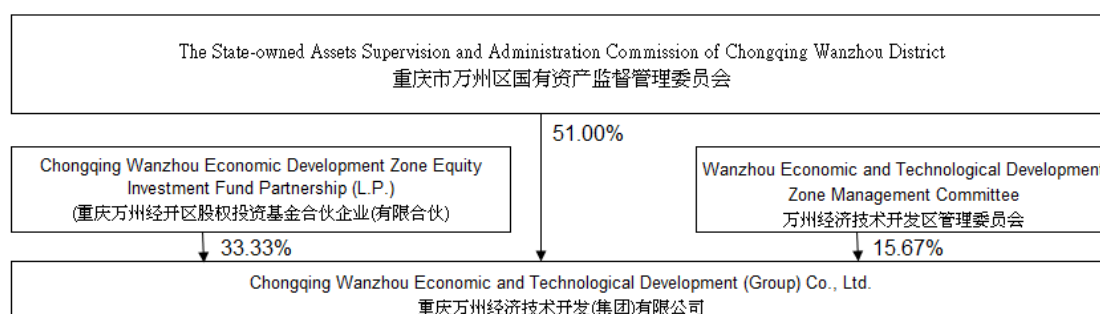
Corporate Profile

Founded in 2011, the Company is the major local infrastructure investment and financing company ("LIIFC") in Wanzhou District primarily engaging in infrastructure construction and land consolidation. Apart from public development projects, the Company also undertakes various commercial activities, such as copper product manufacturing and sale, pharmaceutical trading, affordable housing construction, and property leasing.

As of 31 March 2023, the State-owned Assets Supervision and Administration Commission of Chongqing Wanzhou District ("Wanzhou SASAC") held 51%, Chongqing Wanzhou Economic Development Zone Equity Investment Fund Partnership (L.P.) held 33.33%, and Wanzhou Economic and Technological Development Zone Management Committee ("Wanzhou ETDZ Management Committee") held the remaining 15.67% of the Company's shares. The Company is ultimately controlled by Wanzhou SASAC.

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 Wanzhou District Government has a good capacity to provide support to the Company, given its good industrial base and strong fiscal strengths.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing City. Thanks to the vigorous development of the industrial sector, Chongqing City's economy has demonstrated steady growth. In 2022, Chongqing recorded a gross regional product ("GRP") of RMB2.9 trillion, surpassing Guangzhou and ranking 4th among municipalities and prefecture-level cities in China, with a GRP growth rate of 2.6% year on year ("YoY"). Affected by the pandemic and tax refund, the general public budget revenue of Chongqing slightly increased from RMB209.5 billion in 2020 to RMB210.3 billion in 2022. The direct government debt balance of Chongqing amounted to RMB1,007.1 billion in 2022, accounting for 34.6% of its GRP for that year. We expect that Chongqing City will continue to serve as an important strategic city for the development of Western China, as well as a connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and will play a unique and important role in China's regional development and opening-up policy.

Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2500.3	2789.4	2912.9
GRP Growth (%)	3.9	8.3	2.6
General Budgetary Revenue (RMB billion)	209.5	228.5	210.3
General Budgetary Expenditure (RMB billion)	489.4	483.5	489.3
Local Government Debt (RMB billion)	679.9	861.0	1,007.1

Source: Statistic Bureau of Chongqing City, CCXAP research

Wanzhou District is located in the northeast part of Chongqing City, with a total area of 3,457 square kilometers. Relying on its 5 pillar industries of green lighting, smart equipment, food and medicine, automobiles, and new materials, Wanzhou District has continued to grow and develop in recent years. The GRP of Wanzhou District increased from RMB97.1 billion in 2020 to RMB111.8 billion in 2022, with a GRP growth rate of 3.5% YoY. Wanzhou District has a strong fiscal strength, its general budgetary revenue amounted to RMB7.2 billion in 2022, ranks 1st among 38 districts/counties in Chongqing City. However, the tax revenue accounted for 53.3% of its general budgetary revenue. Wanzhou District has moderate fiscal self-sufficiency, the government funds revenue is the major supplementary income for Wanzhou District. It recorded an average general budgetary revenue/general budgetary expenditure ratio of 45.8% over the past three years. However, Wanzhou District Government has a relatively heavy debt burden and a relatively fast debt growth. The Wanzhou District Government's outstanding debt increased from RMB18.7 billion in 2020 to RMB28.9 in 2022, accounting for 25.8% of the Wanzhou District's GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Wanzhou District

	2020FY	2021FY	2022FY
GRP (RMB billion)	97.1	108.8	111.8
GRP Growth (%)	2.4	8.4	3.5
General Budgetary Revenue (RMB billion)	6.7	7.1	7.2
General Budgetary Expenditure (RMB billion)	16.1	14.7	15.2
Local Government Debt (RMB billion)	18.7	23.4	28.9

Source: Statistic Bureau of Wanzhou District, CCXAP research

Wanzhou ETDZ, formerly known as Wanzhou Industrial Zone, was upgraded to a national-level ETDZ with the approval of the State Council in June 2010. It is the only national-level ETDZ in the northeast of Chongqing, with a total area of 73.27 square kilometers. Wanzhou ETDZ contains 5 major parks, namely Gaofeng Park, Tianzi Park, Wuqiao Park, Jiulong Park and Xintian Park, which form the 5 pillar industries of Wanzhou District. In 2021, the State Council approved the establishment of the Wanzhou Comprehensive Bonded Zone, which is located in the Gaofeng Park of the Wanzhou ETDZ, it provides a good development potential for Wanzhou ETDZ. Leveraging its strategic and geographic advantage and well-developed transportation system, Wanzhou ETDZ has undergone rapid urban and economic development in recent years. Wanzhou ETDZ recorded a gross industrial output value of RMB41.6 billion, with a growth rate of 35% YoY in 2022. Wanzhou ETDZ with great economic development potential has supported and will continue to support the business growth of the Company.

Government's Willingness to Provide Support

Major state-owned assets management and operation platform in Wanzhou District

There are two major LIIFCs in Wanzhou District, namely WETD, and Chongqing Three Gorges Development Group Co., Ltd. ("CTGD"). CTGD is mainly responsible for the development and construction of the old town area of Wanzhou District, while WETD is the sole investment and financing entity in Wanzhou ETDZ. Positioned as the core state-owned enterprise based in Wanzhou ETDZ, the Company played an important strategic role in upgrading the infrastructure and accelerating the urban development of Wanzhou ETDZ. Considering its high strategic significance to the development of Wanzhou ETDZ, as well as the large area of unconsolidated land, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of local public projects

Mandated by the local government, WETD plays a dominant role in undertaking local public activities that are vital to local economic and social development, such as land consolidation and infrastructure construction. Given sufficient projects under construction, we consider the sustainability of the public-related businesses to be high, but the Company may face large capital expenditure pressure.

Entrusted by the local government, WETD has undertaken land consolidation projects in Wanzhou ETDZ. The Company enters into land development entrustment agreements with the Wanzhou Economic and Technological Development Zone Economic Development Service Centre ("ETDZ Service Centre"), and ETDZ Service Centre is responsible for the early-stage land development work, including land expropriation and compensation, demolition, levelling and consolidation. The Company is responsible for raising the project funds, and settlement after project completion. The Company will settle with the ETDZ Service Centre on the basis of the project progress and is entitled to a fee, which equals the development or construction cost plus a fixed rate premium (10%), with a repayment period of 5-6 years. Given Wanzhou ETDZ is in the development stage, there is a large area of unconsolidated land parcels, we consider the sustainability of the land consolidation business to be high. As of 31 March 2023, the Company has a total area of 89,440 mu of land parcels under consolidation, with a total investment amount of RMB49.9 billion and an outstanding amount of RMB23.3 billion, exerting relatively large capital expenditure pressure. The Company has a relatively large amount of unreceived repurchase payments, causing a significant fund occupation. As of 31 March 2023, the Company has recognized an accumulated income from land consolidation projects of RMB30.1 billion, with an accumulated unreceived payment of RMB15.8 billion. The repurchase payments of land income mainly depend on the progress of investment attraction and land transfer, which has uncertainty.

In addition, WETD is also responsible for the construction of supporting facilities, and infrastructure projects within the parks, such as roads, bridges, housing, and other public facilities. The Company also settle with ETDZ Service Centre and received repurchase payments from the government. As a core industrial park development entity, the Company receives government special funds to construct infrastructure projects yearly. As of 31 March 2023, the Company has received a total of RMB1.3 billion in government special funds. The Company had 23 infrastructure construction projects under construction or planning, with a total investment amount of RMB3.2 billion and an outstanding amount of RMB1.5 billion.

Medium exposure to commercial activities

In addition to public activities, WETD is also involved in various commercial activities such as copper product manufacturing and sales, pharmaceutical trading, affordable housing construction, and property leasing. We

consider WETD's commercial business exposure to be moderate, as its market-driven businesses account for around 30% of its total assets. We consider the business risk of commercial activities to be manageable as some of its commercial business is highly related to local industrial development, with a high strategic policy role in supporting local economic growth.

The Company engages in the construction of affordable houses. The affordable housing business model shifted from a government repurchase model to a self-operating model. The Company constructs affordable houses with self-raised funds and government subsidies, and achieves capital balance mainly through rental and sale. As of 31 March 2023, the Company had 1 affordable housing project under construction, with a total investment amount of RMB673 million and an outstanding amount of RMB443 million.

As a major industrial development parks entity, the Company also participated in the construction of standard factories and then lease to the enterprises. As the business is self-operated, the revenue is greatly subject to the occupancy rate. As of 31 December 2022, the Company recorded an average occupancy rate of 67%, with a total rental income of RMB87.1 million. Furthermore, the Company has a relatively large amount of standard factory construction projects in the pipeline. As of 31 March 2023, the Company had 11 standard factories under construction or planning, with an estimated total investment amount of RMB2.7 billion and an outstanding amount of RMB1.3 billion, exerting a certain capital expenditure. We consider the Company's rental income will increase upon the project completion, and the sustainability of the business is high.

The Company also conducts its pharmaceutical trading business through its subsidiary, namely Chongqing Houjie Pharmaceutical Group Co., Ltd. ("Houjie Pharmaceutical"). Houjie Pharmaceutical primarily engages in the wholesale of pharmaceuticals and traditional Chinese medicines, as well as the sales of Class II and Class III medical equipment. The upstream and downstream of the business are relatively diversified, as its customers cover 5 provinces and around 60 counties. Other related businesses such as hospitals, and chain pharmacies are still in the early stage, which limits their scale of revenue.

Copper product manufacturing and sales business with high cyclicity

Copper product manufacturing and sales business is WETD's most important source of income, which accounted for 92% of the Company's total revenue in 2022. The Company conducts its copper product sales business mainly through its subsidiary, Jinlong Precise Copper Tube Group Ltd. ("Jinlong Group") and Chongqing Wanzhou Jinlong Copper Tube Selling Co., Ltd. ("Jinlong Selling"). Jinlong Group is a leading precise copper tube manufacturer in the world, with almost one fifth of the global production of ACR tube. According to the "2022 Top 500 Enterprises of China" released by Chinese Federation of Enterprises, Jinlong Group ranks 255th of top 500 manufactures in China. As of 31 December 2022, Jinlong Group possesses 186 domestic valid patents and abroad (including 60 invention patents and three US patents), 4 international leading production techniques and 8 domestic leading production techniques, and has presided over the formulation of 8 national industrial standards for precise copper tubes.

Jinlong Group primarily procures raw materials and produces copper products by itself. The Company may also procure raw materials with its own funds and then deliver such raw materials to Jinlong Group for processing. In such cases, the products will be sold by Jinlong Selling to downstream customers. The Company primarily conducts its copper product business through a "sales-oriented manufacturing" business model. Under such a model, the Company determines the supply quantity and sales price with its customers on a monthly basis.

As a world-leading copper tube manufacturer, its downstream and upstream activities both involve domestically and internationally (both procurement and sales are still mainly focused on the domestic market). The

downstream of the business is relatively diversified, as the top 5 customers only accounted for 29% of total sales. However, the business is subject to the fluctuation of copper prices, which is influenced by various factors such as the global economy and global copper supply and demand. The Company may experience a significant decrease in its copper products trading business if the demand for copper products weakens, which could have a material and adverse effect on the Company's business. Furthermore, the copper production volume was slightly reduced in 2022, due to the Winter Olympics and factories' suspension caused by high temperatures. The profit margin of the business is low as 2.8% in 2022.

Solid track record of receiving government payments

WETD has a track record of receiving payments from the Wanzhou District government. These payments take various forms, such as government subsidies and capital injections. In terms of government subsidies, the Company receives special government subsidies, financial allocations, and government special bond funds. From 2020 to 2022, the local government has provided total subsidies of RMB8.4 billion to the Company. In August 2018, the local government injected Jinlong Group into the Company, significantly broadening its business mix. In 2022, the local government injected a large amount of capital into the Company, including cash and reservoir, enhancing its capital strength. The Company also regularly receives repurchase payments from its public activities. Given WETD's important strategic role, we expect the Company will continue to receive support from the Wanzhou District Government in the future.

Exhibit 6. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	2,474	2,502	3,401
Capital Injections	8	1,269	3,577
Total	2,482	3,771	6,978

Source: Company information, CCXAP research

Rapid debt growth with a relatively concentrated maturity period

WETD has a rapid debt growth mainly attributable to the fast expansion of public and commercial projects. The Company's total debt had increased from RMB39.2 billion at end-2020 to RMB55.0 billion as of 31 March 2023, its capitalization ratio remains high, slightly increasing from 65.8% to 67.3% over the same period. Jinlong Group has a relatively heavy debt burden. As of end-2022, Jinlong Group recorded a total debt of RMB7.6 billion. The Company's debt structure is unbalanced, with short-term debt accounting for more than 40% of its total debt over the past three years. Furthermore, the Company has a relatively concentrated maturity period. As of 31 March 2023, the Company's debt due within one year amounted to RMB 24.5 billion, accounting for 44.6% of its total debt, indicating a relatively large repayment pressure. In addition, given the Company's relatively large capital expenditure in land consolidation and standard factories, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

Diversified financing channels

Fortunately, the Company's relatively large repayment pressure can be mitigated by the Company's sufficient liquidity buffer, as well as its diversified funding channel. The Company has a sufficient liquidity buffer given its large amount of available credit facilities. As of 31 March 2023, it held a total credit facility of RMB86.5 billion and an available credit facility of RMB34.7 billion. Around 45% of the Company's debt was provided by bank loans, and the Company has diversified its funding channel to both onshore and offshore debt capital markets, which accounted for 40% of the Company's total debt. The Company has issued various types of bonds, such

as PPN, MTN, and USD bond. Furthermore, the Company has low reliance on non-standard financing, including financial leasing.

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

WETD is also exposed to social risks as it implements public-policy initiatives by building public infrastructure and affordable housing in Wanzhou District. Demographic changes, public awareness and social priorities shape 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. WETD 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. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

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

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