

Credit Opinion

3 August 2023

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

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Chongqing Fengdu Industrial Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Chongqing Fengdu Industrial Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Chongqing Fengdu Industrial Development Group Co., Ltd. (“CFID” or the “Company”) reflects Chongqing Fengdu County 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 Fengdu County Government’s capacity to provide support reflects Fengdu County has ongoing economic growth, but restrained by its weak fiscal strength and relatively heavy debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) most important policy role in Fengdu County; (2) high sustainability of public policy businesses; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company’s (1) increasing debt leverage; and (2) moderate assets liquidity.

The stable outlook on CFID’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its most important policy role in Fengdu County.

Rating Drivers

- Most important policy role in Fengdu County after the consolidation of local LIIFCs
- High sustainability of public policy businesses
- Good track record of receiving government payments
- Reasonable but increasing debt leverage
- Moderate asset liquidity

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 improved 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

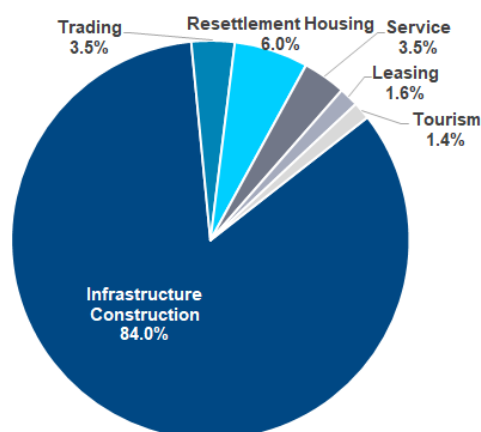
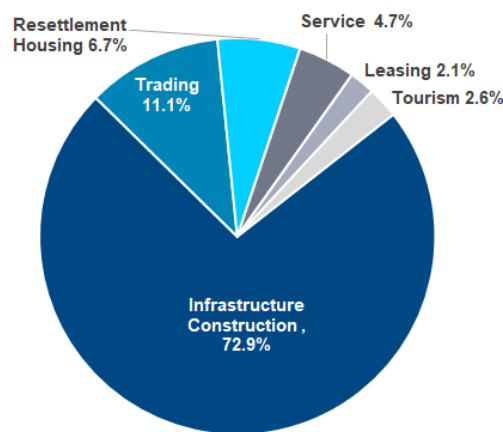
	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	64.5	70.2	71.2
Total Equity (RMB billion)	41.1	43.0	42.6
Total Revenue (RMB billion)	2.2	2.2	0.1
Total Debt/Total Capital (%)	28.0	29.0	30.2

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

Source: CCXAP research

Corporate Profile

Founded in 2018, formerly known as Fengdu Hongfeng Construction Development Co., Ltd. In 2022, after the consolidation of 4 major local infrastructure investment and financing companies ("LIIFCs"), CFID became the most important LIIFC in Fengdu County. The Company is primarily responsible for infrastructure construction, land consolidation, resettlement housing construction, and shantytown renovation projects in Fengdu County. Apart from public projects, the Company also undertakes various commercial activities, such as property leasing, commercial housing sales, engineering constructions, and civilian blasting products sales. As of 31 December 2022, the Company is wholly owned and ultimately controlled by Fengdu County State-owned Assets Affairs Center.

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

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Fengdu County Government has a good capacity to provide support to the Company, given its ongoing economic growth, but restrained by its weak fiscal strength and relatively heavy debt burden.

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 3. Key Economic and Fiscal Indicators of Chongqing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,500.3	2,789.4	2,912.9
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

Fengdu County is located in the eastern part of the Chongqing main district, with a total area of 2,901 square kilometers. Fengdu County is an important transportation hub for Chongqing, with its planned port throughput

accounting for one-fifth of Chongqing's total. Relying on its pillar industries such as food processing, new building materials, medical equipment, and biomedicine, electromechanical industry, Fengdu County has continued to grow and develop in recent years. The GRP of Fengdu County increased from RMB33.5 billion in 2020 to RMB39.1 billion in 2022. The general budgetary revenue of Fengdu County amounted to RMB2.5 billion in 2022, of which tax revenue accounted for 31.6%, indicating relatively weak fiscal stability. Fengdu County has low fiscal self-sufficiency and a relatively heavy debt burden. It recorded an average general budgetary revenue/general budgetary expenditure ratio of 36.5% over the past three years. Fengdu County Government's debt has shown an increasing trend, with an outstanding debt of RMB12.6 billion, accounting for 32.2% of the Fengdu County's GRP in 2022.

Exhibit 4. Key Economic and Fiscal Indicators of Fengdu County

	2020FY	2021FY	2022FY
GRP (RMB billion)	33.5	37.5	39.1
GRP Growth (%)	3.0	7.5	4.0
General Budgetary Revenue (RMB billion)	2.3	2.4	2.5
General Budgetary Expenditure (RMB billion)	7.0	6.2	6.5
Local Government Debt (RMB billion)	7.3	11.1	12.6

Source: Statistic Bureau of Fengdu County, CCXAP research

Government's Willingness to Provide Support

Most important policy role in Fengdu County after the consolidation of local LIIFCs

Approved by the Fengdu Government in June 2022, CFID consolidated 4 other major local LIIFCs and became the most important state-owned enterprises. After that, there are two major primary LIIFCs in Fengdu County, CFID and Chongqing Fengdu Tourism Culture Group Co., Ltd. ("CFTC"). CFTC is mainly responsible for infrastructure construction and scenic spot operation of Ming Mountains, and Nantian Lake, Fengdu County. CFID has played the most important policy role in implementing the local government's development plan. The Company is mainly responsible for infrastructure construction, land consolidation, resettlement housing construction, and shantytown renovation projects in Fengdu County. Considering the CFID's most important policy role in Fengdu County, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses

As the major developer and operator of Fengdu County, CFID has participated in primary land development and infrastructure construction businesses through its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure on the Company.

The Company is an important primary land developer in Fengdu County. The Company will first consolidate land parcels with self-raised funds. After that, the land parcel will be transferred to the government, which would sell the land parcel in the public market and then repay the Company with a mark-up on the actual construction cost. As of 31 March 2023, the Company has 3 major land consolidation projects under construction, which are expected to be completed by 2028.

Entrusted by the local government, CFID undertakes infrastructure construction projects in Fengdu County. The Company has completed a number of agency construction projects, such as roads, bridges, and resettlement housing in Fengdu County. The Company mainly conducts infrastructure projects by signing agency

construction agreements with the entrusting parties, which would repurchase the constructions upon project completion. The repurchase payment is based on the construction cost plus a 5% or 20% return. As of 31 March 2023, the Company had 16 major infrastructure construction projects under construction or planning, with an outstanding amount of RMB4.5 billion.

In addition, the Company is also responsible for the shantytown renovation projects in Fengdu County, including the construction of resettlement housing, and renovation, management and maintenance of shantytown. The Company will first construct with self-raised funds, and receive repurchase payment after the construction is transferred to the government. As of 31 March 2023, the Company had 3 major shantytown renovation projects under construction, with a total investment amount of RMB4.4 billion and an outstanding amount of RMB1.7 billion.

Low but increasing exposure to commercial activities

In addition to public activities, CFID is also involved in various commercial activities such as self-operating projects, commercial housing sales, engineering constructions, and civilian blasting products sales. We consider the Company's commercial business exposure to be low, as its market-driven businesses need to optimize the asset's structure.

CFID's trading mainly focuses on the trading of civilian explosion products. The business is subject to a certain concentration risk in terms of suppliers and customers. As of 31 March 2023, the top four suppliers account for 100.0% of purchases while the top five customers account for 80.0% of total sales.

The Company undertakes engineering construction projects in Fengdu County through public bidding with self-raised funds. The construction projects will be transferred to the entrusting parties upon completion, and the payment will be paid based on the construction progress. The engineering construction business has brought supplemental income to the Company.

The Company is also engaged in property development of commercial housing projects. The business is market-driven as it mainly sells its commercial housing units at market prices. As of 31 March 2023, the Company completed one major commercial housing project, with a total salable area of 62,684 square meters ("sqm"), and an unsold area of 14,875 sqm. The Company had 1 commercial housing project under construction, with a total investment amount of RMB164.4 million. The Company's property development business is facing relatively high operating risk, aiming at the current downward pressure on the real estate market.

In addition, the Company participates in the construction of self-operating projects, such as reservoir, logistics center, and breeding farm. The Company constructs the self-operating projects with self-raised funds and government funds, and achieves capital balance mainly through operating income. As of 31 March 2023, the Company had 46 self-operating projects under construction or planning, with a total investment amount of RMB3.2 billion, exerting certain capital expenditure pressure. Given the relatively large amount of self-operating projects under construction, we expected the Company's exposure to commercial activities will increase in the future.

Good track record of receiving government payments

As the most important LIIFC in Fengdu County, CFID has a track record of receiving payments from the Fengdu County government. These payments take various forms, such as government subsidies and capital injections. From 2020-2022, the Company received a total government subsidy of RMB728 million. Besides, the Company continues to receive project payments from the government. As of 31 March 23, CFID received RMB3.1 billion

from the local government as repayment for land consolidation and infrastructure construction. Given CFID's most important policy role in the region, we expect the Company will continue to receive support from the Fengdu County Government in the future.

Exhibit 5. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	164	191	373
Capital Injections	-	83.2	1,606.5
Total	164	274.2	1,979.5

Source: Company information, CCXAP research

Reasonable but increasing debt leverage, moderate asset liquidity

CFID's total debt had increased from RMB16.0 billion at end-2021 to RMB18.4 billion as of 31 March 2023, with a relatively low capitalization ratio of 30.2%. In addition, the Company maintains a good debt structure. The proportion of short-term debt to total debt was below 10% over the past 3 years. However, Given the Company's relatively large capital expenditure pressure, we expect the Company will have a relatively fast debt growth and increasing debt leverage for the next 12-18 months.

CFID's asset liquidity is moderate, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, and receivables, all with relatively low liquidity. The inventories are development costs from construction projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 50% of total assets as of 31 March 2023. Furthermore, as of 31 March 2023, the Company had pledged assets of RMB2.4 billion for loans. The low liquidity asset may undermine the Company's financing flexibility, which is credit negative.

Relatively single financing source and high financing cost

The Company's debt financing was mainly provided by domestic banks. As of 31 March 2023, it held a total credit facility of RMB27.9 billion and available credit facilities of RMB6.0 billion. The Company's credit facilities were mainly provided by policy banks like China Development Bank and Agricultural Development Bank of China, with low financing costs. Only 1.8% of the Company's debt was provided by the onshore debt capital market, with an average coupon rate of 7.1%. However, around 9% of its debt was provided by non-standard financing, mainly using financial leasing, with a financing cost of 8.2%. The Company's average financing costs are relatively high, which is 5.72%. Given the Company's relatively large outstanding investment amount on its construction projects, we consider an additional funding channel is needed to fulfill its large capital expenditure, such as the offshore debt capital market.

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. CFID 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.

CFID is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Fengdu County. 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. 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.

Structural Consideration

CFID'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 most important policy role in Fengdu County, 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 \(July 2022\)](#).

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