

Credit Opinion

17 October 2023

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

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Chongqing Fuling Industrial Development Group Co., Ltd

Surveillance credit rating report

CCXAP affirms Chongqing Fuling Industrial Development Group Co., Ltd.'s BBB_g long-term credit rating, with stable outlook.

Summary

The BBB_g long-term credit rating of Chongqing Fuling Industrial Development Group Co., Ltd (“FIDG” or the “Company”) reflects Chongqing Fuling 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 Fuling District Government’s capacity to support reflects that Fuling District, as a national shale gas demonstration zone in China, has a good industrial foundation and economic strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strong strategic position as the most important state-owned assets operation entity in Fuling District; (2) solid track record of receiving government payments; (3) increasing operating profit, with a large portfolio of high-quality equity in listed companies.

However, the rating is constrained by the Company’s (1) medium exposure to commercial business; and (2) fair debt growth and moderate assets liquidity.

The stable outlook on FIDG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its key role as an important state-owned capital investment and assets operation entity in Fuling District.

Rating Drivers

- Strong strategic position as the most important state-owned assets operation entity in Fuling District
- Increasing operating profit, with a large portfolio of high-quality equity in listed companies
- Solid tracked record of receiving government payments
- Commercial business with good operating profits but medium risk
- Fair debt growth and moderate asset liquidity
- Diversified financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial business or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced regional significance or increased debt growth.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	114.2	129.2	141.3	145.9
Total Equity (RMB billion)	59.1	67.8	73.5	73.0
Total Revenue (RMB billion)	8.1	9.2	10.1	3.0
Total Debt/Total Capital (%)	46.6	46.6	45.8	46.8

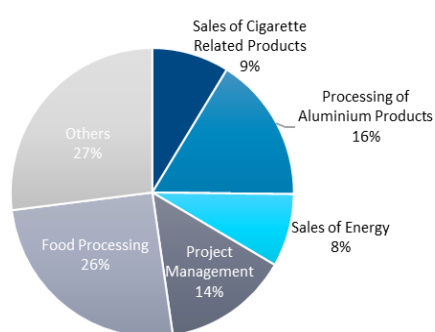
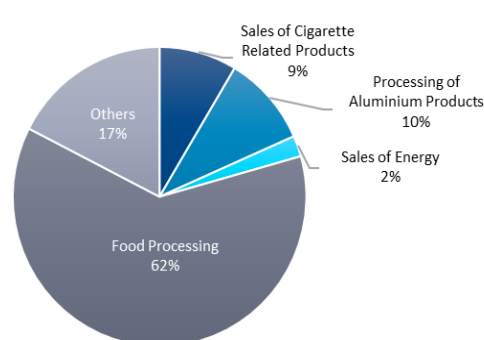
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 2011, formerly known as Chongqing Zhanxin Investment Co., Ltd., FIDG is the most important state-owned capital investment and assets operation entity in Fuling District. The Company has played an important role in operating and investing in the incubator industry in Fuling District as well as undertaking a number of strategically important urban infrastructure construction and land development projects. FIDG engages in diversified business segments, it is mainly responsible for public policy projects such as land consolidation, resettlement housing, and shantytown reconstruction in Fuling District; as well as market-oriented business such as food processing, aluminum product processing and sales, sales of shale gas, and other businesses.

As of 31 March 2023, the State-owned Assets Supervision and Administration Commission of Fuling District ("Fuling SASAC") is the sole shareholder and actual controller of the Company.

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 Fuling District Government has a strong capacity to provide support given its good industrial foundation and economic strength.

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. In 2023H1, Chongqing recorded a GRP of RMB1.4 trillion, with a YoY increase of 4.6%.

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

Fuling District is located in the central part of Chongqing City. As the first 100 billion GRP district outside the central district of Chongqing, the economy of Fuling District has continued to develop in recent years. It has a good industrial base forming 6 pillar industries of materials, including equipment manufacturing, clean energy, consumer goods, biomedicine, and electronic information. In 2022, Fuling District achieved a GRP of RMB150.4 billion, ranked 5th among 38 districts or counties in Chongqing City. Affected by the macroeconomic slowdown

and tax refund, Fuling District's general budgetary revenue slightly decreased from RMB6.1 billion in 2021 to RMB6.0 billion in 2022, with tax revenue accounting for 80.2%. However, its fiscal balance ratio in 2022 was maintained at a moderate level of 49.8%. Fuling District Government's outstanding debt has shown an increasing trend, with outstanding debts of RMB23.4 billion in 2022, accounting for 15.5% of its GRP. In the first half of 2023, Fuling District recorded a GRP of RMB74.6 billion, an increase of 6.4% YoY.

Exhibit 4. Key Economic and Fiscal Indicators of Fuling District

	2020FY	2021FY	2022FY
GRP (RMB billion)	122.5	140.3	150.4
GRP Growth (%)	4.3	8.7	2.6
General Budgetary Revenue (RMB billion)	5.5	6.1	6.0
General Budgetary Expenditure (RMB billion)	12.8	12.1	12.1
Local Government Debt (RMB billion)	18.2	21.1	23.4

Source: Statistic Bureau of Fuling District, CCXAP research

In 2013, the National Energy Administration approved the establishment of the Fuling National Shale Gas Demonstration Zone. Fuling Shale Gas Field is the first large-scale shale gas field in China and the largest shale gas field outside North America. The proven reserve of the shale gas in Fuling has reached 900 billion cubic meters, accounting for 34% of the national shale gas proven reserve. It will provide FIDG with great opportunities for business growth in shale gas sales.

Government's Willingness to Provide Support

Strong strategic position as the most important state-owned assets operation entity in Fuling District

FIDG is the largest state-owned assets operation entity by assets scale in Fuling District, having strong capital strength with functions of land consolidation, infrastructure construction, and state-owned assets operation. As an important entity of land consolidation and development in Fuling District, it is mainly responsible for the demolition and reconstruction of shanty towns in the old urban area and land consolidation in industrial parks.

The Company continues to focus on the development of primary land consolidation projects in Fuling District, including the construction of supporting infrastructures such as site leveling, road paving, water supply, power supply, and gas supply on the state-owned land in Fuling District. The Fuling District Finance Bureau pays the profits and the development costs as the Company's land consolidation income after the land transfer. As of the end of March 2023, the Company had a total land parcel area of 30,326.5 mu under consolidation, with an estimated investment amount of RMB34.0 billion and an outstanding amount of RMB2.9 billion, exerting a certain capital expenditure pressure. In addition, the Company had land resources of 27,530.0 mu, with a total book value of RMB24.3 billion as of 31 March 2023.

In addition, the Company is also responsible for the overall planning of urban and rural construction projects in Fuling District, with a total land area of 1,089.96 hectares. After the project is completed, the land will be traded in the form of "land tickets". The total tradable area is about 14,983.28 mu. Affected by the macroeconomic slowdown and the downturn of the real estate market, the Company has not traded any "land tickets" since 2021.

The Company's relatively sufficient land assets can provide the Company stable source of income and high business stability with successive land transfers. However, the Company's land transfer is affected by land market conditions and government policies, which brings a certain fluctuation to the Company. Given FIDG's important position and policy mandate, we believe the Company will not be easily replaced by other local state-

owned enterprises in the foreseeable future.

Commercial business with high operating profits but medium risk

We consider FIDG's commercial business exposure to be medium as its market-driven nature accounts for over 30% of its total assets. However, most of the Company's commercial projects have a monopoly nature, with certain public service functions, and bring good profit to the Company.

The Company conducts resettlement housing business through entering into agent construction and project management contracts with state-owned enterprises in the Fuling District. Part of the resettlement housing is used for the relocation of residents through equity swap compensation. Any excess portion shall be purchased by the residents at market price. The remaining resettlement housing and its supporting commercial facilities will be sold or rented to the market. As of 31 March 2023, most of the Company's resettlement housing projects have been completed, the total sales amount was RMB4.1 billion, with a relatively good collected payment of RMB4.1 billion. The Company has not generated any resettlement housing sales income since 2022, and plans to operate the resettlement housing through leasing. As of 31 March 2023, the Company had unsold resettlement housing of 84,100 square meters, which will be leased out in the market. However, the initial investment in resettlement housing projects was relatively large, about RMB6.2 billion, we expect that the payback period of the resettlement housing project will be enlarged, and the debts formed by the resettlement housing construction may bring certain debt repayment pressure to the Company.

FIDG also entered food processing, sales of shale gas, processing of aluminum products and other businesses through equity investment, these businesses bring a good contribution to the Company's operating profit. Chongqing Fuling Zhacai Group Co., Ltd ("Fuling Zhacai", Stock Code: 002507. SZ) is the Company's subsidiary and the largest mustard processing enterprise in China. Fuling Zhacai mainly sold mustard under the brand of "Wu Jiang" nationally and overseas. It provides a stable and major source of revenue for the Company. In 2022, food processing generated revenue of RMB2.5 billion, accounting for 25.4% of the Company's total revenue; the gross profit margin of the food processing business maintained above 50%.

Aluminum processing is also one of the major sources of income for the Company, which accounted for 16% of the total revenue in 2022. The Company mainly engaged in electrolytic alumina and sold the aluminum ingots or aluminum water to the customer. The aluminum processing business demonstrated a stable growth momentum. The revenue increased from RMB1.5 billion in 2021 to RMB1.6 billion in 2022, while its gross profit margin increased from 10.85% to 13.08% over the same period. However, most of the customers are private-owned enterprises, which causes a certain payment collection risk.

FIDG supplies shale gas to local gas suppliers and industrial enterprises. Pursuant to the strategic cooperation agreement entered between the Chongqing Municipal Government and Sinopec Group, Sinopec Group shall supply Fuling District with 300 million cubic meters of annual gas consumption. Relying on the rich shale gas resources in Fuling District, the sustainable development of the Company's shale gas business is well guaranteed. In December 2022, with the consolidation of Chongqing Fuling Energy Industrial Group Co., Ltd., the Company is also engaged in the energy sales business, including electricity, gas, new energy, and new materials. Moreover, the Company had 1 self-operating project under planning as of 31 March 2023, with an estimated investment amount of RMB3.2 billion. It plans to obtain leasing income to achieve breakeven.

As the Company's commercial businesses are self-supporting, they are more market-driven. The volumes of products are subject to the changes in demand in end markets that the products are consumed, government policies and regulations. Furthermore, declines in the price of products or increases in the supply of products in

the market could adversely impact the Company's results of operations and earnings in its commercial businesses.

Solid tracked record of receiving government payments

As a state-owned enterprise controlled by the Fuling SASAC, FIDG has a solid track record of receiving government payments from the Fuling District government. In 2022, the Company received RMB942.0 million in operating subsidies from the government on daily operations, grain reserves and rotation, and industrial support funds. In addition, the Company received a capital injection of RMB42.0 million from the Fuling District government. In addition, the Company received the payment for land consolidation projects in a timely manner. From 2022 to 2023Q1, the Company transferred 4 land consolidation projects with a repurchase payment of RMB1.6 billion from the government. Given the Company's strong strategic position, we expect the Company will continue to receive support from the Fuling District Government in the future.

Exhibit 5. Government support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	324	878	942
Assets Injections	849	129	42
Equity Transfer	414	-	-
Government Payments	871	1,320	1,566
Total	2,458	2,327	2,550

Source: Company information, CCXAP research

Fair debt growth and moderate asset liquidity

The Company's total debt increased from RMB49.4 billion in 2020 to RMB62.3 billion as of 31 March 2023, while its total capitalization ratio maintained around 47% over the same period. Given the Company's investment in land consolidation and resettlement housing construction has been basically completed, and the Company's future financing will focus on debt repayment and capital investment, we expect the Company's debt growth will remain within the current level for the next 12-18 months.

In addition, the Company held a large portfolio of shares in listed companies. According to the closing price at the end of March 2023, the total market value of important listed companies held by the Company is about RMB10.7 billion, with a high market value and good asset liquidity. However, the Company also held a large number of land use rights, which are considered low liquidity. As of 31 December 2022, land use rights from investment property recorded RMB24.2 billion, accounting for 17.2% of the Company's total assets. Moreover, as of 31 March 2023, the Company had a certain amount of restricted assets totaling RMB15.7 billion, which accounted for 10.8% of its total assets.

Exhibit 6. Shareholding of listed companies at end of March 2023

Company Name	Ticker	Market Cap (RMB billion)	Shareholding Ratio	Stock Market Value (RMB billion)
Chongqing Fuling Zhacai Group Co., Ltd.	002507.SZ	22.5	35.3	7.9
Cecep Solar Energy Co., Ltd	000591.SZ	26.8	2.3	0.6
Chongqing Taiji Industry (Group) Co., Ltd.	600129.SH	23.9	7.9	1.9
Guocheng Mining Co., LTD.	000688.SZ	19.5	0.9	0.2
Chongqing Sanfeng Environment Group Corp., Ltd	601827.SH	11.8	0.6	0.1
Total				10.7

Source: public information, CCXAP research

Diversified financing channels

FIDG has diversified financing channels, including both onshore and offshore debt capital markets, and maintains a good relationship with large domestic banks. Around 34.0% of the Company's debt financing was provided by domestic banks. It held a total credit facility of RMB55.7 billion and available credit facilities of RMB28.6 billion as of the end of March 2023. Around 45.8% of its debt was provided by the debt capital market. FIDG has expanded its funding channel to the offshore debt capital market in 2023. In the first six months of 2023, the Company has issued a total amount of RMB2.7 billion offshore bonds, with a coupon rate of 4.9%. In addition, the Company had a certain reliance on non-standard financing, including trust and financial leasing, which accounted for about 20.2% of its total debt. The Company's perpetual corporate bonds were RMB2.1 billion at the end of March 2023. We expect that the Company will continue to have good access to funding to support its business operations and expansions in the future.

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. FIDG 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.

FIDG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Fuling 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. FIDG 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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