

Credit Opinion

25 October 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

Waldo Li +852-2860 7137
Assistant Credit Analyst
waldo_li@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

Jiangyou Chuangyuan Development and Construction Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jiangyou Chuangyuan Development and Construction Investment Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangyou Chuangyuan Development and Construction Investment Co., Ltd. (“JCDC” or the “Company”) reflects Jiangyou City Government’s (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Jiangyou City Government’s capacity to support reflects Jiangyou as an important node in the Chengdu Plain urban agglomeration with transportation advantage, and increasing fiscal strength, but moderate fiscal profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) key role in the infrastructure construction of Jiangyou Industrial Park; (2) public projects with high business sustainability; and (3) solid track record of receiving government support.

However, the Company’s rating is constrained by its (1) increasing exposure to commercial activities; and (2) high proportion of non-standard financing.

The stable outlook on JCDC’s rating reflects our expectation that the Jiangyou City Government’s capacity to provide support will remain stable, and the Company will maintain its key role in the infrastructure construction of Jiangyou Industrial Park.

Rating Drivers

- Key role in the infrastructure construction of Jiangyou Industrial Park
- Undertaking projects with high business sustainability
- Increasing exposure to commercial activities
- Mild debt growth with certain liquidity pressure
- High proportion of non-standard financing
- Solid track record of receiving government support

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Jiangyou City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to high-cost non-standard financing.

What could downgrade the rating?

The rating could be downgraded if (1) Jiangyou City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as weakened market position or material decreased government support.

Key Indicators

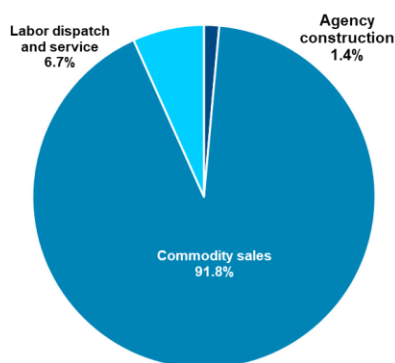
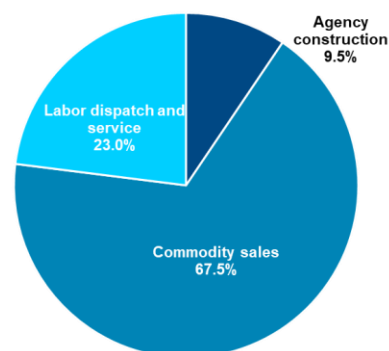
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	11.8	12.8	14.9
Total Equity (RMB billion)	6.7	6.8	7.6
Total Revenue (RMB billion)	1.2	1.1	1.3
Total Debt/Total Capital (%)	38.1	41.5	41.4

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

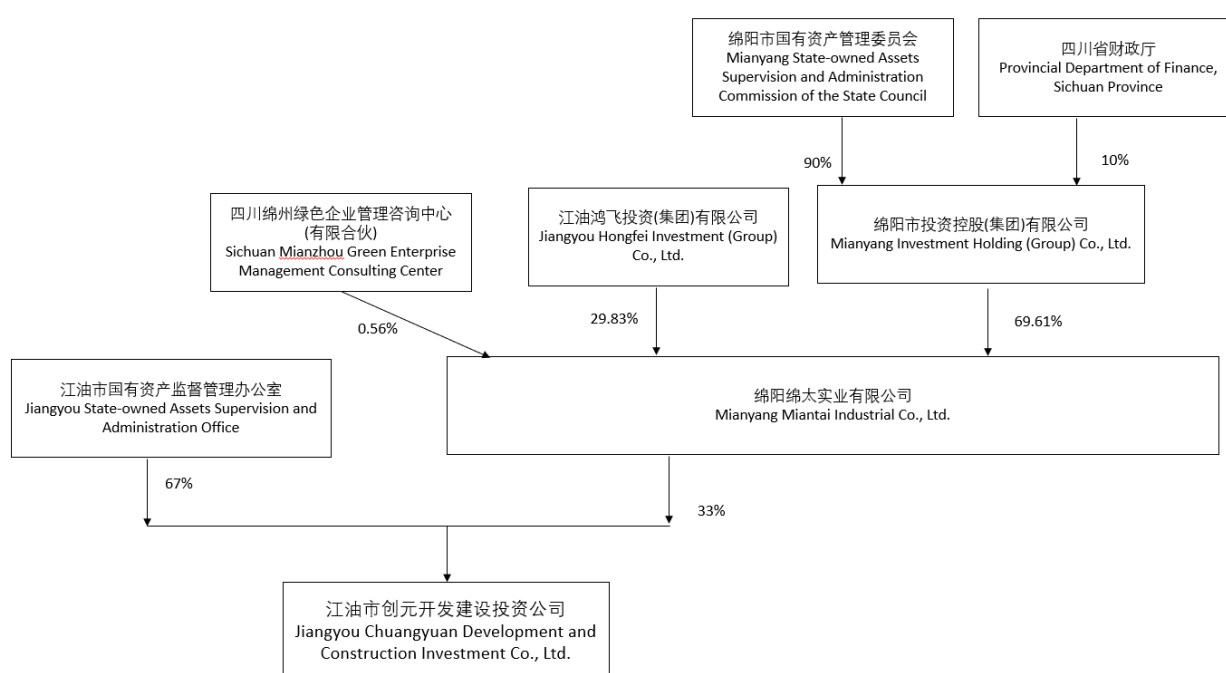
Source: CCXAP research

Corporate Profile

JCDC is the major state-owned entity responsible for infrastructure construction in Jiangyou Industrial Park, Jiangyou City. Its business scope covers infrastructure construction, self-operated project construction, commodity sales, and labor service. As of 30 June 2023, Jiangyou State-Owned Assets Supervision and Administration Office ("Jiangyou SASAO") was the Company's actual controller and largest shareholder, holding 67.0% of the shares.

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 June 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Jiayou City Government has a relatively strong capacity to provide support, reflecting Jiayou as an important node in the Chengdu Plain urban agglomeration transportation advantage, and increasing fiscal strength, but moderate fiscal profile.

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 RMB5.7 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 RMB488.1 billion, up by 2.3% YoY. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion, with a YoY increase of 5.5%.

Mianyang City is located in the north of Sichuan Province, and in the heartland of the "West Triangle" of Chengdu, Chongqing, and Xi'an. It is one of the central cities of the Chengdu-Chongqing urban agglomeration. Mianyang City has formed six key industries including electronic information, automobiles, new materials, energy conservation and environmental protection, high-end equipment manufacturing, and food and beverage. With the support of such pillar industries, its economy continues to grow and its financial strength continues to increase. In 2022, Mianyang City achieved a GRP of RMB362.7 billion, a YoY increase of 5.0%, ranking 2nd in Sichuan Province. In the first half of 2023, Mianyang recorded a GRP of RMB177.6 billion, an increase of 8.5% YoY, accounting for 6.4% of the total GRP in Sichuan Province. Mianyang Municipal Government's general budgetary revenue increased steadily from RMB13.1 billion in 2019 to RMB15.9 billion in 2021, and the decline in the growth rate in 2022 was due to tax refunds. However, it has a relatively weak financial self-sufficiency ratio of 31.9% at the same time. In 2022, Mianyang Municipal Government's outstanding debt amounted to RMB85.1 billion, accounting for 23.5% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Mianyang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	301.0	335.0	362.7
GRP Growth (%)	4.4	8.7	5.0
General Budgetary Revenue (RMB billion)	14.1	15.9	16.0
General Budgetary Expenditure (RMB billion)	44.5	46.7	50.1
Local Government Debt (RMB billion)	57.4	70.5	85.1

Source: Statistic Bureau of Mianyang City, CCXAP research

Jiangyou City is a county-level city under the administration of Mianyang City. After years of development, Jiangyou City has formed a special metallurgy and new material industry cluster supported by small and medium-sized enterprises such as Panzhihua Iron and Steel Group Jiangyou Great Wall Special Steel Co., Ltd., with an annual output of approximately 500,000 tons of high-quality special steel materials, accounting for more than 80% of Sichuan Province's output. In 2022, Jiangyou City achieved a GRP of RMB60.1 billion, ranking 2nd among the county-level cities/districts under Mianyang City, an increase of 3.9% over the previous year. Its general budgetary revenue amounted to RMB3.0 billion in 2022, representing a YoY increase of 23% and ranking 1st among the county-level cities/districts under Mianyang City. However, affected by tax refund policy, the tax revenue/general budgetary revenue decreased from 54.5% in 2021 to 43.0% in 2022, implying a lower revenue quality. Its government fund revenue decreased significantly from RMB8.4 billion in 2020 to RMB3.7 billion in 2022 due to property market downturn and land sales fluctuations. Meanwhile, Jiangyou City has a relatively moderate debt level. The outstanding government debt was RMB10.4 billion in 2022, representing 17.3% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Jiangyou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	47.8	52.8	60.1
GRP Growth (%)	4.1	8.6	3.9
General Budgetary Revenue (RMB billion)	2.3	2.4	3.0
General Budgetary Expenditure (RMB billion)	4.5	4.6	5.4
Local Government Debt (RMB billion)	6.6	8.0	10.4

Source: Statistic Bureau of Jiangyou City, CCXAP research

Jiangyou Industrial Park was founded in 1992. It was designated as a provincial key development zone by the Sichuan Provincial Government in 2001 and was approved as a provincial high-tech industrial park namely Jiangyou High-tech Zone in 2018. As of the end of 2022, the total planned area was 28.02 square kilometers and the built-up area was 19.16 square kilometers. The park's leading industries include high-end equipment manufacturing, biomedicine, and new materials. In 2021, the park achieved operating income of RMB75.5 billion, a YoY increase of 15.7%. The development of the park provides support for the long-term sustainable development of the Company.

Government's Willingness to Provide Support

Key role in the infrastructure construction of Jiangyou Industrial Park

JCDC is the major state-owned entity responsible for local infrastructure construction in Jiangyou Industrial Park, undertaking land acquisition and demolition, and infrastructure construction in the region. According to the Jiangyou City Finance Bureau, the Company has handed over the land acquisition and demolition project to the Sichuan Jiangyou High-tech Industrial Park Management Committee since January 2022, so the Company will no longer be responsible for land projects.

The Company's infrastructure construction business is conducted by itself as well as its subsidiary Jiangyou Urban and Rural Construction Development Co., Ltd. The Company conducts infrastructure projects by signing agency construction agreements with Jiangyou City Finance Bureau, which would pay the construction management fee to the Company. The payment to the Company is calculated based on the project cost plus 15%. In 2022, revenue from the agent construction business dropped from RMB296.4 million in 2021 to RMB18.6 million due to the impact of regional development planning progress. However, as of the end of 2022, the Company's total target investment in infrastructure construction was RMB1.5 billion while RMB1.4 billion was yet to be invested. Hence, the sustainability of this segment is high which also implies a large capital expenditure pressure.

Increasing exposure to commercial activities

In addition to public activities, JCDC is also involved in other commercial activities such as self-operated project construction, commodity sales, as well as labor dispatch and sales. We estimate that the Company has low commercial exposure as the proportion of commercial business assets accounts for less than 10% of its total assets.

The commercial activities that the Company is engaged in are mainly commodity sales. The main products sold are electronic products and chemical products (ethylene glycol). Profits are obtained through distribution price differences. In 2022, the Company's revenue from commodity sales increased significantly and accounted for over 90% of the Company's total revenue. However, the Company is not engaged in production and is limited by factors such as trade scale. Its bargaining power with the upstream and downstream enterprises is weak, resulting in a low gross margin of commodity sales business (1.5% in 2022).

The Company is also responsible for building plants and resettlement housing in Jiangyou Industrial Park. As of the end of 2022, the Company had a total estimated investment amount of RMB1.8 billion and an outstanding amount of RMB1.3 billion in self-operated projects. After the completion of these projects, the Company mainly relies on plant leasing and sales, and parking space sales to obtain profits. However, given the moderating macroeconomic growth, this business segment may face uncertainty in terms of its future cash inflow. In addition, as the project is completed, the Company's exposure to commercial business will increase accordingly.

Solid track record of receiving government support

As the key entity in charge of infrastructure construction in the Jiangyou Industrial Park, the Company has a good track record of receiving support from the local government in the past few years. The Jiangyou City Government strongly supports the Company by providing regular subsidies. From 2020 to 2022, the Company received government subsidies of RMB200.0 million, RMB201.5 million, and RMB266.6 million, respectively. In 2022, the government also provided capital injections and asset injection of RMB675.4 million to the Company. In light of JCDC's important regional position in the Jiangyou Industrial Park, we expect the Company will continue to receive ongoing support from the local government over the coming 12-18 months.

Exhibit 6. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	200.0	201.5	266.6
Capital Injections	-	-	574.2
Asset Injections	-	-	101.2
Total	200.0	201.5	942.0

Source: Company information, CCXAP research

Mild debt growth with certain liquidity pressure

Project construction and asset purchases have caused the Company's total debt to continue to rise in the past few years. However, the debt growth rate is at an acceptable level given the YoY debt growth rate decreased from 17.4% in 2021 to 11.7% in 2022. As of 31 December 2022, JCDC's total capitalization ratio was 41.4%. The Company's short-term debt/total debt was 43.3% as of the end of 2022. However, the cash of JCDC was RMB0.4 billion which was insufficient to cover its short-term debt. The cash/short-term debt ratio was around 0.2x, implying a certain liquidity pressure on the Company.

Moreover, JCDC has moderate asset liquidity. The Company's total asset mainly consists of receivables and inventories, which accounted for 84.6% of its total assets as of 31 December 2022. Receivables are mainly unreceived payments from the agencies of the government or other state-owned companies, there is uncertainty about the time of payback; inventories are mainly investment costs for construction projects, all of which are considered low liquidity. As of the end of 31 December 2022, the Company's total restricted assets were RMB9.2 billion which accounted for 61.8% of its total assets and were mainly land inventory used for financing.

The Company bears certain contingent risks arising from the external guarantee. As of 31 December 2022, the Company had outstanding external guarantees of RMB1.6 billion, representing 21.4% of its net assets. All of them were provided to local state-owned enterprises ("SOEs"). In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

The high proportion of non-standard financing

JCDC's large investment needs could be partially supported by its good relationship with large domestic banks. Around 55.5% of the Company's debt was provided by bank loans in 2022, with an average financing cost of around 5%. The Company possessed a total credit facility of RMB4.2 billion, of which the undrawn credit line amounted to RMB1.2 billion as of 31 December 2022. In addition, around 10.4% of the Company's debt was from bond financing, with an average financing cost of around 7%.

However, the Company has a relatively high exposure to high-cost non-standard financing as the non-standard financing accounted for 34.2% of the Company's total debt in 2022, with an average financing cost of 8.3%. Non-standard financing is less stable than bank financing, and the Company faces higher financing costs and greater refinancing pressure. The Company plans to issue offshore bonds to improve its debt structure.

ESG Considerations

JCDC bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

JCDC bears social risks as it implements public policy initiatives by building public infrastructure in the Jiangyou Industrial Park. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

JCDC's governance considerations are also material as the Company is subject to oversight by Jiangyou City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

JCDC'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 key role in infrastructure construction in Jiangyou Industrial Park, 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 \(July 2022\)](#).

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