

Credit Opinion

26 October 2023

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

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Meishan Tianfu New Area Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Meishan Tianfu New Area Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Meishan Tianfu New Area Investment Group Co., Ltd. (“MTAI” or the “Company”) reflects Meishan Municipal Government’s (1) 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 Meishan Municipal Government’s capacity to support reflects that Meishan City, as a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone as well as a key area of the Cheng (Du) Le (Mountain) Golden Corridor, has growing economic and fiscal strengths.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) monopoly role in the development of Meishan Tianfu New Area; (2) solid track record of receiving government support; and (3) strong access to funding from banks and bond markets.

However, the rating is constrained by the Company’s (1) medium commercial business risks in self-operated projects and property development; and (2) rapid debt growth and certain liquidity pressure.

The stable outlook on MTAI’s rating reflects our expectation that the Meishan Municipal Government’s capacity to provide support will remain stable, and the Company’s characteristics as its monopoly role in the development of Tianfu New Area will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Monopoly role in the development of Meishan Tianfu New Area
- Undertaking major projects with high business sustainability
- Solid track record of receiving government support
- Strong access to funding from banks and bond markets
- Medium exposure to commercial activities
- Rapid debt growth and certain liquidity pressure

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Meishan Municipal 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 materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Meishan Municipal 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, deteriorated access to fundings, or material decreased government support.

Key Indicators

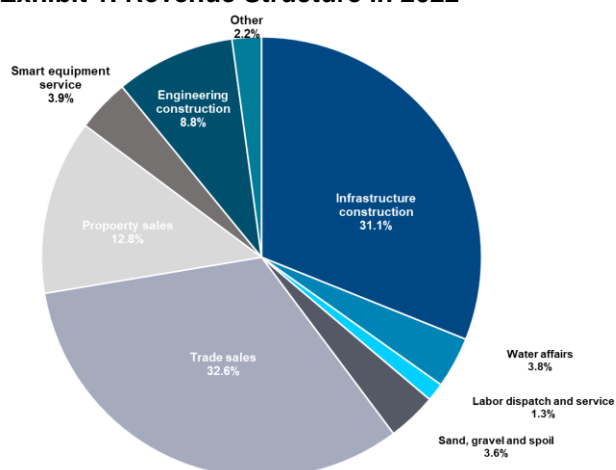
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	41.6	51.8	67.4
Total Equity (RMB billion)	28.7	27.7	27.5
Total Revenue (RMB billion)	1.9	3.7	5.9
Total Debt/Total Capital (%)	23.8	35.2	46.5

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

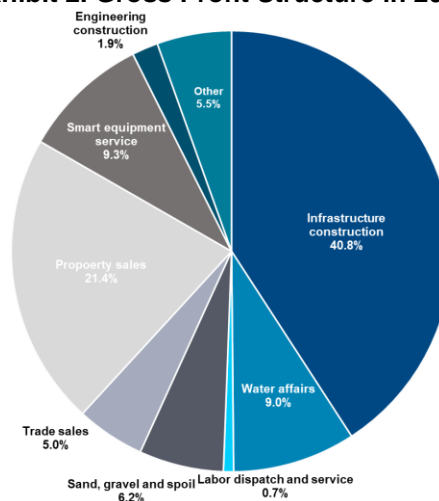
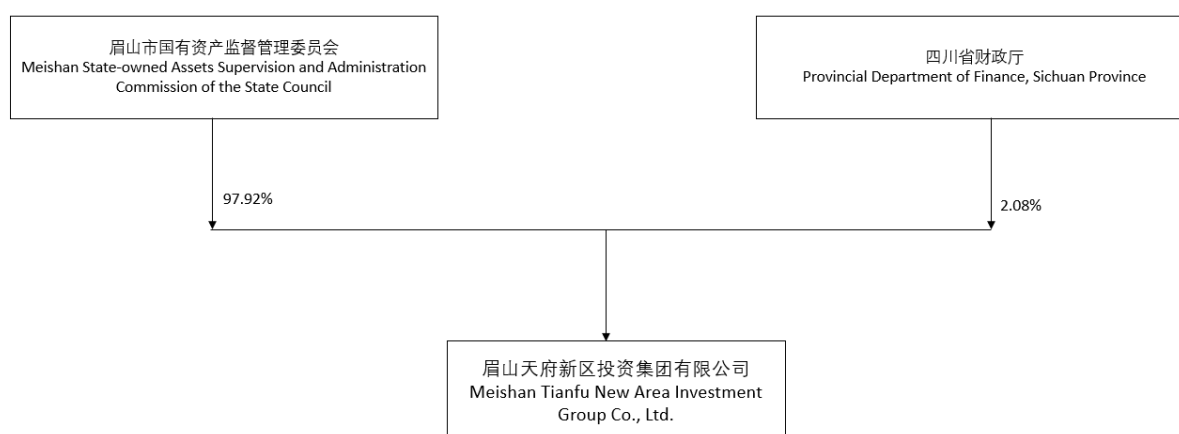
Source: CCXAP research

Corporate Profile

MTAI was established by the Meishan State-owned Assets Supervision and Administration Commission ("Meishan SASAC") in December 2018 with registered capital of RMB5.0 billion. The Company is the sole entity responsible for infrastructure construction, investment and financing activities in Meishan Tianfu New Area. Its business scope covers infrastructure construction, water affairs, real estate development, engineering construction, trade, smart equipment service and sales, fund investment, and small loans. As of end-2022, Meishan SASAC was the Company's actual controller and largest shareholder, holding 97.9% of the shares.

Exhibit 1. Revenue Structure in 2022

Source: Company information, CCXAP research

Exhibit 2. Gross Profit Structure in 2022**Exhibit 3. The shareholding chart in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Meishan Municipal Government has a strong capacity to provide support, reflecting Meishan City's excellent geographical location and policy support, as well as growing economic and fiscal strengths.

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 by 2.3% YoY. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion.

Meishan City is a prefecture-level city of Sichuan Province. It is a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone and a key area of the Cheng (Du) Le (Mountain) Golden Corridor. According to Meishan City's 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 Outline, the Meishan Municipal Government promotes in-depth cooperation between Meishan Tianfu New Area and Chongqing Liangjiang New Area in the fields of new energy vehicles, electronic information, digital economy, medical care and health care. Meishan City's

industrial development and living environment are expected to be comprehensively improved, its economic development is expected to have new opportunities.

In 2022, Meishan City achieved a GRP of RMB163.6 billion, an increase of 3.8% YoY, 0.9% higher than the GRP growth rate of Sichuan Province in 2022. Its general budgetary revenue amounted to RMB15.6 billion in 2022, ranking 7th among all cities in Sichuan Province, a YoY increase of 13.0%. However, affected by the pandemic and tax refund, the tax revenue of Meishan City decreased from RMB8.8 billion in 2021 to RMB7.7 billion in 2022; its government fund revenue decreased significantly from RMB47.1 billion in 2020 to RMB26.7 billion in 2022 due to land market downturn and real estate market fluctuations. The government debt was RMB63.6 billion in 2022, representing 38.9% of its GRP and around 100.3% of its total fiscal revenue.

Exhibit 4. Key economic and fiscal indicators of Meishan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	142.4	154.8	163.6
GRP Growth (%)	4.2%	8.5%	4.1%
General Budgetary Revenue (RMB billion)	12.2	13.8	15.6
General Budgetary Expenditure (RMB billion)	27.5	27.7	31.1
Local Government Debt (RMB billion)	47.4	53.9	63.6

Source: Statistic Bureau of Meishan City, CCXAP research

Meishan Tianfu New Area is an important part of the national-level Sichuan Tianfu New Area, which was established in 2014. Meishan Tianfu New Area includes Pengshan District and parts of Renshou County in Meishan City, connecting to Chengdu Science City to the north, Chengdu Eastern New District to the east, and Meishan City downtown area to the south. Key industries in the Area include electronic information, digital economy, new energy and new materials. In 2022, Meishan Tianfu New Area achieved a GRP of RMB21.0 billion, a YoY increase of 1.8%; during the same period, Meishan Tianfu New Area achieved a general budgetary revenue of RMB3.1 billion, a YoY increase of 21.9%. Government fund revenue has always been an important supplement to the financial resources of Meishan Tianfu New Area. However, due to the land market downturn and real estate market fluctuations in 2022, the government fund income of Meishan Tianfu New Area dropped by 34.7% YoY to RMB7.5 billion.

Government's Willingness to Provide Support

Monopoly role in the development of Meishan Tianfu New Area

MTAI is the sole entity responsible for local infrastructure construction in Meishan Tianfu New Area, as well as an important state-owned assets investment and operation entity in Meishan City.

The Company undertakes urban infrastructure construction projects such as roads, rivers, landscaping and street lighting projects in the region. The infrastructure construction projects undertaken by the Company are mainly carried out through an agency construction model. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The entrusting party is usually the government department. The repurchase payment is calculated based on the construction cost plus an agreed return, typically 18% of the sum of direct costs and indirect costs of project construction.

As of 31 December 2022, the Company had 17 infrastructure construction projects under construction or planning, with a total investment amount of RMB24.7 billion and an outstanding amount of RMB16.4 billion. In

addition, there has been an increase in provincial and municipal key projects approved by the local Development and Reform Commission. Since 2022, the Company has a crucial project according to the Meishan International Railway Port Development Plan, namely Meishan International Railway Port, with an estimated total investment of around RMB12.6 billion. In 2022, the total fixed asset investment of the Meishan Tianfu New Area amounted to RMB26.0 billion, representing a YoY growth of 14.9%. Given the sufficient infrastructure projects in the pipeline and the large infrastructure construction demand in Meishan Tianfu New Area, we expect the Company's infrastructure construction business will have good sustainability. However, the initial construction funds are mainly raised by the Company itself, so we expect the Company will face relatively large capital expenditure pressure.

The Company's utility services business includes water supply and installation business, mainly conducted by its subsidiary Meishan Huan Tian Water Co., Ltd. ("Huan Tian Water"). As of the end of 2022, Huan Tian Water had 1 water supply plant and 1 water supply pressure station with a total water supply capacity of 94,800 tons per day, serving Shigao District, Qingshui Town, and Xingshen Village. In addition, the Company also conducted sewage treatment business within 12 townships in Renshou County and Pengshan District. As of the end of 2022, there were 4 sewage treatment plants that have been put into operation, with a total processing volume of 17,300m³ per day; there were 12 sewage treatment plants under construction or planning, with a total planning processing volume of 48,350m³ per day. In 2022, the Company's revenue from water supply and installation service was RMB218.0 million, an increase of 45.3% over the previous year. We expect that the Company's utility services business will maintain good business stability. However, due to its public welfare nature, this business's contribution to the Company's total income is small, and the local government provides certain operation subsidies every year.

Medium exposure to commercial activities

MTAI is also engaged in commercial activities such as self-operated construction, property sales, trading, engineering construction as well as smart equipment service sales. Diversified businesses bring a lot of supplementary income to the Company, but it has also significantly increased the Company's commercial business risks. We consider the Company's commercial business risk to be medium, because its commercial activities accounted for around 30% of its total assets.

The Company's self-operated construction mainly facilitates the investment attraction of Meishan Tianfu New Area. The Company is responsible for building business centers, industrial parks, standardized factories and other properties to obtain leasing and other operating income. As of the end of 2022, the Company had a total estimated investment amount of RMB8.2 billion and an outstanding amount of RMB6.5 billion in self-construction projects. Currently, the Company has no self-operated projects completed. Given the large amount of self-operated projects in the pipeline, the Company has large expenditure pressure and there is uncertainty in its future funding balance.

MTAI's property sale business is operated by its subsidiary Meishan Huantian Development Co., Ltd., and currently holds 84 residential, commercial and other types of construction land parcels totaling approximately 4,869.60 acres. The Company's real estate business is divided into two models: the self-build-and-operate model and the resettlement housing model. Under the resettlement housing model, the Company signed a contract with the local Natural Resources and Planning Bureau, stipulating that the local government would repurchase the resettlement housing and limit the repurchase price. The repurchase price of resettlement housing is slightly higher than the development cost but lower than the price of commercial housing in the same location. As of the end of 2022, the Company had a total of 16 real estate projects under construction or planning,

with a total investment amount of RMB37.9 billion and an outstanding amount of RMB21.9 billion, of which 40% of the proposed projects are resettlement housing and 60% are commercial housing. The Company received a total repayment of RMB2.3 billion as of the end of 2022. Overall, a large amount of investment is required for projects under construction or planning. Meanwhile, some of the projects are resettlement housing with government repurchase commitment, which provides a certain guarantee for real estate decontamination and business stability and sustainability.

The Company mainly engages in steel, electrolytic copper, scrap steel, alcohol, and pork trading. The Company. From 2020 to 2022, revenue from the trading business grew steadily from RMB670 million in 2020, RMB892 million in 2021 to RMB1.9 billion in 2022. The trading business contributes greatly to the Company's operating income, but its gross profit margin is relatively low, at 1.8% in 2022.

In 2022, the Company participated in the establishment of the Regional Collaborative Development Investment Guidance Fund on behalf of the Meishan Municipal Government, and invested in the Sichuan Rural Revitalization Investment Guidance Fund Partnership (Limited Partnership). As of 31 March 2023, the regional collaborative fund's agreed fundraising scale was RMB6.5 billion, of which RMB3.2 billion had been paid in, and the Company's investment amount was RMB360.0 million. The fund is still in its early stages of investing and has not yet realized returns.

Solid track record of receiving government support

As the sole entity in charge of infrastructure construction in the Meishan Tianfu New Area, the Company has a good track record of receiving support from the local government in the past few years. The Meishan Municipal Government and the Meishan SASAC support the Company's business diversification strategy by providing regular subsidies to its various segments ranging from water supply to school construction. From 2020 to 2022, the Company received government subsidies of RMB133.0 million, RMB121.0 million, and RMB168.0 million, respectively. In terms of project repayment, the Company has received a total of RMB4.3 billion as end of 2022. In 2023, Meishan SASAC decided to increase the Company's registered capital by RMB5 billion, of which RMB3.0 billion has been injected into the Company as of 7 August 2023. In light of MTAI's important regional position in infrastructure construction and investment attraction in the Meishan Tianfu New Area, we expect the Company to receive ongoing support from the local government over the coming 12-18 months.

Rapid debt growth and certain liquidity pressure

Due to the large amount of projects constructed by the planning under the local government, MTAI's total debt had increased significantly from RMB9.0 billion in 2020 to RMB24.0 billion in 2022, with a debt growth rate of 166.7%. Its capitalization ratio was 46.5% in 2022. In terms of short-term debt, the weight of it was acceptable given its short-term debt/total debt was 33.7% as of the end of 2022. The cash of MTAI was RMB2.4 billion and was not sufficient to cover its short-term debt as of 31 December 2022, the unrestricted cash/short-term debt ratio was merely 0.29, implying a certain liquidity pressure of the Company.

Exhibit 5. Major Projects under Construction as of 31 December 2022

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Infrastructure construction projects	11	21,356	8,303	13,053
Self-operated projects	9	5,467	1,667	3,800
Real estate projects	11	33,113	16,011	17,102
Projects Under Planning				
Infrastructure construction projects	6	3,285	-	3,285
Self-operated projects	3	2,692	-	2,692
Real estate projects	5	4,810	-	4,810
Total	45	70,723	25,981	44,742

Source: Company information, CCXAP research

The Company has moderate asset liquidity, its total restricted assets were RMB15.8 billion which accounted for 23.4% of total assets and were mainly used for financing as of the end of 31 December 2022. Moreover, around 58.2% of the Company's asset was infrastructure construction cost, real estate development cost, land to be developed, as well as land use rights.

In addition, the Company bears manageable risks arising from external guarantees. As of 31 December 2022, the Company had outstanding external guarantees of RMB2.5 billion, representing 9.2% of its net assets.

Strong access to funding from banks and bond markets

MTAI's large capital needs can be alleviated through its diversified financing channels. MTAI has good access to diversified funding such as bank loans, and onshore bond financing. Around 65.8% of the Company's debt was from bank loans and bond financing accounted for 32.3% of its total debts as of 31 December 2022. The Company also possessed abundant credit resources with a total credit facility of RMB40.2 billion, of which the unused credit line amounted to RMB20.4 billion as of 31 December 2022.

The financing cost of the Company is reasonable. The overall financing cost was 5.1%, of which costs of bank loan and bond financing were 4.9% and 5.5%, respectively. In addition, the Company has little exposure to non-standard financing given it merely represented 1.9% of its total debt and the average cost was 6.5% in 2022.

ESG Considerations

MTAI 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.

MTAI bears social risks as it implements public policy initiatives by building public infrastructure in the Meishan Tianfu New Area. 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.

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

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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