

Credit Opinion

5 December 2023

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

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Mianyang Science Technology City Development Investment (Group) Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Mianyang Science Technology City Development Investment (Group) Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Mianyang Science Technology City Development Investment (Group) Co., Ltd. (“MSDG” or the “Company”) reflects Mianyang Municipal Government’s strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Mianyang Municipal Government’s capacity to provide support reflects that as the sole science and technology city approved by the State Council. Mianyang’s gross regional product (“GRP”) ranked second in Sichuan Province in 2022 and its financial strength continues to increase.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) role as the important land development, infrastructure construction and industrial investment entity in Mianyang Science and Technology City (“Mianyang STC”); (2) large public projects reserves; and (3) solid track record of receiving government support.

However, the rating is constrained by the Company’s (1) relatively large debt burden and moderate asset liquidity; (2) high exposure to commercial activities; and (3) investment risk in industrial development portfolio.

The stable outlook on MSDG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its significant position in Mianyang STC.

Rating Drivers

- Important land development, infrastructure construction and industrial investment entity in Mianyang STC
- High exposure to commercial activities
- Solid track record of receiving government support
- Relatively high debt burden and moderate asset liquidity
- Access to funding from banks and bond markets
- Investment risk in industrial development portfolio

Rating Sensitivities

What could upgrade the rating?

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

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 strategic significance or deteriorated government support.

Key Indicators

| | 2020FY | 2021FY | 2022FY |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 56.5 | 59.7 | 64.8 |
| Total Equity (RMB billion) | 15.6 | 16.2 | 16.7 |
| Total Revenue (RMB billion) | 11.7 | 11.8 | 12.8 |
| Total Debt/Total Capital (%) | 68.5 | 67.6 | 70.2 |

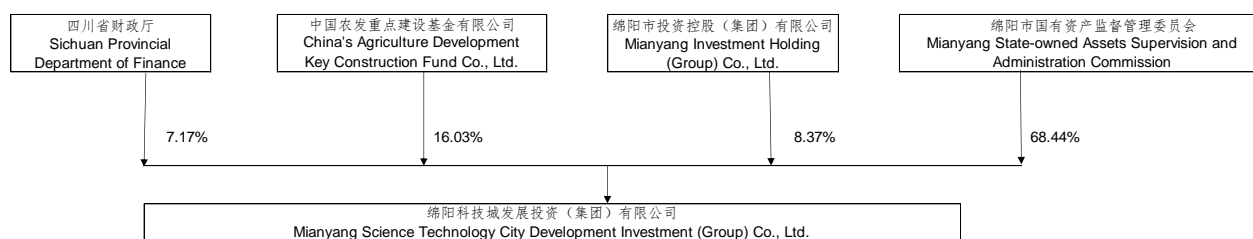
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

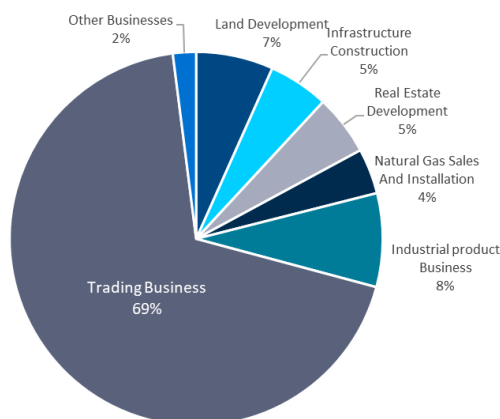
Founded in 2001, formerly known as Mianyang Science and Education Innovation Investment Co., Ltd., MSDG has become an important infrastructure construction and land development entity in Mianyang STC. The Company is also engaged in commercial businesses such as natural gas, industrial products, trade sales, and real estate development. As of 31 December 2022, the Mianyang State-owned Assets Supervision and Administration Commission ("Mianyang SASAC") had control over the Company, holding 68.4% of the Company's shares.

Exhibit 1. Shareholding chart as of 31 December 2022



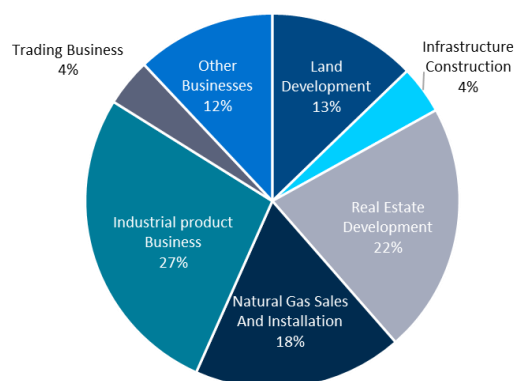
Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross Profit Structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe the Mianyang Municipal Government has a strong capacity to provide support for the Company, which is supported by its strong economic fundamentals as the second largest economy in Sichuan Province.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a 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, with a YoY increase of 5.5%.

Mianyang City is located in the north of Sichuan Province, in the heartland of the "West Triangle" of Chengdu, Chongqing, and Xi'an. It is also one of the central cities of the Chengdu-Chongqing urban agglomeration and an important national defense scientific research and electronic industry production base in China. Mianyang 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 continued to grow and its financial strength continued to increase. In 2022, Mianyang achieved a GRP of RMB362.7 billion, a YoY increase of 5%, 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, which was higher than the average level of Sichuan Province. Mianyang Municipal Government's general budgetary revenue increased from RMB14.1 billion in 2020 to RMB16.0 billion in 2022. However, its financial self-sufficiency is relatively weak, with a low fiscal balance ratio of 32.5% at the same time. Affected by the land market, its

government fund income has continued to decline in the past three years, reaching RMB28.8 billion, RMB25.9 billion and RMB20.5 billion, respectively. As to Mianyang's debt burden, it is manageable. In 2022, Mianyang Municipal Government's outstanding debt was RMB85.1 billion, accounting for 23.5% of the 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 | 49.1 |
| Local Government Debt (RMB billion) | 57.4 | 70.5 | 85.1 |

Source: Statistic Bureau of Mianyang City, CCXAP research

Established in 2000, Mianyang STC is the only national-level science and technology city approved by the State Council of China. It is also an important city for the country to systematically promote comprehensive innovation and reform experiments. There are 18 national scientific research institutes, 524 national high-tech enterprises, and 15 universities in the city. The scope of Mianyang STC covers one core district (military-civilian integration centralized development area of STC), three other districts and multiple industrial parks. The core district is the concentrated development area of Mianyang STC, and the three other districts include the high-tech zone, economic development zone and science and technology innovation zone. Mianyang STC has key industries such as electronic information, equipment manufacturing, and advanced materials. In December 2020, the Sichuan Provincial Government approved the establishment of the Mianyang Science and Technology City New Area ("Mianyang STC New Area"), with a planned area of 396 square kilometers and covering 9 towns in Mianyang City. It is the fourth provincial-level new area in Sichuan Province. The main purpose of the Mianyang STC New Area is to speed up the construction of innovation platforms, promote the development of the technology industries, and attract talent. We believe that the establishment of the Mianyang STC New Area will provide huge opportunities for the Company's future construction and development projects.

Government's Willingness to Provide Support

The important land development and infrastructure construction entity in Mianyang STC

There are two major local infrastructure investment and financing companies ("LIIFCs") in Mianyang City, namely Mianyang Investment Holding (Group) Co., Ltd. ("MIHC") and the Company, there are also other LIIFCs in Mianyang STC New Area, Mianyang High-tech Zone and Mianyang Economic Development Zone. MIHC is the key platform for urban infrastructure and primary land development in the city's downtown area. The Company is engaged in land development and infrastructure construction in Mianyang STC, and its functional positioning is different from that of other local state-owned companies in Mianyang City. Given the Company's important role in Mianyang STC, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company was entrusted by the Mianyang SASAC to conduct infrastructure construction projects, including pipeline network construction, roads, bridges and relocation housing. The scope of infrastructure construction includes an economic development zone, a high-tech zone, and the science and technology innovation zone of Mianyang City. The Company had signed an agent construction repurchase agreement with relevant parties. After the acceptance of the project, the Company will receive repurchase payments of the projects according to the agreement with a certain percentage from the relevant parties. As of 31 December 2022, the Company had completed 11 infrastructure construction projects with a total investment of approximately RMB13.5 billion. It

also had 7 projects under construction or planning, with a planned investment of RMB8.5 billion and an uninvested amount of RMB5.0 billion.

According to authorization from the Mianyang SASAC, the Company is also responsible for the preliminary land development and consolidation within the Mianyang STC. After the completion of preliminary land development and consolidation projects, the Company will hand over the land and resources department for listing and transfer and will confirm the payment according to the land transfer confirmation agreement. From 2020 to 2022, the Company has confirmed the revenue for land transfer of RMB2.3 billion. However, the land market is affected by the downturn of the real estate industry, which may affect the Company's related business income and payment collection. The Company has sufficient land resources with 48 land parcels to be transferred, covering an area of approximately 4,452.8 acres as of the end of 2022. There was one land development project under construction, with a planned investment of RMB5.0 billion and an uninvested amount of RMB2.3 billion. Overall, given its regional franchise advantages in land development and the sufficient amount of infrastructure construction projects in the pipeline, we believe the Company's business will be sustainable over the next 3 to 5 years, but there is relatively large capital expenditure pressure at the same time.

High exposure to commercial activities

In addition to public-related activities, MSDG is also engaged in diversified commercial activities, including real estate development, industrial product and natural gas sales, trading and industry fund investment. We consider MSDG's commercial business exposure to be high, as its market-driven businesses account for more than 30% of its total assets.

The trading business is the Company's largest source of revenue, accounting for 68.8% of its total revenue in 2022. However, the gross profit margin was low, at less than 1%. The Company is engaged in trading electrolytic copper, copper rods, copper products and electronic components through its subsidiaries. Moreover, it adopts the order-driven model to avoid the risk of price fluctuations and overstock. In terms of revenue, the Company's reliance on its top 5 customers and suppliers was high, with a proportion of 39.2% and 43.7%, respectively. A high concentration of risk can lead to lower pricing and negotiation leverage, reducing its profitability. Furthermore, the Company also sells industrial products such as blade steel, die steel and military products, but these only accounted for 8.1% of the total income in 2022. The Company is also responsible for the sales and installation of natural gas in Mianyang City. It has built the first natural gas storage and distribution station in Mianyang City, with about 500 thousand users.

MSDG conducts real estate business through its subsidiaries. As of 31 December 2022, the Company had completed 8 real estate projects, including commercial buildings and shops, with a total investment of RMB5.4 billion. The Company's saleable real development project scale is large, with a total construction area of 1.2 million square meters and a remaining saleable area of 354 thousand square meters, which will support sales and carry-forward revenue in the future. As of 31 December 2022, the Company's collection from real estate projects was RMB4.5 billion, which still cannot cover its investment. The income from the real estate business is subject to uncertainties due to its high dependence on real estate policies. Besides, there were 3 real estate projects under construction, with an outstanding investment amount of RMB525.1 million.

To support the development of key industries in Mianyang STC, the Company invested in a large number of industrial funds, such as Mianyang BOE Optoelectronics Technology Co., Ltd., and Sichuan Hongke Innovation Technology Co., Ltd. As of 31 December 2022, the Company's equity investment was RMB5.9 billion. In April 2022, the Company invested RMB84.6 million in Sichuan Mianyang Fenggu Wine Co., Ltd. ("Fenggu Wine"), holding 40% of the shares. Unfortunately, Fenggu Wine has gone bankrupt and completed reorganization

progress as of 30 June 2023. The initial investment for industrial funds is relatively large, and the investment return period is long. Moreover, most of the investment objects are private-owned enterprises, and there is some uncertainty in future investment incomes.

Solid track record of receiving government support

MSDG has a proven track record of receiving ongoing government support, including government subsidies, asset injections, construction project payments and special bonds. To support the Company's business expansion, Mianyang SASAC has injected a total of RMB620 million in assets and capital, including land and equity, into the Company from 2020 to 2022. During the same period, MSDG received approximately RMB2.9 billion in government subsidies. Considering the important role of MSDG in the development of Mianyang STC, we expect the Company will continue to receive support from the Mianyang government in the future.

Exhibit 5. Government Support from 2020 to 2022

| (RMB million) | 2020FY | 2021FY | 2022FY |
|----------------------|----------------|--------------|----------------|
| Government Subsidies | 1,802.1 | 106.0 | 820.0 |
| Assets Injections | 92.0 | 328.0 | 200.0 |
| Special Bonds | 370.0 | 350.0 | - |
| Total | 2,264.1 | 784.0 | 1,020.0 |

Source: Company information, CCXAP Research

Relatively high debt burden and moderate asset liquidity

MSDG has a high debt burden due to its debt-driven business expansion over the past few years. The Company's total debt increased from RMB33.8 billion at end-2020 to RMB39.3 billion at end-2022, with a total capitalization ratio of 70.2%. The increase in debt was mainly attributable to the fast expansion of construction projects. In terms of debt structure, the Company had a heavy short-term debt burden, and the ratio of short-term debt to total debt was 50.2% at end-2022. Given the Company's large capital expenditure pressure on construction projects, we expect the Company to maintain a large debt burden for the next 12-18 months.

In addition, MSDG's asset liquidity is moderate. As of 31 December 2022, the Company had pledged several assets for loans, including inventory and receivables, with a total amount of RMB17.2 billion and accounting for around 26.6% of its total assets. We consider it as low liquidity.

Access to funding from banks and bond markets

MSDG has fair access to a variety of funding sources, including bank loans and onshore bond financing. The Company maintains good long-term relationships with several banks. As of 31 December 2022, the Company had total credit facilities of RMB38.8 billion and available credit facilities of RMB11.0 billion. In addition, the Company had 8 outstanding domestic bonds totaling RMB6.8 billion in 2022. The Company also plans to tap the offshore debt capital market to broaden its funding sources. MSDG had a low exposure to shadow banking lending, as its proportion of non-standard products is less than 10% as of 31 December 2022.

Contingent liability risks from external guarantees

MSDG has a relatively low exposure to contingent liabilities. As of 31 December 2022, the Company's external guarantee amount was RMB887.1 million, accounting for only 5.3% of its net assets. Although the Company's external guarantee balance was not large, the counterparties included such as Sichuan Guohao Seed Co., Ltd.

are greatly affected by market fluctuations. If the poor operating environment leads to problems in the repayment of such enterprises, it will lead to contingent liabilities for the Company.

The Company also faces credit contagion risks for bad debt provisions in its other accounts receivables. As of 31 December 2022, 58.7% of the Company's other accounts receivables were from Bochum Group. Bochum Group has undergone debt restructuring and equity transfer from the Company, and there is a certain degree of uncertainty in the recovery of the Company's accounts receivable.

ESG Considerations

MSDG assumes environmental risks through its infrastructure construction and land development projects. Such risks could be moderated through environmental studies and detailed planning before the start of the projects and close supervision during construction.

MSDG bears social risks as it implements public policy initiatives by participating in the construction of public infrastructures, including roads and bridges, and the provision of natural gas services in Mianyang City.

MSDG's governance considerations are also material, as the Company is subject to oversight by Mianyang Municipal Government and must 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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