

Credit Opinion

29 December 2023

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

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Chengdu Jiaozi Park Financial and Business Zone Investment & Development Co, Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chengdu Jiaozi Park Financial and Business Zone Investment & Development Co, Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Jiaozi Park Financial and Business Zone Investment & Development Co, Ltd. (“CJID” or the “Company”) reflects Chengdu High Tech Industrial Development Zone (“Chengdu Hi-tech Zone”) Government’s very strong capacity to provide support to the Company, and high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects its strong economic strength and good fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in the development of Jiaozi Park Financial Business District (“Jiaozi Park”); (2) sufficient reserve of public construction projects; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high debt growth and large capital expenditure pressure; and (3) moderate asset liquidity.

The stable outlook on CJID’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its strategic role as the important infrastructure construction entity in Jiaozi Park of Chengdu City.

Rating Drivers

- Strong position in the development of Jiaozi Park
- Sufficient reserve of public construction projects
- Medium exposure to commercial activities
- High debt growth and large capital expenditure pressure
- Moderate asset liquidity
- Stable sources of funding and relatively low costs
- Solid track record of receiving government payments

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance the local government's willingness to support, such as lower debt growth or improving in assets liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company's characteristics weaken the local government's willingness to support, such as reducing strategic significance and government payments.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	16.1	20.1	22.5	26.3
Total Equity (RMB billion)	7.8	9.3	9.2	9.9
Total Revenue (RMB billion)	0.1	0.1	0.3	1.2
Total Debt/Total Capital (%)	37.0	35.8	40.3	46.6

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2009, formerly known as Chengdu Financial City Co. Ltd., the Company is the development and operation entity of Jiaozi Park authorized by the State-owned Assets Finance Bureau of Chengdu Hi-tech Zone CJID is mainly engaged in agency construction, property sales, property leasing, and commodity sales business in Jiaozi Park. As of 30 September 2023, Chengdu Jiaozi Financial Holding Investment Holdings Co., Ltd is the largest shareholder of the Company, holding 27% of the shares. The Company is actually controlled by the State-owned Assets Supervision and Administration Commission of Chengdu ("Chengdu SASAC").

Exhibit 1. Revenue Structure in 2023Q3

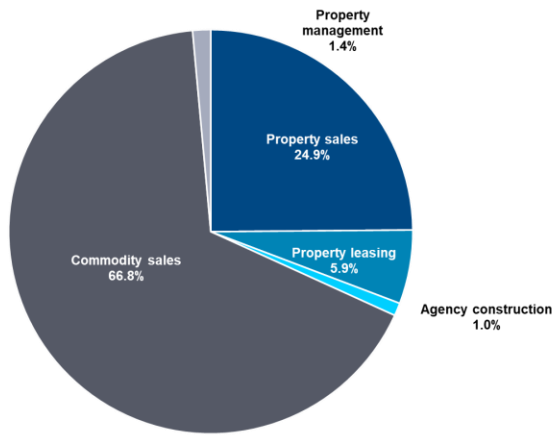
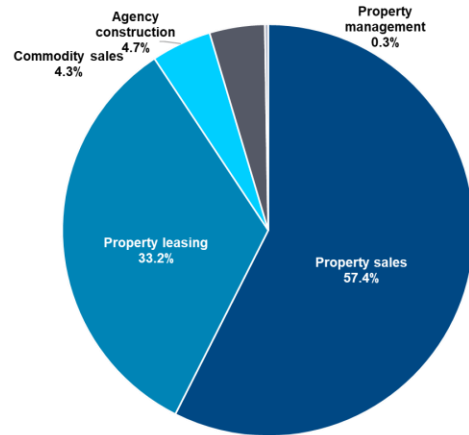
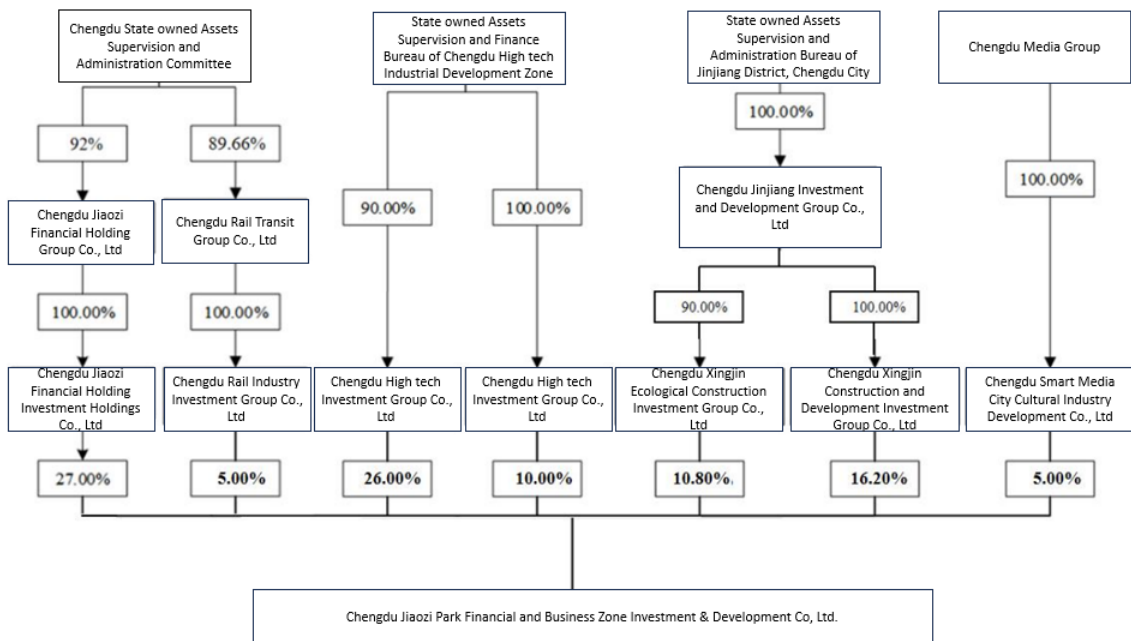


Exhibit 2. Gross Profit Structure in 2023Q3



Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 September 2023



Source: Company information, CCXAP research

Rating Considerations

Government’s Capacity to Provide Support

We believe that the Chengdu Hi-tech Zone Government has a very strong capacity to provide support for the Company, given its strong economic strength and good fiscal self-sufficiency.

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”). In the first three quarters of 2023, Sichuan's GRP was RMB4.3 trillion, a YoY increase of 6.5%; its general budgetary revenue increased to RMB409.6 billion, up by 6.7% YoY.

Chengdu City is a sub-provincial city that serves as the capital city of Sichuan Province. Chengdu City is also an important economic and financial center, as well as a transportation and communication hub in Southwest China, with a solid economic foundation. Its economy is characterized by industries such as electronic information product manufacturing, machinery, automotive, metallurgy, building materials and light industry. In 2022, Chengdu achieved a GRP of RMB2.1 trillion, a YoY increase of 2.8%. Affected by the pandemic and tax refund, the Chengdu Municipal Government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. In the first three quarters of 2023, Chengdu recorded a GRP of RMB1.6 trillion, an increase of 6.7% YoY. Chengdu government's general budgetary revenue increased to RMB139.0 billion in the first three quarters of 2023 from RMB120.3 billion in the same period of 2022. In 2022, its fiscal balance ratio was 70.7%, which was at a moderate level. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increasing trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,771.7	1,991.7	2,081.8
GRP Growth (%)	4.0	8.6	2.8
General Budgetary Revenue (RMB billion)	152.0	169.8	172.2
General Budgetary Expenditure (RMB billion)	215.8	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

Source: Statistic Bureau of Chengdu City, CCXAP research

Established in 1988, Chengdu Hi-tech Zone was approved as one of the first batch of national high-tech zones in the country in 1991. The current area of Chengdu Hi-tech Zone is 234.4 square kilometers, which mainly includes Hi-tech South District, Hi-tech West District, Chengdu Tianfu International Bio-City co-built with Chengdu Shuangliu District, and Chengdu Future Science and Technology City co-built with Chengdu Eastern New District. Relying on three major industries including electronic information, biopharmaceuticals, and the new economy, Chengdu Hi-tech Zone achieved a GRP of RMB301.6 billion in 2022, up by 3.0% YoY. According to CCID Consulting, it ranked 7th among the top 100 districts for high-quality development in 2023. Besides, its general budget revenue amounted to RMB26.5 billion, up by 13.2% YoY at the same time. Among them, tax revenue accounted for a relatively high proportion (89.4% in 2022), and its financial self-sufficiency is relatively good (93.8% in 2022). In 2022, Chengdu Hi-tech Zone's outstanding government debt increased to RMB22.9 billion, accounting for 48.4% of its total fiscal revenue and 7.6% of its GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Chengdu Hi-tech Zone

	2020FY	2021FY	2022FY
GRP (RMB billion)	240.2	280.0	301.6
GRP Growth (%)	8.3	11.1	3.0
General Budgetary Revenue (RMB billion)	20.7	23.7	26.5
General Budgetary Expenditure (RMB billion)	24.8	23.4	28.3
Local Government Debt (RMB billion)	11.3	17.5	22.9

Source: Finance Bureau of Chengdu Hi-tech Zone, CCXAP research

Jiaozi Park is the main carrier of the western financial center in Chengdu City. It focuses on the development of various traditional and emerging financial industries, financial supporting industries, other modern high-end service industries, and large-scale headquarters economies. The planned area of Jiaozi Park is 9.3 square

kilometers, including the high-tech zone 6.48 square kilometers and the Jinjiang district 2.82 square kilometers. The area managed by CJID is the core area in Jiaozi Park. The Company's major projects currently under construction include 10 plots of land including the Bank of Chengdu headquarters and Sichuan Financial Holdings headquarters, and 20 industrial buildings, with a construction volume of approximately 1.3 million square meters and a total investment of approximately RMB18.0 billion.

Government's Willingness to Provide Support

Strong position in the development of Jiaozi Park, with high business sustainability

CJID is the most important entity responsible for the infrastructure construction of Jiaozi Park. The Company adopts an agency construction model to construct projects including infrastructure construction and other public building supporting facilities in the Jiaozi Park. The Company has successfully delivered a series of large-scale infrastructure projects over the past few years, such as roads, general management projects, parks and bridges. Under the agency construction model, the Company collects 3% of the actual investment amount of infrastructure projects as a management fee.

As of 30 September 2023, the Company's infrastructure projects under construction or planning had a total investment amount of RMB11.8 billion while an outstanding amount was RMB3.4 billion. We expect that the considerable projects in the pipelines can ensure the sustainability of the public policy business. In addition, government repayments will promptly cover the investment in infrastructure construction projects, which do not occupy much of the Company's funds.

As the comprehensive operator of Jiaozi Park, the Company is responsible for various projects' construction and development, industrial investment, assets operation and management in the area. The Company plays a strategic role in promoting investment attraction and creating the industry ecosystem in Jiaozi Park by undertaking infrastructure construction projects. We believe that the Company, with exclusive operating rights in the region, will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Medium exposure to commercial activities

In addition to public welfare activities, CJID is also involved in other commercial activities such as property sales, property leasing and commodity sales. We consider CJID's commercial business exposure to be medium, as its market-driven businesses account for over 30% of its total assets.

CJID engages in the construction of industrial buildings. The sales area in 2022 was 1790.74 square meters, achieving sales revenue of RMB118.0 million. The Company's main industrial project under construction is to build up the ecosystem in Jiaozi Park, normally having clear goals to promote industrial development in the region. The main sources of project funding are self-raised and external financing, while shareholders provide most of the capital. As of 30 September 2023, the Company had 8 property projects under construction, with an expected total investment amount of RMB17.3 billion and an uninvested amount of RMB11.9 billion. Meanwhile, the Company had one project under planning, with a total investment amount of RMB1.4 billion. As there are industrial projects expected to be completed in the next few years, this segment is expected to bring certain revenue to the Company while exerting certain capital expenditure pressure.

CJID also engages in property leasing with two flagship projects, Tianfu International Financial Center and Chengdu Financial City Twin Towers. As of 30 September 2023, the Company had a total leasable area of 86,502 square meters, with a comprehensive occupancy ratio surpassing 70%. Besides, while the Company works for higher occupancy ratio, it focuses more on selecting suitable enterprises to settle in in order to build

up a dynamic industry ecosystem in Jiaozi Park. As of 30 September 2023, the largest 5 clients accounted for 50.3% of the total revenue from the property leasing business.

Besides, the Company also engages in commodity sales business. The commodities include steel, yak meat and Baijiu. This segment is the largest contributor to the Company's total revenue. However, due to the characteristics of the industry, the profitability of this business is relatively weak, which lowers the Company's overall gross profit margin. The Company adopts two modes, spot cash settlement and pre-settlement, to carry out this business. Under the pre-settlement model, the Company will advance a small amount of funds, and the account period is usually 60 to 180 days. As of 30 September 2023, this business faced concentration risks as its 5 major suppliers and 5 major customers accounted for 100% of the total procurement and sales, respectively.

Solid track record of receiving government payments

CJID has a proven track record of receiving ongoing government support, including government subsidies and capital injection. From 2021 to the first three quarters of 2023, the Company received government support including the government payments for infrastructure construction projects of RMB2.3 billion, other financial subsidies of RMB530.0 million, as well as shareholder capital injection of RMB2.1 billion, which effectively enriched the Company's asset scale and capital strength.

In light of the Company's strong position in Jiaozi Park, we expect the Company will continue to receive ongoing support from the local government and its shareholders over the next 12 to 18 months.

High debt growth and large capital expenditure pressure

Due to the large capital expenditure in the past few years, its total debt has seen a large increase as it rose from RMB4.6 billion in 2020 to RMB8.7 billion in 2023Q3, with a total capitalization ratio of 46.6%. In terms of debt structure, the Company had a reasonable short-term debt burden, and the ratio of short-term debt to total debt was 19.2% as of 30 September 2023. However, given the Company's large capital expenditure pressure of its self-operated projects, we expect the Company's debt will increase over the next 12-18 months.

Moderate asset liquidity

The Company has moderate asset liquidity. As of 30 September 2023, the Company's total assets consist mainly of other non-current assets, inventories, and construction in progress, accounting for 73.4% of its total assets. Among them, other non-current assets are mainly land consolidation and infrastructure construction costs; inventories and construction in progress are mainly self-operated project costs, all of which are considered to be low liquidity. However, the Company holds a certain amount of investment property that can generate revenue for the Company when necessary. Besides, as of 30 September 2023, the Company's total restricted assets (for bank loans) were RMB5.8 billion, representing 22.1% of total assets. As of 30 September 2023, the Company did not bear any contingent risk as it has no external guarantee.

Stable sources of funding and relatively low costs

The Company's large investment needs are supported by its financing channels. As of 30 September 2023, around 64.0% of the Company's financing was provided by domestic banks. At the same time, the Company had sufficient liquidity, it held total credit facilities of RMB18.1 billion, with an unutilized amount of RMB12.6 billion. Bonds accounted for about 36.0% of the Company's total debt as of 30 September 2022. The financing cost of the Company is relatively low, with bank funding costs of 3.9% and bond funding costs of 4.1%. In addition, the Company has very low reliance on non-standard financing.

ESG Considerations

CJID 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.

CJID bears social risks as it implements public policy initiatives by building public infrastructure in Jiaozi 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.

CJID's governance considerations are also material as the Company is subject to oversight by State-owned Assets Finance Bureau of Chengdu Hi-tech Zone 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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