

Credit Opinion

25 January 2024

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

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Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. (“WXCO” or the “Company”) reflects Chengdu Wenjiang District Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of Wenjiang District Government’s capacity to provide support reflects Wenjiang District’s gross regional product (“GRP”) maintains a moderate level in Chengdu City, with relatively 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 infrastructure construction and city operation in Wenjiang District; (2) solid track record of receiving government payments; and (3) good access to funding channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, associated with large capital pressure; (2) increasing debt burden and moderate asset liquidity; and (3) medium contingent risks resulting from external guarantee.

The stable outlook on WXCO’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 key infrastructure construction entity in Chengdu Wenjiang District.

Rating Drivers

- Strong position in the infrastructure construction and city operation in Wenjiang District
- Medium exposure to commercial activities
- Large capital expenditure pressure associated with self-operated construction projects
- Solid track record of receiving government payments
- Increasing debt burden and moderate asset liquidity
- Good access to funding channels
- Medium contingent risks resulting from external guarantee

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 decreasing exposure to external guarantees or improving 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 characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	66.6	75.6	75.6	80.2
Total Equity (RMB billion)	38.5	45.6	45.8	45.8
Total Revenue (RMB billion)	2.9	2.8	2.9	2.1
Total Debt/Total Capital (%)	38.6	35.3	34.2	37.2

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2016, WXCO is a major local infrastructure investment and financing company ("LIIFC") in charge of most major infrastructure and resettlement housing projects in Wenjiang District of Chengdu City. The Company has a diverse business portfolio and primarily engages in agency construction business, resettlement housing development, and self-operated project construction. In addition, the Company also generates operating income from other businesses such as building materials sales, leasing and asset management, and real estate sales. As of 30 September 2023, the Company is wholly owned and ultimately controlled by Wenjiang District State-owned Assets Supervision and Administration Bureau ("Wenjiang SASAB").

Exhibit 1. Revenue Structure in 2022

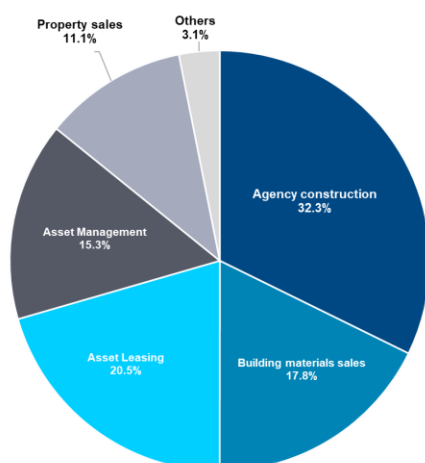
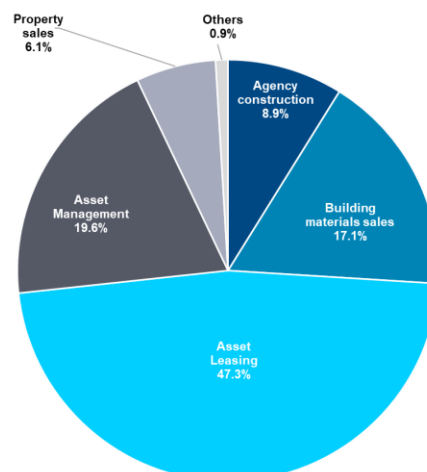


Exhibit 2. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Wenjiang District Government has a strong capacity to provide support for the Company, given its moderate GRP level in Chengdu City 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 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 3. 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

Wenjiang District is located in northwest of Chengdu City, with a total area of 277 square kilometers. Relying on its advantageous natural environment, Wenjiang District has been recognized as a national ecological system construction demonstration zone and a model city of green development in China. Supported by its pillar industries, such as flowers and plants, biopharmaceuticals, food and beverage, medical health and eco-tourism industries, Wenjiang District demonstrated ongoing economic growth in the past few years. In 2022, the GRP of Wenjiang District increased by 3.0% to RMB71.7 billion YoY; its general budgetary revenue was recorded as RMB5.2 billion. In the first half of 2023, the GRP of Wenjiang District recorded RMB38.1 billion, with an increase of 5.8% YoY; while the Wenjiang District Government's general budgetary revenue increased to RMB2.8 billion, up by 7.4% YoY. Wenjiang District had a relatively good fiscal self-sufficiency rate of 67.1% in 2022. Its tax revenue was RMB4.2 billion, accounting for 79.7% of its general budgetary revenue in 2022, indicating good fiscal quality. However, Wenjiang District has a moderate debt profile, with a government debt to GRP ratio of 25.7% as of 31 December 2022.

Exhibit 4. Key Economic and Fiscal Indicators of Wenjiang District

	2020FY	2021FY	2022FY
GRP (RMB billion)	62.4	68.8	71.7
GRP Growth (%)	5.1	7.2	3.0
General Budgetary Revenue (RMB billion)	4.6	5.0	5.2
General Budgetary Expenditure (RMB billion)	7.1	6.9	7.8
Local Government Debt (RMB billion)	14.4	16.3	18.4

Source: Statistic Bureau of Wenjiang District, CCXAP research

Government's Willingness to Provide Support**Strong position in the infrastructure construction and city operation in Wenjiang District**

There are three major LIIFCs in Wenjiang District, including WXCO, Chengdu Jiulian Investment Co Ltd. ("Jiulian Investment") and Chengdu Longke Urban and Rural Development Group Co., Ltd. ("LURD"). According to the development blueprint of Wenjiang District, the southern part of the district, covering 110 km², is set to become the downtown and a hub of modern industries. The 167 km² northern part will be an ecological area with more than 7,000 forestry areas and more than 200,000 mu (13,333 hectares) of flower and tree nurseries. LURD is committed to promoting the rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District; while Jiulian Investment is mainly responsible for part of infrastructure construction and industry operation in the southern part of Wenjiang District and Chengdu Medical City; WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District.

The Company's agency construction business can be further divided into two sub-segments: infrastructure construction business and resettlement housing development business. Over the years, WXCO has undertaken a number of key urban infrastructure construction projects, including road and bridge construction, tunnel construction and relocation and pipe renovation projects. The Company mainly adopts an agency construction model for infrastructure and resettlement housing projects by entering into entrustment construction agreements with the local government and local state-owned enterprises, who would arrange project payments to the Company based on the total investment amount plus a markup of 9% to 15%. The funds for project construction mainly consist of government fiscal funds and the Company's self-owned funds. In recent years, the agency construction business has been the largest contributor to the Company's revenue. However, this segment faces certain volatility as revenue is recognized based on the uneven project progress. As of 30 September 2023, the Company has completed projects with an actual investment of RMB2.3 billion, of which RMB1.1 billion has yet to be repaid, implying that the payment progress was relatively prolonged. As of 30 September 2023, the Company has an uninvested amount of RMB3.0 billion in the projects under construction and planning, which demonstrates the relatively strong sustainability of the Company's public projects. Meanwhile, the relatively large amount to be invested also exerts certain capital expenditure pressure in the future. Given the Company's strong position in the infrastructure construction and resettlement housing development in Wenjiang District, we believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company is also responsible for sewage treatment in the region. As of 30 September 2023, WXCO had 32 sewage treatment facilities with a total sewage treatment capacity of 17,000 tons per day. Due to its public welfare nature, this business suffers losses. In 2022, the Company's revenue from the sewage treatment business was RMB53.0 million, and the local government provides certain operation subsidies every year. In addition, there was a sewage treatment plant under construction, with a total planning sewage treatment capacity of 60,000 tons per day. With the completion and commissioning of this project in the future, the scale of the Company's sewage treatment business will expand.

Medium exposure to commercial activities

In addition to public welfare activities, the Company is also involved in other commercial activities such as self-operated project construction, building materials sales, asset leasing and management, and property sales. We consider the Company's commercial business exposure to be medium, as its market-driven businesses account for around 35% of its total assets. Among them, the construction of self-operated projects brings large pressure on capital expenditure and the risk of payment collection for the Company.

The Company has a relatively large scale of self-operated business, including Wenjiang Parking Lot Project and Fengqi Valley Administrative College Urban Organic Renewal Project. As of 30 September 2023, the Company had 61 projects under construction, with a total investment of RMB20.0 billion and an outstanding amount of RMB18.0 billion. Upon completion of these projects, the Company plans to realize capital recovery through commercial leasing, residential sales, rental of parking spaces and charging piles, and rental of advertising spaces. Overall, the Company's self-owned projects have a long construction period and a large upfront capital investment, which exerts large capital expenditure pressure on the Company.

The Company engages in asset leasing and management business. For the leasing business, The Company enters into leasing agreements with local government institutions as well as private enterprises, with leased assets encompassing school, resettlement housing, shops, as well as pipelines. The major customers of its asset leasing business are public institutions, whose rental period is long. As a result, this segment has

generated stable cash flow over the past few years. From 2020 to 2022, the rental payments to the Company are RMB549 million, RMB576 million and RMB 597 million, respectively. The Company's asset management business covers the maintenance of transportation infrastructure in Wenjiang District. The Company enters into a service entrust contract with Chengdu Jintaihe Investment Co., Ltd ("Jintaihe", a local state-owned enterprise) for each project. The service period normally ranges from 15 to 20 years; hence the sustainability of this segment is high. However, the Company has accumulated accounts receivable from Jintaihe (which amounted to RMB3.2 billion as of end of 2022) and the asset management business has formed a certain occupation of the fund.

WXCO also engages in building materials sales, including sand and concrete. The sands business is conducted by the Company's subsidiary Chengdu Hongxin Investment Building Materials Co., Ltd. ("HIBM") while the concrete business is managed by another subsidiary Chengdu Chengtong Chuang Trading Co., Ltd. ("CCCT"). The government has been supportive of its sands sales business, as it granted exclusive sands concession rights to the Company, which covers a total available sands reserve of 168.0 million cubic meters. HIBM employs professional companies to carry out sand mining, transportation and processing, before it sells the finished product to downstream enterprises. In terms of concrete, CCCT purchases sands from HIBM and selects a vendor to process the sands, which will be sold by HIBM to downstream construction companies. The building materials sales business faces a certain concentration risk. As of 30 September 2023, the top 5 customers of the sands business and concrete business contributed 78.0% and 90.5% of its total revenue, respectively.

The Company also conducts property sales business in Wenjiang District. The revenue from this segment faces certain uncertainty due to the fluctuations in the land market. In 2019, the government provided 6 real estate projects to the Company. By the end of 2022, there was a total saleable area of 748.3 thousand square meters and 673.3 thousand square meters have yet to be sold with a total sales revenue of RMB570 million. In addition to the six projects provided by the government, the Company has completed another two real estate projects, with a total saleable area of 352 thousand square meters and 210 thousand square meters to be sold. Currently, the Company has no real estate projects under construction or planning.

Solid track record of receiving government payments

WXCO has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections, and equity transfers. In 2020, Wenjiang SASAB provided cash injections of RMB130 million to the Company. From 2020 to 2022, the Company received financial subsidies of RMB162.0 million. In addition, over the same period, the local government has provided exclusive concession rights and assets such as land and real estate, increasing the Company's capital reserve by RMB6.5 billion. It is noteworthy that the Company's subsidiary received exclusive sand concession rights within the urban and rural planning and construction land in Wenjiang District in 2021, which was valued at RMB5.9 billion. In light of the Company's strong position in Wenjiang District, we expect the Company will continue to receive ongoing support from the local government over the next 12 to 18 months.

Increasing debt burden and moderate asset liquidity

With the business expansion in the past few years, the Company's total debt increased from RMB24.2 billion at the end of 2020 to RMB27.1 billion at 30 September 2023, with a total capitalization ratio of 37.2%. The Company's debt structure is relatively reasonable. As of 30 September 2023, the ratio of short-term debt to total debt was 34.3%. However, given the Company's large capital expenditure pressure on its public and self-operated projects, we expect the Company's debt will gradually increase over the next 12-18 months.

WXCO has moderate asset liquidity. As of 30 September 2023, the Company's total asset consists mainly of inventories, accounts receivables, other receivables and intangible assets, accounting for 83.0% of its total assets. Among them, inventories are mainly land and construction costs, accounts receivables and other receivables are mainly unreceived payments from the agencies of government or other state-owned companies, and intangible assets mainly consist of exclusive sand concession rights and land use rights, most of which are considered to be low liquidity. Besides, as of 30 September 2023, the Company's total restricted assets (mainly accounts receivables and inventory) were RMB4.1 billion, representing 5.1% of total assets.

Good access to funding channels

The Company's investment needs are greatly supported by its diversified financing channels. As of 30 September 2023, bank financing accounted for around 80.9% of the Company's total debt, with an average cost of 5.3%. In addition, the Company had an available bank credit facility of RMB31.2 billion at the same time, indicating a good liquidity buffer. As of 30 September 2023, Bond financing accounted for 12.5% of the Company's total debt. The Company had outstanding onshore bonds of RMB9.2 billion, with an average cost of 4.5%. Besides, the Company also successfully launched offshore SBLC JPY bonds with a cost of 1.4% in 2023. Overall, the financing cost of the Company is relatively low, as the overall funding cost of the Company stays at 4.8%, which demonstrates the recognition of the capital market on the Company's credit profile.

Medium contingent risks resulting from external guarantee

The Company bears contingent risk arising from external guarantees. As of 30 September 2023, the Company had outstanding external guarantees of RMB8.8 billion, representing 19.1% of its net assets. Among them, an outstanding amount of RMB45.6 million was provided to relocated households who entered into mortgage loans. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. However, as most of the guarantees are provided to local state-owned entities, which are likely to be supported by the local government, when necessary, we believe the contingent risk would be controllable.

ESG Considerations

WXCO 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.

WXCO bears social risks as it implements public policy initiatives by building public infrastructure in Wenjiang District. 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.

WXCO's governance considerations are also material as the Company is subject to oversight by the Wenjiang 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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