

## Credit Opinion

7 February 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Chengdu Longke Urban and Rural Development Group Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Chengdu Longke Urban and Rural Development Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

CCXAP has upgraded the long-term credit rating of Chengdu Longke Urban and Rural Development Group Co., Ltd. ("LURD" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub>-, with stable outlook. The rating upgrade is based on the improving regional strength, which strengthens the local government's capacity to support the Company. It also reflects the regional importance of LURD, as an important rural revitalization infrastructure construction entity in Wenjiang District.

The long-term credit rating of LURD 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 that 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) ultimate control by Wenjiang District Government; (2) strategic position of infrastructure construction in the northern area of Wenjiang District; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) relatively high debt growth driven by a large number of construction projects.

The stable outlook on LURD'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 rural revitalization infrastructure construction entity in Wenjiang District.

## Rating Drivers

- Strategic position of infrastructure construction in the northern area of Wenjiang District
- Undertaking local infrastructure construction and demolition projects
- Solid track record of receiving government payments
- Relatively high debt growth driven by a large number of construction projects
- Medium exposure to commercial activities
- Access to multiple financing channels

## 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 local government's willingness to support, such as decreasing exposure to commercial activities or improving debt management.

### 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

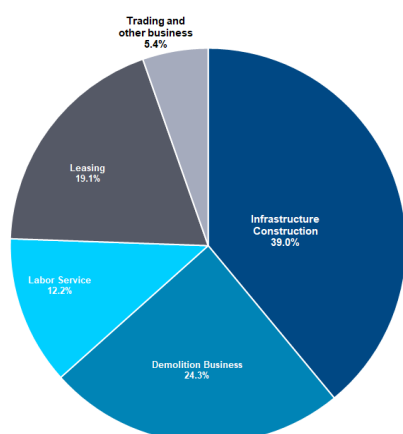
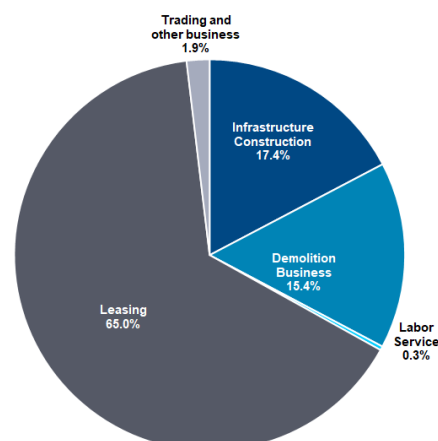
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	57.0	61.3	64.9	68.8
Total Equity (RMB billion)	44.6	48.0	48.7	48.9
Total Revenue (RMB billion)	2.1	2.2	2.5	1.1
Total Debt/Total Capital (%)	15.8	17.9	20.7	25.2

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

Source: Company data, CCXAP research

## Corporate Profile

Founded in 2014, formerly known as Chengdu Sanlian Property Management Co., Ltd., LURD was mainly engaged in the property service business. Since 2021, Wenjiang District SASAB has successively transferred the equity shares of Chengdu Longbo Investment Co., Ltd. ("Longbo Investment") and other state-owned entities into the Company, LURD has become an important infrastructure construction entity in Wenjiang District. The Company is primarily responsible for infrastructure construction and demolition in the north of Wenjiang District. Apart from its main business, the Company is also engaged in other commercial businesses, such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. As of 30 June 2023, the Company is directly and wholly owned by the Chengdu Wenjiang District State-Owned Assets Supervision and Administration Bureau ("Wenjiang District 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. Wenjiang District has been selected as one of the top 100 districts nationwide for multiple consecutive years. In 2023, Wenjiang District has had six enterprises recognized as national-level "Little Giants" in specialized and innovative industries. The biotechnology and pharmaceutical industry cluster in Wenjiang District has also been honored with the national-level title of "characteristic industrial cluster for small and medium-sized enterprises", evidencing the steady improvement of the industrial economy in Wenjiang District.

In 2022, the GRP of Wenjiang District increased by 3.0% YoY to RMB71.7 billion. In the first half of 2023, the GRP of Wenjiang District recorded RMB38.1 billion, with an YoY increase of 5.8%. Wenjiang District demonstrated ongoing fiscal growth, mainly reflected in general budgetary revenue, enhancing its regional fiscal strength. Its general budgetary revenue significantly increased from RMB4.6 billion in 2020 to RMB5.2 billion in 2022. In the first half of 2023, its general budgetary revenue reached to RMB2.8 billion. In addition, Wenjiang District has demonstrated a good fiscal stability. The proportion of tax revenue to its general budgetary revenue maintained around 80% over the past 3 years. Wenjiang District had a relatively good fiscal self-sufficiency rate of 67.1% in 2022. 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

Given the strategic importance role of LURD to the local economy, we believe the enhancing regional strength of Wenjiang District will strengthen the local government's capacity to support the Company. It is very likely the Wenjiang District Government will provide stronger support to the Company if needed.

#### Government's Willingness to Provide Support

##### Strategic position of infrastructure construction in the northern area of Wenjiang District

There are three major LIIFCs in Wenjiang District, including LURD, Chengdu Jiulian Investment Co Ltd. ("Jiulian Investment") Investment and Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. ("WXCO"). WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern 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; LURD is committed to promoting the rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District.

The Company has a clear positioning and is committed to promoting the rural revitalization and integrated development of urban and rural areas in Wenjiang District. The Company is mainly engaged in the construction of infrastructure, seedling bases, agricultural parks and other projects in the northern area of Wenjiang District, as well as demolition in the northern and southern areas of Wenjiang District. Considering the Company's strategic significance to the development of the local economy and public activities, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **Undertaking local infrastructure construction and demolition projects**

LURD is mandated by the government to undertake local infrastructure construction project, such as road upgrading projects and land consolidation. The scope of the business mainly focuses on the northern area of Wenjiang District. The Company continues to conduct infrastructure construction projects in repurchasing model and agency construction model. As of 30 June 2023, the Company had 14 infrastructure construction projects under construction or planning, with a total investment amount of RMB3.3 billion and an outstanding amount of RMB875.0 million. The subsequent construction projects will be mainly conducted by self-operating model.

In addition, LURD has been entrusted by the government to undertake demolition projects in the northern and southern areas of Wenjiang District since 2018. The Company continues to conduct demolition projects by entering an agency demolition agreement with the entrusting parties. As of 30 June 2023, the Company had 8 demolition projects under construction, with an invested amount of RMB708.2 million. Given the Company's demolition projects under construction were basically completed, and there were no demolition projects under planning. The sustainability of the demolition project heavily relies on the urban planning of Wenjiang District Government.

### **Medium exposure to commercial activities**

In addition to public welfare activities, LURD is also involved in other commercial activities such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. We consider LURD's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

LURD engages in the construction of self-operating projects, such as the Agricultural High-tech Industrial Park project and Wenjiang District Youqing Flower Industry Base project. The self-operating projects mainly achieve income through assets operating, leasing and selling from these projects. As of 30 June 2023, the Company had 15 self-operating projects under construction or planning, with a total investment amount of RMB16.2 billion and an outstanding amount of RMB13.8 billion. As the investment scale of self-operating projects is relatively large and the payback period is long, the Company will face large capital expenditure pressure in the future. We believe the Company's exposure of its commercial business will increase in the future given the its plan to develop its self-operated projects.

The Company provides water infrastructure facilities leasing and other commercial assets leasing since 2017, such as residences and commercial properties. Income from water infrastructure facilities leasing is stable as the Company signed a leasing agreement with Chengdu Kerong City Investment Co., Ltd. ("CKCI"), and the Company leased out the water infrastructure facilities to CKCI until 2028, the annual rent during the lease period is RMB171.0 million. In addition, the profitability of water infrastructure facilities leasing was relatively good, with the gross profit margin at around 66.8% in 2022. However, income from other commercial assets is more volatile as it is subject to market conditions and government policies.

LURD conducts plant trading business by cultivating and selling plants, as well as providing a plant trading

platform. The plant trading business has a relatively low profit margin as it is affected by the market demand, transportation and labor cost. LURD also sells construction materials to construction companies, such as steel. The construction materials sales business faces concentration risk as the largest customer accounted for 86.0% of the revenue of this segment. A high concentration of risk can lead to lower pricing and negotiation leverage, reducing its profitability. Affected by the slowdown of property market in China, the revenue of plant and material trading decreased in 2022. Besides, cotton and coal trading were incorporated into the Company's business in 2022, but the revenue is relatively small.

The Company has established labor service business since 2022, and it provides human resource outsourcing services to relevant government and public institutions in Wenjiang District and collects labor dispatch service fee. As the customers are mainly government and public institutions, the income from the segment is relatively stable. However, the gross profit margin of the business is as low as 0.9% in 2023H1.

The Company provides entrusted loan services in order to support local enterprises, including private-owned enterprises and state-owned enterprises. As of 30 June 2023, the outstanding amount of entrusted loan services was RMB65.5 million but provision for impairment of RMB36.0 million has been recorded, which brings certain credit contagion risks to the Company. Due to the changes in government policy, the Company will no longer operate entrusted loan business in the future.

#### **Solid track record of receiving government payments**

LURD has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections and equity transfers. The Company regularly receives subsidies from government. From 2022 to 2023H1, the local government has provided a government subsidy of RMB331 million. The local government also injected capital of around RMB416 million over the same period, mainly public service supporting facilities. The local government also makes project payments to the Company for its public policy projects. Overall, given its important position and contribution to regional economic development, we believe that LURD will receive ongoing government support to support its business operations.

#### **Relatively high debt growth driven by a large number of construction projects**

LURD has a relatively high debt growth. Total debt increased from RMB12.7 billion at the end of 2022 to RMB16.4 billion on 30 June 2023. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. The Company faces certain liquidity pressure as short-term debt accounted for 36.0% of total debt as of 30 June 2023. As of 30 June 2023, the Company had 29 construction projects under construction or planning. Most of the projects were mainly self-operating projects, with an outstanding amount of RMB13.8 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt growth for the next 12-18 months.

In addition, LURD has weak asset liquidity. As of 30 June 2023, the Company's total asset consists mainly of inventories and receivables, accounting for 80.9% of its total asset. Inventories are mainly land use rights and construction costs, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

#### **Access to multiple financing channels**

The Company's large investment needs could be partly supported by its financing channels. As of 30 June 2023, around 60.7% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB5.0 billion, a level we believe to be moderate given the Company's debt scale. Around 32.3% of debt

financing was provided by the onshore debt capital market. In 2023, the Company raised RMB3.9 billion from the onshore debt market, such as corporate bonds and private placement bonds. In addition, the Company is less dependent on non-standard financing, such as financial leasing, which accounted for around 7.0% of its total debt. The overall financing cost of the Company was about 4.5%.

## ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. LURD assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction.

LURD is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Wenjiang District. Demographic changes, public awareness and social priorities shape the government's development strategy and will affect the government's propensity to support the Company.

The consolidation of state-owned assets in Wenjiang District is still in progress. Governance considerations are also important for LURD as it is subject to oversight and reporting requirements of the local government, 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 \(July 2022\)](#).

## Appendix

### Exhibit 5. Peer Comparison

	<b>Chengdu Longke Urban and Rural Development Group Co., Ltd.</b>	<b>Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.</b>	<b>Chengdu Medical City Urban Construction Development Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>	BBB <sub>g</sub>
Shareholder	Wenjiang District SASAB	Wenjiang District SASAB	Chengdu Jiulian Investment Group Co., Ltd.
Positioning	Responsible for rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District.	Responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District	Responsible for infrastructure construction and property leasing business in the Chengdu Medical City
Total Asset (RMB billion)	64.9	75.6	50.5
Total Equity (RMB billion)	48.7	45.8	30.2
Total Revenue (RMB billion)	2.5	2.9	1.2
Total Debt/Total Capital (%)	20.7	34.2	8.4

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: Company information, CCXAP research

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