

## Credit Opinion

26 February 2024

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

### Analyst Contacts

Olivia Feng +852-2860 7133

Senior Credit Analyst

[olivia\\_feng@ccxap.com](mailto:olivia_feng@ccxap.com)

Jonathan Kwong +852-2860 7132

Credit Analyst

[jonathan\\_kwong@ccxap.com](mailto:jonathan_kwong@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Sichuan Jianzhou Airport Industrial & Finance Investment Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Sichuan Jianzhou Airport Industrial & Finance Investment Development Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Sichuan Jianzhou Airport Industrial & Finance Investment Development Group Co., Ltd. (“JAIF” or the “Company”) reflects Jianyang City Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of the Jianyang City Government’s capacity to provide support reflects Jianyang City’s vital position in Chengdu City, given its good industrial base, but constrained by relatively small economic scale and heavy debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic role as the major industrial developer in Jianyang City; (2) high sustainability of infrastructure construction business; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) rapid debt growth and weak assets liquidity; (2) high capital expenditure pressure from construction projects; and (3) moderate contingent liability risk.

The stable outlook on JAIF’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 position in the industrial development in Jianyang City.

## Rating Drivers

- Strategic role as the major industrial developer in Jianyang City
- High sustainability of infrastructure construction business
- Solid track record of receiving government payments
- Low exposure to commercial activities
- Rapid debt growth and weak asset liquidity
- Moderate contingent liability risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved debt management and increased asset liquidity.

### 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 government payments.

## Key Indicators

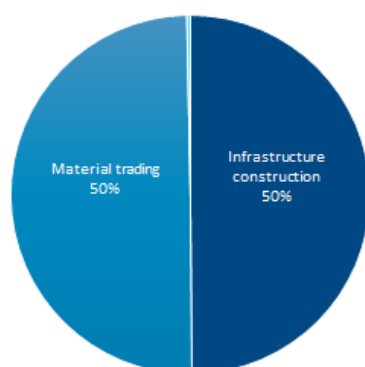
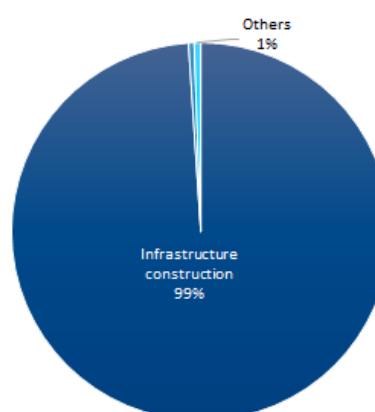
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	48.0	49.1	65.0	71.6
Total Equity (RMB billion)	23.1	24.2	34.3	34.5
Total Revenue (RMB billion)	3.7	4.5	9.2	2.6
Total Debt/Total Capital (%)	45.0	47.4	42.3	45.7

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

Source: Company Data, CCXAP research

## Corporate Profile

Founded in 2013, the Company is formerly known as Jianyang Wulong Tourism Development Co., Ltd. After the consolidation of other local infrastructure investment and financing companies ("LIIFCs") in 2022, JAIF has a clear positioning of industrial investment and development in Jianyang City. The Company is primarily responsible for infrastructure construction in Jianyang City, especially in the Aerospace Industry Functional Zone and Linkong Economic and Industrial Park. Apart from public development projects, the Company also derives revenue from businesses such as material trading and self-operating projects. As of 30 June 2023, JAIF was wholly owned and ultimately controlled by the Jianyang State-owned Assets Management Committee ("Jianyang SAMC").

**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 the Jianyang City Government has a strong capacity to provide support to the Company, given its good industrial base, but relatively small economic scale and heavy debt burden.

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"); its general budgetary revenue increased to RMB488.2 billion, up by 2.3% YoY. In 2023, Sichuan's GRP was RMB6.0 trillion, a YoY increase of 6.0%.

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 2023, Chengdu recorded a GRP of RMB2.2 trillion, an increase of 6.0% YoY; Chengdu government's general budgetary revenue increased to RMB192.9 billion. 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)	215.9	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

Source: Statistic Bureau of Chengdu City, CCXAP research

Jianyang City is a county-level city under the administration of Chengdu, with a total area of 2,213 square kilometers. Chengdu Tianfu International Airport is in Jianyang City, which plays a leading role in the development of Jianyang City. As an important industrial city in Sichuan Province, Jianyang's industrial base mainly focuses on mechanical manufacturing, agricultural and sideline food processing, rubber and chemical production, textile and clothing manufacturing, pharmaceutical production, and building materials. Affected by the pandemic, Jianyang's GRP amounted to RMB 67.3 billion in 2022, a YoY increase of 1.6%; in the first 6 months of 2023, Jianyang recorded a GRP of RMB24.9 billion, an increase of 4.2% YoY. Jianyang City Government's general budgetary revenue was RMB3.0 billion in 2022, of which tax revenue accounted for 58.3%. However, Jianyang has moderate fiscal self-sufficiency, with an average fiscal balance ratio of 45.3% over the past three years. In addition, Jianyang has a relatively heavy debt burden. Jianyang's outstanding government debt amounted to RMB13.3 billion with an increasing trend, accounting for 19.7% of its GRP in 2022.

#### Exhibit 4. Key Economic and Fiscal Indicators of Jianyang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	55.2	62.0	67.3
GRP Growth (%)	1.9	8.0	1.6
General Budgetary Revenue (RMB billion)	3.0	3.4	3.0
General Budgetary Expenditure (RMB billion)	7.1	6.8	6.9
Local Government Debt (RMB billion)	11.4	12.0	13.3

Source: Statistic Bureau of Jianyang City, CCXAP research

#### Government's Willingness to Provide Support

##### Strategic role as the major industrial developer in Jianyang City

According to the reform and reorganization plan of state-owned enterprises in Jianyang City in 2022, there are three major LIIFCs in Jianyang City and each with different positioning, including urban development, industrial development, and agricultural development. JAIF has a clear positioning of industrial development in Jianyang City. In 2022, the Company consolidated other LIIFCs in Jianyang City, such as Sichuan Longyang Tianfu New District Construction Investment Co., Ltd. ("Longyang Tianfu", and Jianyang Modern Industrial Investment Development Co., Ltd. ("JMID"). Longyang Tianfu is mainly responsible for the construction of the Linkong Economic and Industrial Park in Jianyang City; while JMID is mainly responsible for the construction of the Aerospace Industry Functional Zone in Jianyang City. The consolidation of LIIFCs has significantly enhanced the Company's capital strength and broadened its business scope in industrial development. It is mainly responsible for the construction and operation of the Aerospace Industry Functional Zone, and Linkong Economic and Industrial Park in Jianyang City.

The Aerospace Industry Functional Zone is a key area for intelligent manufacturing within the trillion-level industrial cluster; while the Linkong Economic Industrial Park is located approximately 3 kilometers away from Chengdu Tianfu International Airport, serving as a hub for related industries in the aerotropolis. Considering the Company's high strategic significance to the industrial development of Jianyang City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

##### High sustainability of infrastructure construction business

The Company had successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, resettlement houses, and parks. The Company signs entrusting

construction agreements with entrusting parties, who would pay back the Company based on project progress or upon project completion within 2-7 years. The repurchase payment is calculated based on the construction cost plus a 10%-20% return. As of 30 June 2023, the Company had 11 infrastructure construction projects under construction, with a total estimated investment amount of RMB18.9 billion and an outstanding amount of RMB11.9 billion. We expect that the considerable projects in the pipelines can ensure the sustainability of the infrastructure construction business, but exert large capital expenditure pressure on the Company. In addition, the Company had a total receivable repurchase payment of RMB6.9 billion, with an unreceived repurchase payment of RMB5.4 billion. As there were relatively large amounts of receivables in repurchase payments from the infrastructure projects, as well as the prolonged repayment period and high repayment uncertainty, which caused a certain degree of capital pressure on the Company.

### **Low exposure to commercial activities**

In addition to public activities, JAIF is also involved in various commercial activities such as material trading and self-operating projects. We consider JAIF's commercial business exposure to be low, as its market-driven businesses account for lower than 15% of its total assets.

The material trading business is one of the Company's major sources of income, which accounted for 50% of its total revenue in 2022. The material trading business mainly involves the procurement and sales of agricultural products, household appliances, and wood. Moreover, the upstream and downstream of the business is relatively diversified. In 2022, the top 5 suppliers and customers accounted for 38.2% and 32.0% of the total procurement and total sales. However, the Company's main counterparties are mostly private-owned enterprises, and there is a certain risk of repayment. In addition, the gross profit margin for the business was as low as 0.1% in 2022, limiting its contribution to the Company's overall profit.

JAIF also engaged in the construction of self-operated projects, such as urban renewal project, talent apartment, and cultural art center. The Company constructs these projects mainly with self-raised funds and achieves breakeven through receiving operating income, such as rental and sales income. However, the income of self-construction projects is subject to the operating performance, which brings uncertainty to achieve breakeven. As of 30 June 2023, it had 5 major self-operated projects under construction or planning, with a total estimated investment of RMB9.7 billion and an outstanding investment amount of RMB4.4 billion, exerting large capital expenditure pressure. In addition, there is uncertainty about the operating performance of self-operating projects and its investment return period is usually long. Given the large amount of construction of self-operating projects, we expect the Company will increase its commercial activities exposure in the future.

In addition, the Company also has small scale of industrial investment funds to support the industrial development of Jianyang City. Other businesses such as property leasing, human resource services, and sewage treatment provide supplementary income to the Company, but the small operating scale of these businesses limits their contribution to the Company's overall cash flow and profit.

### **Track record of receiving government payments**

JAIF has a track record of receiving payments from the Jianyang City Government. These payments take various forms, such as government subsidies, cash injections and asset injections. From 2020 to 2022, the local government has provided total subsidies of RMB1.1 billion to the Company. In 2022, the Company received a capital injection of about RMB10.0 billion from the local government, mainly land use rights, and sandstone mining rights. In April 2022, the local government injected the shares of 3 local state-owned enterprises into the Company, significantly enhancing its capital strength and broadening its business mix. Given JAIF's important

strategic role in the industrial development of Jianyang City, we expect the Company will continue to receive support from the Jianyang City Government in the future.

#### Exhibit 5. Track Record of Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	316	353	435
Asset Injections	-	-	9,965
Cash injections	-	406	245
<b>Total</b>	<b>316</b>	<b>759</b>	<b>10,645</b>

Source: Company information, CCXAP research

#### Rapid debt growth and weak asset liquidity

Due to business expansion, JAIF's total debt had increased from RMB18.9 billion at end-2020 to RMB29.0 billion as of 30 June 2023, and its total capitalization slightly increased from 45.0% to 45.7% over the same period. However, the Company had an unbalanced debt structure, its short-term debt accounted for around 38.0% of its total debt as of 30 June 2023, indicating certain short-term debt repayment pressure. Given the Company's relatively large capital expenditure pressure, we expect the Company will maintain a fast debt growth for the next 12-18 months.

Furthermore, JAIF has weak asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 73.0% of its total assets as of 30 June 2023. Inventories are mainly investment costs for construction projects and undeveloped lands. Receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. In addition, the Company's restricted assets accounted for 9.0% of its net assets as of 30 June 2023, which are mainly used for pledging.

#### Diversified funding channels

JAIF has diversified access to funding as mainly reflected by its good banking relationships and access to debt capital market. Around 47.9% of the Company's debt was provided by bank loans. As of 30 June 2023, it held total credit facilities of RMB17.9 billion and available credit facilities of RMB4.6 billion. The Company has a track record of fund-raising activities in the onshore debt capital market through its subsidiaries, with a coupon range from 5.5%-10%. Bond financing accounted for around 25.4% of its total debt. Around 26.8% of debt financing was provided by non-standard financing, such as financial leasing and trust financing. The Company also plans to issue offshore bonds to broaden its financing channel.

#### Moderate contingent liability risk

The Company has moderate contingent liability risk given its relatively large amount of external guarantees. As of 30 June 2023, the total amount of external guarantee was RMB12.7 billion, which accounted for 36.9% of its net assets. Most of them were provided to the local state-owned enterprises or institutions in Jianyang City, while private-owned enterprises only accounted for around 1.9% of the total external guarantee amount, which is also an associated company of the Company. The related contingent risk exposure is still one of the key concerns to the Company's credit profile.

## 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. JAIF assumes environmental risks for its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

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

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. JAIF believes that it complies in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

## Structural considerations

JAIF's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strategic roles in the development of Jianyang City, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656