

## Credit Opinion

13 March 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

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### Client Services

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## Chongqing Beibei District Garden Municipal Construction Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Chongqing Beibei District Garden Municipal Construction Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Chongqing Beibei District Garden Municipal Construction Co., Ltd. ("CBGM" or the "Company") reflects the Chongqing Beibei 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 the Beibei District Government's capacity to provide support reflects Beibei District's location advantage in Chongqing City with good industrial fundamentals and economic potential.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strategic position as the major entity of urban renewal and upgrading, and as the core operator of assets and resources in Beibei District; and (2) relatively low debt leverage.

However, the rating is constrained by the Company's (1) weak asset liquidity; (2) moderate access to financing channels with limited financial flexibility; and (3) medium exposure to contingent liability risk.

The stable outlook on CBGM'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 with the development of Beibei District.

## Rating Drivers

- Strategic position of the major entity of urban renewal and upgrading in Beibei District
- Low but rising exposure to commercial activities
- Relatively low debt leverage
- Weak asset liquidity
- Moderate access to financing channels with limited financial flexibility
- Medium exposure to 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 decreased exposure to contingent liability risk and diversified financing channels.

### 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 regional significance or increase in exposure to commercial activities.

## Key Indicators

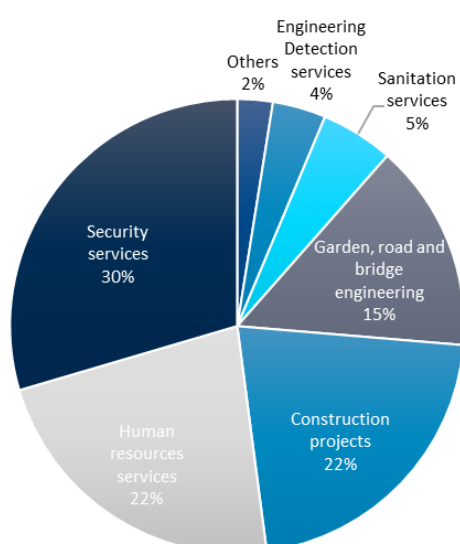
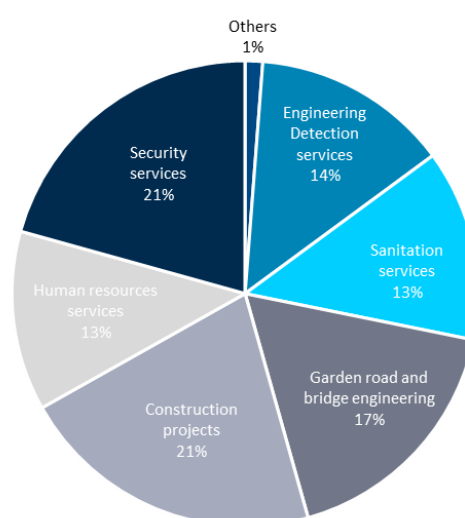
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	18.8	18.4	19.1	20.0
Total Equity (RMB billion)	10.1	9.4	9.4	9.5
Total Revenue (RMB billion)	0.4	0.5	0.5	0.3
Total Debt/Total Capital (%)	12.5	12.8	14.1	19.0

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

Source: Company data, CCXAP research

## Corporate Profile

CBGM, founded in 1984, is one of the major entities of urban renewal and upgrading, and the core operator of assets and resources in Beibei District after equity transfer and capital injection in 2022 and 2023. CBGM mainly engages in municipal landscape engineering and agency construction projects. In addition, it also engages in more commercially driven activities, including security services, human resources services, sanitation, engineering detection and self-operated project construction. As of 30 June 2023, the State-owned Assets Supervision and Administration Commission of Beibei District, Chongqing City ("Beibei SASAC") was the ultimate controller of the Company, holding 100% stakes of the Company through Chongqing Jinyun Asset Management (Group) Co., Ltd. ("CJAM").

**Exhibit 1. Revenue Structure in 2022****Exhibit 2. Gross profit Structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding Structure as of 30 June 2023**

重庆市北碚区国有资产监督管理委员会 State-owned Assets Supervision and Administration Commission of Beibei District	100%
重庆缙云资产经营（集团）有限公司 Chongqing Jinyun Asset Management (Group) Co., Ltd.	100%
重庆市北碚区园林市政建设有限公司 Chongqing Beibei District Garden Municipal Construction Co., Ltd.	

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe the Beibei District Government has a capacity to provide support to the Company, given its location advantage in Chongqing City with good industrial fundamentals and economic potential.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2022, Chongqing City's gross regional product ("GRP") increased by 2.6% year-on-year ("YoY") to RMB2.9 trillion, ranking 4<sup>th</sup> among municipalities and prefecture-level cities in China. In 2023, Chongqing City recorded a GRP of RMB3.0 trillion with a GRP growth rate of 6.1% YoY, becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. However, mainly due to the tax refund policies, key financial indicators of the Chongqing City were negatively affected in 2022.

Chongqing City's tax revenue has decreased from RMB154.4 billion in 2021 to RMB127.09 billion in 2022, resulting in a decline in the general public budget revenue from RMB228.5 billion in 2021 to RMB210.3 billion in 2022. As of the end of 2022, the outstanding direct government debt balance of Chongqing City amounted to RMB1.0 trillion, accounting for 34.6% of its GRP for that year.

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

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,500.3	2,789.4	2,912.9
GRP Growth (%)	3.9	8.3	2.6
General Budgetary Revenue (RMB billion)	209.5	228.5	210.3
General Budgetary Expenditure (RMB billion)	489.4	483.5	489.3
Local Government Debt (RMB billion)	679.9	861.0	1,007.1

Source: Statistic Bureau of Chongqing City, CCXAP research

Beibei District, located in the northwest part of the Chongqing City main district, is one of the nine core districts in Chongqing City. Beibei District serves as an important plate of the Liangjiang New Area, the western (Chongqing) science city and the China (Chongqing) free trade pilot zone with advantageous geographical location. Beibei District has formed an industrial pattern with electronic information, automobile and motorcycle, equipment manufacturing, materials, instruments, and pharmaceuticals as its pillars. Affected by the continued decline in prices of Beijing Oriental Enterprise's optoelectronic products, the output value of Beibei District's electronics industry has declined. In 2022, the GRP of Beibei District decreased by 0.9% YoY to RMB74.2 billion. In the first three quarters of 2023, Beibei recorded a GRP of RMB55.9 billion, an increase of 3.5% YoY. However, the Beibei District government's general budgetary revenue decreased from RMB2.9 billion in 2021 to RMB2.5 billion in 2022, mainly due to the reduction in tax revenue resulting from the tax refund policy. Its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 39.1% in 2022, which was at a relatively weak level. The debt burden of the Beibei District Government was manageable, with an outstanding debt of RMB14.9 billion, accounting for 20.1% of the Beibei District's GRP.

#### Exhibit 5. Key Economic and Fiscal Indicators of Beibei District

	2020FY	2021FY	2022FY
GRP (RMB billion)	63.6	71.8	74.2
GRP Growth (%)	3.8	8.9	-0.9
General Budgetary Revenue (RMB billion)	2.8	2.9	2.5
General Budgetary Expenditure (RMB billion)	7.0	6.2	6.5
Local Government Debt (RMB billion)	12.7	13.9	14.9

Source: Statistic Bureau of Beibei District, CCXAP research

### Government's Willingness to Provide Support

#### Strategic position of the major entity of urban renewal and upgrading in Beibei District

CJAM is the largest state-owned enterprise by total assets and the most important infrastructure construction and state-owned assets operation entity in the Beibei District. In addition, CJAM has the largest business scope and strongest comprehensive strength in the Beibei District as most of the major state-owned enterprises in the region are its subsidiaries. CBGM, one of the core subsidiaries of CJAM, plays a vital role in the urban renewal and upgrading of the Beibei District. CBGM conducts some local projects, including municipal landscape and affordable rental housing. These activities carry significant strategic importance for the government and benefit

the public and local economic development. Considering its strategic position as the major entity of urban renewal and upgrading and as the core operator of assets and resources in Beibei District, we believe the Company will maintain its vital importance to local projects and services.

The Company conducts local projects mainly through an agency construction model or government-purchased model. CBGM signs construction agreements with the Beibei District Government and will receive payments based on total costs plus a markup in return during the construction progress or upon project completion. As of 30 June 2023, the Company had completed key infrastructure construction projects with a total investment of around RMB180.7 million and recognized revenue of RMB221.8 million, of which the Company has received project payments of RMB191.1 million. Moreover, the Company had 3 infrastructure projects under construction with a total planned investment of RMB2.0 billion and an uninvested amount of RMB580.0 million, indicating low capital expenditure pressure. Besides, some of the Company's infrastructure projects can be supported by government special bonds, which can further alleviate its debt burden. In addition, the Company has also completed dilapidated housing renovation projects with a cumulative investment of RMB1.8 billion and Tianfu shantytown renovation projects with a book value of RMB4.3 billion. These projects have not yet been settled, which guarantees subsequent income from this business. However, the progress of the project settlement and government payment is subject to uncertainty, so the revenue of agency construction projects is unstable.

As the major entity of urban renewal and upgrading and the core operator of assets and resources in Beibei District, CBGM has received recurring support from the local government and CJAM, including financial subsidies, asset injection and project payments. CJAM consecutively transferred 100% of its equity interests in Chongqing Beibei Transportation Construction Development Co., Ltd. in December 2022 and that of Chongqing Beicheng Construction and Development Co., Ltd. ("Beicheng Construction") in June 2023 to the Company to enhance its capital strength and business scope. CBGM also has a good track record of receiving government payments. From 2020 to 2023H1, the Company continuously received government subsidies with a total amount of around RMB18.9 million. In light of CBGM's important strategic role in the region, we expect the Company will receive ongoing support from the government and its parent in the future.

### **Low but rising exposure to commercial activities**

We consider CBGM to have low exposure to commercial activities, such as security services, human resources services, sanitation, engineering detection and self-operated project construction, as most of these businesses are asset-light. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

The security services business is one of the Company's major sources of income, which accounted for 28.9% of the total revenue in 2023H1, but with moderate profitability. Operated by the Company's subsidiary, Chongqing Beibei District Security Service Co., Ltd., the security service business has a monopoly position in Beibei District, involving security services, labor dispatch, explosion-proof cargo transportation, road clearance, property management and sales of equipment. The security service business remains a stable customer base, providing services to all types of enterprises that need security services in Beibei District and has over 3,000 security personnel.

The Company also provides services including personnel information management, job posting and consultations. The human resources service business has continued to grow. From 2020 to 2022, the revenue generated from human resources service business increased from RMB56.4 million to RMB109.0 million. The Company is also involved in the sanitation business and engineering detection business through its subsidiaries.

The sanitation business covers the entire municipal area of Beibei District while the engineering detection business takes charge of quality inspection of construction projects and engineering supervision of tertiary highway, bridge and tunnel projects in Beibei District.

Meanwhile, the Company also engaged in the construction and operation of self-operated projects. As of 30 June 2023, the Company had 3 self-operated projects under planning, including Pianyan Ancient Town, Earthwork Bank and Tianfu Life Memorial Garden projects, with a total planned investment of RMB3.1 billion. The Company is expected to achieve fund balancing through asset sales and operations after project completion. However, the relatively large scale of investment needs may bring more pressure on the capital expenditure of the Company. In addition, there is uncertainty about the operating performance of self-operated projects and its investment return period is usually long.

### **Relatively low debt leverage**

The Company's debt leverage has remained relatively low in recent years. As of 30 June 2023, the Company's total debt increased to RMB2.2 billion from RMB1.4 billion as of end-2020, while the total capitalization ratio, as measured by total debt to total capital, also increased from 12.5% to 19.0% during the same period. The increase in debt was mainly due to its expansion of the construction of local projects and investment in commercial activities. In addition, the Company's debt maturing structure is reasonable. As of 30 June 2023, its short-term debt accounted for about 19.0% of its total debt. Considering the Company's ongoing investment needs for self-operated infrastructure construction projects in the future, we expect that the Company may rely on external financing to meet its capital expenditures and the total debt level will continue to increase.

### **Weak asset liquidity**

In addition, CBGM has weak asset liquidity. As of 30 June 2023, the Company's construction in progress, inventories and other receivables accounted for 84.7% of its total assets. The Company's inventories were mainly investment costs for infrastructure construction projects and land use rights, while construction in progress was mainly past infrastructure investment of Beicheng Construction.

### **Moderate access to financing channels with limited financial flexibility**

The Company shows moderate access to funding, as it mainly relies on bank loans and non-standard financing. As of 30 June 2023, around 86.0% of the Company's debt financing was provided by domestic banks. Moreover, the bank loans of the Company were concentrated on regional banks in Chongqing City, which led to higher costs compared to large national banks. The Company's exposure to non-standard financing is manageable, accounting for around 13.9% of total debt financing as of 30 June 2023. However, its non-standard financing average cost is relatively high, which was around 7.3% at mid-2023. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing offshore bonds.

### **Medium exposure to contingent liability risk**

The Company has certain exposure to external guarantees. As of 30 June 2023, the Company's external guarantees amounted to RMB3.2 billion, accounting for 33.8% of its net assets. All the external guarantees were provided to local state-owned enterprises in Beibei District such as CJAM and its affiliates. Nevertheless, if a credit event occurs in Beibei District, it may lead to large-scale cross-default and increasing repayment obligations of the Company.

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

CBGM is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Beibei District. 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. CBGM believes that it is in compliance 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

CBGM'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 position in the urban renewal and upgrading, assets and resources operation in Beibei District, 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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