

Credit Opinion

18 April 2024

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

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Renshou Xingxin Industrial Investment Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Renshou Xingxin Industrial Investment Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Renshou Xingxin Industrial Investment Co., Ltd. (“RXII” or the “Company”) reflects Renshou County Government’s (1) strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Renshou County Government’s capacity to provide support reflects Renshou County’s ongoing growth of economic and fiscal strengths, with rich agricultural resources to support future development.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) crucial status as an important industrial infrastructure construction entity in Renshou County; and (2) track record of receiving government support.

However, the rating is constrained by the Company’s (1) fast debt growth and weak asset liquidity; (2) medium exposure to commercial activities; and (3) large reliance on non-standard financing.

The stable outlook on RXII’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the industrial development of Renshou County.

Rating Drivers

- An important industrial infrastructure construction entity in Renshou County
- Medium exposure to commercial activities
- Track record of receiving government support
- Fast debt growth and weak asset liquidity
- Large reliance on non-standard financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Renshou County Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved access to fundings and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Renshou County Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as deteriorated access to fundings, or material decreased government support.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	12.3	12.0	19.8	19.7
Total Equity (RMB billion)	7.1	7.2	10.1	9.0
Total Revenue (RMB billion)	1.2	1.2	2.6	0.4
Total Debt/Total Capital (%)	37.6	17.3	37.2	43.2

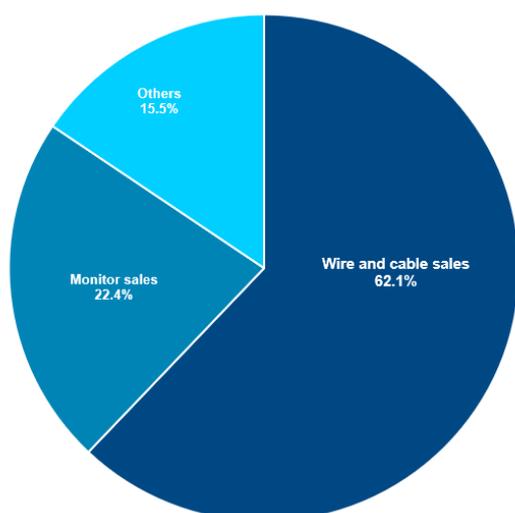
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

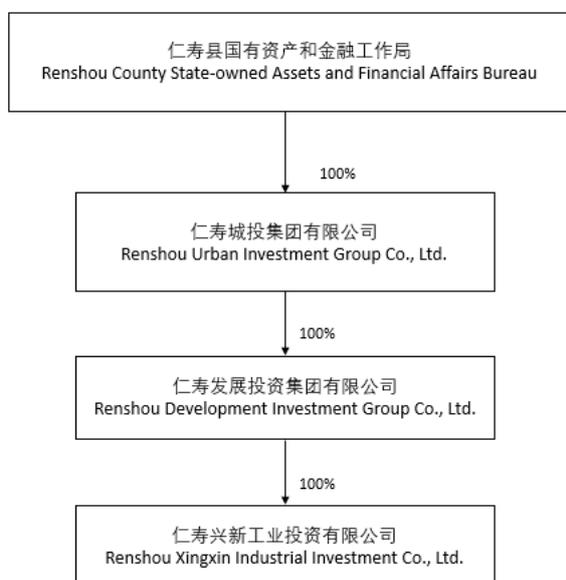
Formerly known as Renshou County Wangyang Investment Development Co., Ltd., RXII is an important industrial investment platform and industrial infrastructure construction entity in Renshou County. The Company is mainly responsible for the industrial infrastructure construction in Renshou County. It also engaged in commercial businesses such as the construction of self-operating projects, wire and cable sales, and monitor sales. As of 30 September 2023, the Company is wholly owned by Renshou Development Investment Group Co., Ltd. and ultimately controlled by the Renshou County State-owned Assets and Financial Affairs Bureau ("Renshou SAFAB").

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding Structure as of 30 September 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Renshou County Government has a strong capacity to provide support for the Company given its ongoing growth of economic and fiscal strengths, with rich agricultural resources to support future development.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a GRP of RMB6.0 trillion, with a YoY increase of 6.0%, ranking 5th in terms

of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB522.9 billion in 2023, up by 13.3% YoY.

Meishan City is a prefecture-level city of Sichuan Province. It is a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone and a key area of the Cheng (Du) Le (Mountain) Golden Corridor. According to Meishan City's 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 Outline, the Renshou County Government promotes in-depth cooperation between Meishan Tianfu New Area and Chongqing Liangjiang New Area in the fields of new energy vehicles, electronic information, digital economy, medical care and health care. Meishan City's industrial development and living environment are expected to be comprehensively improved, its economic development is expected to have new opportunities.

In 2023, Meishan City achieved a GRP of RMB173.7 billion, up by 6.2% YoY. Its general budgetary revenue amounted to RMB16.0 billion, ranking 8th among all cities in Sichuan Province, a YoY increase of 1.0%. However, affected by the decelerating economic growth and tax refund, the tax revenue of Meishan City decreased from RMB8.8 billion in 2021 to RMB8.4 billion in 2023; its government fund revenue decreased significantly from RMB34.2 billion in 2021 to RMB24.4 billion in 2023 due to land market downturn and real estate market fluctuations. As of 31 December 2023, the outstanding government debt was RMB71.6 billion, representing 41.2% of its GRP and around 145.2% of its total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Meishan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	154.8	163.6	173.7
GRP Growth (%)	8.4%	3.8%	6.2%
General Budgetary Revenue (RMB billion)	13.8	15.6	16.0
General Budgetary Expenditure (RMB billion)	27.7	31.1	36.9
Local Government Debt (RMB billion)	53.9	63.6	71.6

Source: Statistic Bureau of Meishan City, CCXAP research

Renshou County located in the southeast of Meishan City, with a total area of 2,717 square kilometers. Renshou County is the most populous county in Sichuan Province, with a permanent population of around 851 thousand in 2022. Renshou County is one of the top 100 counties in China for comprehensive strength. Its GRP ranks 2nd and general budgetary revenue ranks 1st among 6 districts/counties in Meishan City in 2022. As one of the three major grain bases in Sichuan Province, it also has rich agricultural resources. Relying on its pillar industries of electronic information, food and agricultural sideline products processing, and advanced construction materials, Renshou County has continued to develop in recent years. Renshou County's GRP increased from RMB45.7 billion in 2020 to RMB52.0 billion in 2022, with a GRP growth rate of 3.0%. The Renshou County Government's general budgetary revenue increased from RMB3.7 billion in 2020 to RMB5.0 billion in 2022, of which tax revenue accounted for 57.4%. Renshou County has a moderate fiscal self-sufficiency, with an average fiscal balance ratio of 48.6% over the past three years. At end-2022, Renshou County's outstanding government debt was RMB18.0 billion, accounting for 34.6% of its GRP. In 2023, Its general budgetary revenue amounted to RMB5.1 billion, up by 1.5% YoY.

Exhibit 4. Key economic and fiscal indicators of Renshou County

	2020FY	2021FY	2022FY
GRP (RMB billion)	45.7	50.1	52.0
GRP Growth (%)	4.4	8.4	3.0
General Budgetary Revenue (RMB billion)	3.7	4.5	5.0
General Budgetary Expenditure (RMB billion)	8.5	8.9	9.7
Local Government Debt (RMB billion)	14.1	15.5	18.0

Source: Statistic Bureau of Renshou County, CCXAP research

Government's Willingness to Provide Support**An important industrial infrastructure construction entity in Renshou County**

Renshou Urban Investment Group Co., Ltd. ("RUIG") is the most important LIIFC in Renshou County, taking up infrastructure construction and state-owned asset operation business within Renshou County. As one of the major subsidiaries of RUIG, RXII is also an important infrastructure construction and industrial investment entity in Renshou County, with a clear strategic role in regional industrial development. The Company is mainly responsible for the investment and financing of key industrial projects and industrial infrastructure construction, as well as land sales, in Renshou County. Given its strategic role, we believe the Company will maintain its important position in industrial development in Renshou County.

RXII undertakes industrial related infrastructure construction projects such as roads and plants of industrial parks in the region with self-raised funds. The infrastructure construction projects undertaken by the Company are mainly carried out through an agency construction model. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The repurchase payment is calculated based on the construction cost plus an agreed return. Since 2022, the infrastructure construction business is conducted mainly via agency construction management model, in which the Company collects management fee (normally 1.5% of total investment) without bearing the responsibility of fund-raising for projects. As of 30 September 2023, the Company had 4 major infrastructure construction projects under construction, with a total investment amount of RMB289.7 million and an outstanding amount of RMB218.8 million.

RXII is responsible for the land sales in Renshou County. The Company enters into agreements with Renshou County Urban and Rural Land Acquisition Compensation and Resettlement Service Center, who would pay the Company the land based on the asset appraisal value. The Company would transfer the land according to the Company or Renshou County's development plan. As of 30 September 2023, the Company had transferred 37 land parcels with a total area of 2,609 mu. As of 30 September 2023, the Company had sufficient land reserves to be transferred with total area of 2,509 mu. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty in its land sales income.

Medium exposure to commercial activities

RXII is also engaged in commercial activities such as wire and cable sales and monitor sales. The diversified business portfolio generates a relatively large amount of cash flow to the Company, but it has also significantly increased the Company's commercial business risks. We consider the Company's commercial business risk to be medium, because its commercial activities accounted for around 30% of its total assets. In addition, as the

construction of self-operated projects enters its peak period, capital expenditure pressure is expected to increase, resulting in a higher exposure to commercial activities.

RXII engages in construction of self-operating projects, which are mainly industrial-related projects, such as industrial parks. The Company constructs these projects with self-raised funds, and achieves breakeven through receiving operating income. As of 30 September 2023, the Company had 2 self-operating projects under construction, with a total investment amount of RMB1.7 billion and an outstanding amount of RMB760.5 million, exerting certain capital expenditure pressure. However, the income of self-construction projects is subject to the changes of operating performance, which brings uncertainty to achieve breakeven.

Wire and cable sales business is one of the Company's major sources of income, which accounted for 62.1% of the total revenue in 2022. The wire and cable sales business mainly engages in the procurement, processing, production and sales of soft optical cables, wires, aluminum (alloy) poles, overhead insulated wires and other related products. However, the business is subject to a certain concentration risk. In the first three quarters of 2023, the top 5 customers accounted for 75.3% of the sales, while the top 5 suppliers accounted for 59.8% of the procurement. In addition, the sales of the business have a relatively large reliance on affiliated enterprises. The top 2 customers are affiliated enterprises, which accounted for 57.7% of the total sales as of 30 September 2023. Due to the intensified industry competition and the increasing operation cost, the wire and cable sales business recorded a modest gross profit margin of around 8.7% in 2022.

The Company also participates in the monitor sales business via its subsidiary Truly (Renshou) High-End Display Technology Limited, which accounted for 22.4% of the Company's total revenue in 2022. It mainly engaged in the production and sales of thin film transistor (TFT-LCD) liquid crystal displays and other semiconductor products. Similar to the wire and cable sales business, the monitor sales business is also subject to a high concentration risk. As of 30 September 2023, the top 5 suppliers and customers accounted for 71.2% and 44.3% of total procurement and sales, respectively. Due to the over-supply and price downturn of TFT-LCD products, the monitor sales business recorded a gross profit margin of -18.5% in 2022. In the first three quarters of 2023, this segment continued to struggle as net loss amounted to 499.9 million. The subsequent performance shall be closely monitored.

Track record of receiving government support

The Company has a solid track record of receiving support from the local government in the past few years, including government subsidies and cash injections. From 2020 to 2023Q3, the Company received total government subsidies (including interest subsidies) of RMB453.6 million. Meanwhile, the cash injection provided by the government from 2020 to 2023Q3 was RMB611 million. Considering RXII is an important infrastructure construction entity in Renshou County, we expect the Company to receive ongoing support from the local government and its parent company in the future.

Exhibit 5. Government support from 2020 to 2023H1

(RMB million)	2020FY	2021FY	2022FY	2023Q3
Government Subsidies	63.6	75.6	250.9	31.9
Interest Subsidies	7.6	8.0	8.0	8.0
Cash Injection	179.0	22.0	410.0	-
Total	250.2	105.6	668.9	39.9

Source: Company information, CCXAP research

Fast debt growth and weak asset liquidity

RXII has demonstrated a fast debt growth as a result of relatively large capital demands from the construction projects. RXII's total debt had increased significantly from RMB4.3 billion at the end of 2020 to RMB6.8 billion as of 30 September 2023, while its capitalization ratio increased from 37.6% to 43.2% over the same period. In addition, the Company has a certain short-term repayment pressure. As of 30 September 2023, the Company's short-term debt accounted for 41.0% of its total debt while the cash/short-term debt was 0.2x. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months.

In addition, the Company has weak asset liquidity. The Company had a relatively large amount of restricted assets totaling RMB4.5 billion, which accounted for 23.0% of its total assets as of 30 September 2023. Most of the restricted assets are used for pledge financing. Moreover, the Company's total asset mainly consists of inventories, fixed asset, and receivables accounting for 77.8% of its total assets as of 30 September 2023, which are considered low liquidity.

Large reliance on non-standard financing

RXII has access to the debt capital market and maintains a good relationship with large domestic banks. As of 30 September 2023, about 64.9% of the Company's debt financing was provided by domestic banks. The Company's bank facility is managed by RUIG, its parent company. As of 30 September 2023, RUIG held a total bank credit facility of RMB34.0 billion, and the available credit facility was RMB21.9 billion, indicating certain standby liquidity. Around 5.2% of the Company's debt was provided by the debt capital market. Since 2022, the Company further expanded its funding channels to the offshore debt capital market. In June 2022, the Company issued an EUR bond, with a total issuance amount of EUR48 million. However, the Company has not issued any onshore bond. In addition, the Company has relatively high exposure to non-standard financing, which accounted for 29.9% of its total debt. Non-standard financing carries a high financing cost with low financing flexibility. Overall, the financing cost of the Company was 5.89%.

ESG Considerations

RXII 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.

RXII bears social risks as it implements public policy initiatives by building public infrastructure in Renshou County. 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.

RXII's governance considerations are also material as the Company is subject to oversight by Renshou County 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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