

Credit Opinion

27 May 2024

| Ratings | |
|------------------------------|------------------|
| Senior Unsecured Debt Rating | A _g + |
| Long-Term Credit Rating | A _g + |
| Outlook | Stable |
| Category | Corporate |
| Domicile | China |
| Rating Type | Solicited Rating |

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Changchun Urban Development & Investment Holdings (Group) Co., Ltd.

Surveillance credit rating report

CCXAP affirms Changchun Urban Development & Investment Holdings (Group) Co., Ltd.'s long-term credit rating at A_g+, with stable outlook.

Summary

The A_g+ long-term credit rating of Changchun Urban Development & Investment Holdings (Group) Co., Ltd. ("CCDG" or the "Company") reflects (1) Changchun Municipal Government's very strong capacity to support, and (2) the local government's extremely high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Changchun Municipal Government's capacity to support reflects its vital role as the capital city of Jilin Province, with good economic fundamentals and fiscal quality while constrained by its moderate self-sufficiency ratio. As an important economic and political center in Jilin Province, it is more likely for Changchun City to get support from the provincial government.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) dominant role as the largest local infrastructure investment and financing company ("LIIFC") in Changchun City and Jilin Province; (2) good track record of receiving government support; and (3) good access to capital.

However, the Company's rating is constrained by its (1) weakened liquidity position; and (2) high debt level driven by ongoing project investments.

The stable outlook on CCDG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its dominant role in the regional development and provision of public services in Changchun City.

Rating Drivers

- Dominant role as the largest LIIFC in Changchun City and Jilin Province
- Essential role in utility services
- Good track record of receiving government support
- Low exposure to commercial activities
- High debt level driven by ongoing project investments
- Weakened liquidity position but mitigated by good access to capital

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Changchun Municipal 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 provide support such as consistently increasing government payments that covers the Company's operational and debt-serving needs.

What could downgrade the rating?

The rating could be downgraded if (1) the Changchun Municipal 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 debt management and financing ability, or materially increased exposure to commercial activities.

Key Indicators

| | 2021FY | 2022FY | 2023FY |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 273.6 | 301.0 | 324.9 |
| Total Equity (RMB billion) | 143.0 | 145.7 | 162.2 |
| Total Revenue (RMB billion) | 8.3 | 6.7 | 10.6 |
| Total Debt/Total Capital (%) | 39.4 | 43.9 | 40.8 |

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

Source: Company data, CCXAP research

Corporate Profile

CCDG was established by the State-owned Assets Supervision and Administration Commission of Changchun Municipal Government ("Changchun SASAC") in September 2013. The Company is the largest LIIFC in terms of total assets in Changchun City and Jilin Province. It has been designated as the main entity in Changchun City for infrastructure construction, public housing development, and gas supply. CCDG also has diversified its business into commercial activities such as product sales, leasing, and financial services. As of 31 December 2023, Changchun SASAC held 100% of the Company's shares, which was its ultimate shareholder.

Exhibit 1. Revenue structure in 2023

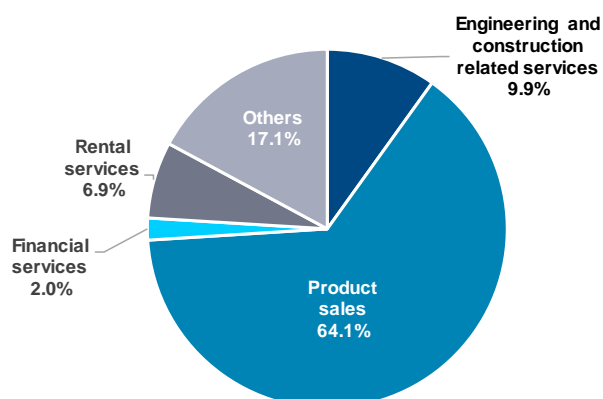
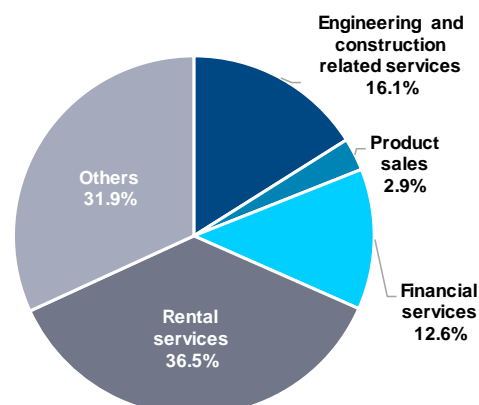


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Changchun Municipal Government has very strong capacity to provide support given its vital role as capital city in Jilin Province, with good economic fundamentals and fiscal quality, but constrained by its moderate self-sufficiency ratio. As an important economic and political center city in Jilin Province, it is more likely for Changchun City to get support from the provincial government.

Jilin Province has a developed industrial economy represented by established automobile manufacturing and petrochemical industries, and emerging pharmaceutical and electronic information industries. Changchun City, the provincial capital of Jilin Province, plays a vital role in the province's economy. It is one of the traditional industrial cities in China with three pillar industries, namely automobile manufacturing, agricultural product processing, and transportation equipment manufacturing. In 2023, Changchun City's gross regional product ("GRP") increased by 6.6% year-over-year ("YoY") to RMB700.2 billion, contributing more than 50% of Jilin Province's GRP.

Changchun City had a relatively healthy fiscal profile given its good tax revenue, but with moderate self-sufficiency. Its general budgetary revenue was RMB57.7 billion in 2023, increasing by 25.4% YoY. Meanwhile, Changchun City's tax revenue was RMB42.3 billion and accounted for 73.4% of its general budgetary revenue and around 60.4% of Jilin Province's tax revenue, respectively. However, Changchun Municipal Government's self-sufficiency was moderate. Its average budgetary self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) was around 54.8% over the past three years. The government fund income of Changchun City rose from RMB18.9 billion in 2022 to RMB42.3 billion in 2023 due to the improvement of the local land market. However, there was still a relatively large gap compared with the government fund income of RMB72.0 billion in 2021. Nevertheless, Changchun City has received continuous transfer income from Jilin Province. In 2023, Changchun City received RMB64.4 billion from Jilin Province, RMB10 billion higher than that in 2022, which partially eased its pressure on the fiscal balance. As of 31 December 2023, Changchun City reported government debt of RMB286.3 billion, accounting for 40.9% of its GRP, demonstrating relatively certain debt pressure.

Exhibit 3. Key economic and fiscal indicators of Changchun City

| | 2021FY | 2022FY | 2023FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 710.3 | 674.5 | 700.2 |
| GRP Growth (%) | 6.2 | -4.5 | 6.6 |
| General Budgetary Revenue (RMB billion) | 61.7 | 46.0 | 57.7 |
| General Budgetary Expenditure (RMB billion) | 96.6 | 97.7 | 107.5 |
| Local Government Debt (RMB billion) | 195.6 | 232.0 | 286.3 |

Source: Changchun Municipal Government, CCXAP research

Government Willingness to Provide Support**Dominant role as the largest LIIFC in Changchun City and Jilin Province**

CCDG's essential role in Changchun City is consolidated after Changchun SASAC transferred its ownership of some key local state-owned enterprises to the Company in 2014, acting as the largest and the most important LIIFC in Changchun City and Jilin Province. The Company has a dominant position in engineering construction in Changchun City, including urban infrastructure construction and welfare housing construction. Since 2017, the Company has undertaken a number of major construction projects in Changchun City, such as urban renewal, automobile industrial park and smart city industrial base.

CCDG primarily engages in the urban construction business with a project management model. The government will repurchase the projects within five to eight years after the projects are completed. The Company is commissioned by the Changchun Municipal Government to act as the main entity in undertaking various infrastructure construction and land development projects in Changchun City, involving the construction of municipal roads, transportation hubs, bridges, and stadiums. As of 30 September 2023, there were 8 projects under construction with a total investment amount of RMB10.4 billion and invested amount of RMB9.7 billion.

The Company also adopts the PPP model for urban renewal projects and it is responsible for the financing, investing, development, operation, and maintenance of the project. As of 30 September 2023, Shantytown Renovation Redevelopment Project is the key construction project under PPP model, with an invested amount of RMB17.3 billion. This project has obtained bank project loan with credit facility of RMB20 billion and interest rate of 4.90%. This project has been completed and no additional investment would be made in the future.

Moreover, CCDG participates in welfare housing construction under the government purchase model and self-sale model. Under government purchase model, the government will pay the Company 30% of the project's construction cost during the development period and will pay the rest of the construction cost with a 10% total cost mark-up in the next 12 years after project completion. Under self-sale model, the Company is responsible to develop housing projects on the land resources that are allocated by the Changchun Municipal Government and the Company directly sells the projects to residents at the selling prices specified by the local government.

The cash collection from the completed construction projects under the government purchase model is relatively lagging behind. As of 30 September 2023, the Company had 7 major welfare housing projects under government purchase model, with gross investment of RMB13.5 billion and the total cash collection was RMB3.9 billion. Fortunately, the financing pressure from welfare housing projects is mitigated by low-cost policy loans.

Overall, given the abundant projects in the pipeline and the beginning of government payback of its PPP project, the Company's infrastructure construction business is sustainable in the foreseeable future. However, the

Company is required to use cash and other resources to fund the projects before receiving sufficient payments from the local government to cover the expenditure, which would bring financial burden to CCDG.

Essential role in utility services

The Company leases its drainage pipelines in Changchun City to the Changchun Municipal Government, after entering into long-term lease agreements. As of 31 December 2023, it had the leasable amount of RMB25.2 billion and these state-owned assets were transferred by the local government. For the past three years, the annual rental income had stabilized at around RMB4.0 billion, which was recorded as non-operating subsidies and other incomes in its income statement, supporting the Company's ongoing development.

Due to the adjustments in government planning, the water supply and sewage treatment segment of CCDG was transferred to Changchun SASAC in February 2024. The Company is no longer engaged in water supply and sewage treatment business. Changchun SASAC transferred 39.81% of the shares of Changchun Changgang Gas Co., Ltd. ("Changgang Gas") to CCDG in compensation. The Company will directly hold 51% of the shares of Changgang Gas after the transfer. Changgang Gas is an important gas supplier in Changchun City, with a market share of about 50% in Changchun City. Changgang Gas was the major shareholder of the listed company Changchun Gas Co., Ltd. ("Changchun Gas", stock code: 600333.SH), holding 58.75% of its shares. Changchun Gas's main business is urban pipeline gas operation, and it conducts urban pipeline franchise business in 8 cities and 1 national development zone. As of 31 December 2023, the total assets and the total liabilities of Changchun Gas was RMB6.9 billion and RMB4.9 billion, respectively. However, Changchun Gas has recorded net losses for two consecutive years since 2022.

Good track record of receiving government support

Changchun Municipal Government has a proven track record of providing support to CCDG. From 2010 to 2013, the local government transferred a total of RMB29.4 billion worth of drainage pipelines to the Company and leased the right to use the pipeline assets for a long period of time. From 2013 to 2019, the government injected cash of RMB2.1 billion and equities of RMB2.9 billion to the Company. In 2023, the local government transferred 2 reservoirs with a total book value of RMB13.1 billion to CCDG, which enhances its capital strength. The 2 reservoirs would generate revenue through sales of raw water. Also, the Company received government subsidies of RMB7.0 billion in 2023, maintaining a relatively high level. Meanwhile, the local government paid purchase service fees and PPP procurement fees of RMB3.3 billion and RMB860 million, respectively. Apart from that, the Company received special funds from Changchun Municipal Government of RMB443 million in 2023.

We expect that, as the largest local state-owned enterprise in Changchun City, the Company's vital role in the development and operation of Changchun City is irreplaceable, and Changchun Municipal Government has an extremely high willingness to provide support to the Company. However, decreasing government fund income of Changchun City due to the downturn of the real estate market may adversely affect the government payments.

Low exposure to commercial activities

Apart from public businesses, CCDG has diversified its business into commercial activities such as product sales, leasing, and financial services. We estimate the Company's risk exposure to commercial business is low as the assets in commercial activities accounted for between 10% and 20% of the total assets as of end-2023.

CCDG engages in the production and sales of concrete, as well as sales of other building materials including steel. This business is the Company's largest source of income source, accounting for around 40% of total

revenue over the past few years. In 2023, product sales revenue increased by 151.5% YoY to RMB6.7 billion. This income source has shown relatively high volatility and is highly dependent on local construction projects.

CCDG also conducts general rental business including building, car park, farm, shops in railway station and airport, recording as operating revenue of RMB728.2 million in 2023. Additionally, as of 30 September 2023, the Company had two self-operated infrastructure projects, with gross investment of RMB8.8 billion and invested amount of RMB7.9 billion. These two projects are the Changchun Automobile Economic Development Zone Prosperity Intelligent Manufacturing Industrial Park Project and the Changchun Jingyue Intelligent City Industry Base Project, which are expected to provide the Company with recurring rental income after completion.

CCDG's financial service business involves the provision of financial services to agricultural and small and medium-sized enterprises, providing guarantees, financial leasing, securities services, commercial factoring, and equity investment. However, the Company faces higher operational risk exposure to private-owned enterprises in this business. Moreover, the Company plans to acquire 20.81% of the shares of Northeast Securities Co., Ltd. ("Northeast Securities", stock code: 000686.SZ) from Jilin Yatai (Group) Co., Ltd., which is a related party of CCDG. Northeast Securities is one of the national comprehensive listed securities firms and has strong regional competitive advantages in Jilin Province. In 2023, the total asset and the net income of Northeast Securities was RMB83.3 billion and RMB598.8 million, respectively. After successful acquisition, CCDG will become the largest shareholder of Northeast Securities. In our views, the acquisition of Northeast Securities would enlarge CCDG's business scope in finance industry, but also bring higher operation risk and investment risk due to the fluctuations of securities market and the changes in regulatory policy.

High debt level driven by ongoing project investments

CCDG maintained high debt level driven by ongoing project investments. In 2023, CCDG's total debt was RMB111.9 billion, RMB2.1 billion lower than that in 2022. Thanks to the ongoing support from the local government, CCDG maintained moderate debt leverage. In 2023, the total capitalization ratio of CCDG was 40.8%. The Company also maintained a balanced debt structure. Bank loans and bond issuance accounted for the majority of its total debt and there was also minor exposure to non-standard products. As of 31 December 2023, the average financing cost of CCDG was around 5.5%. However, the average financing cost of non-standard products was relatively high, at the value of 8.3%. In addition, considering the large capital expenditure needs of the Company's projects under construction or planning, we expect its debt leverage will moderately increase over the next 12-18 months.

Weakened liquidity position but mitigate by good access to capital

CCDG's liquidity position has been weakened due to the increasing amount of short-term debt. The Company's short-term debt increased from RMB30.0 billion at the end of 2021 to RMB35.9 billion in 2023, while its cash/short-term debts ratio weakened from 0.6x to 0.3x. We believe that the Company's liquidity risk is manageable, as mitigated by its adequate standby liquidity buffer and good access to the bond markets. CCDG has built long-term relationships with the major banks in China, which provide sufficient facilities to maintain its continuous capital expenditure. As of 31 December 2023, the Company had total credit facilities of RMB218.4 billion, of which the unutilized credit facilities amounted to RMB79.2 billion. Moreover, the Company has good access to both onshore and offshore debt capital markets. From January 2023 to April 2024, the Company raised RMB11.8 billion through the onshore debt market. Meanwhile, the Company issued two tranches of offshore bonds with a total amount of USD300 million during the same period.

Taking into account the strong support from the local government as well as the Company's liquidity buffer, we believe that the Company still has a relatively low liquidity risk over the next 12 to 18 months.

ESG Considerations

CCDG is exposed to environmental risks because it has undertaken infrastructure construction projects and public services. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase. The Company is required to comply with various environmental, as well as health and safety, laws and regulations promulgated by the PRC government. CCDG successfully issued a green bond in the offshore market on 14 June 2022. The Company developed Green Finance Framework and received NDRC Certificate. Its Green Finance Framework is also in compliance with the Green Bond Principle 2021 of the International Capital Market Association.

CCDG bears social risks as it plays a crucial role in the social welfare of the residents in Changchun City by providing public services, including water supply, sewage treatment, affordable housing, and building and leasing of public infrastructures. As the largest state-owned entity in Changchun City, the Company has also launched multiple measures to ensure the provision of utility and the daily needs of the residents during the pandemic control period.

In terms of corporate governance, CCDG has established a sound and effective internal control framework and has also set up a corporate governance structure, with the shareholders, directors, supervisors, senior management team, and internal departments performing their duties collectively and efficiently. The Company is subject to oversight and reporting requirements to the Changchun SASAC, which has full control and supervision of the Company's operation.

Structural Considerations

CCDG's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its dominant role in the regional development and provision of public services in Changchun 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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