

Credit Opinion

13 June 2024

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

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Dujiangyan Smart City Operation and Construction Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Dujiangyan Smart City Operation and Construction Development Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Dujiangyan Smart City Operation and Construction Development Group Co., Ltd. (“DSOC” or the “Company”) reflects Dujiangyan 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 Dujiangyan City Government’s capacity to provide support reflects Dujiangyan City’s vital position in Chengdu City, given its good cultural and tourism resources, but relatively weak industrial base.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the major infrastructure constructor and urban operator in Dujiangyan City; and (2) track record of receiving government payments.

However, the rating is constrained by the Company’s (1) relatively high reliance on non-standard financing; (2) high exposure to contingent risk; and (3) short-term debt repayment pressure.

The stable outlook on DSOC’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its important position in the infrastructure construction and urban operation in Dujiangyan City.

Rating Drivers

- Important role as the major infrastructure constructor and urban operator in Dujiangyan City
- Track record of receiving government payments
- Short term debt repayment pressure
- Relatively high reliance on non-standard financing
- High exposure to contingent 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) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as decreased exposure to contingent risk 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) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced regional significance.

Key Indicators

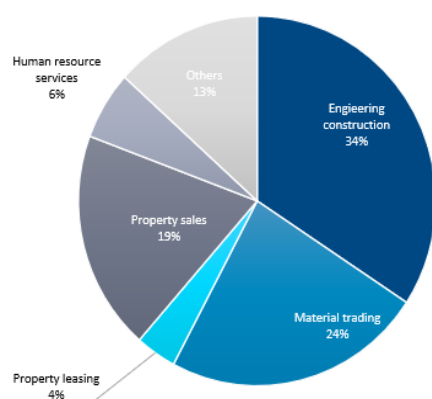
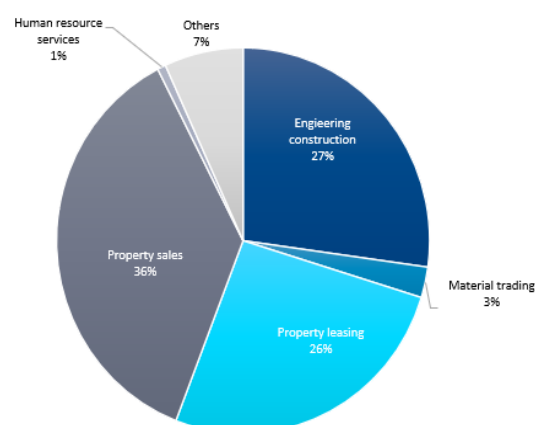
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	26.8	27.7	30.2
Total Equity (RMB billion)	11.3	11.4	12.1
Total Revenue (RMB billion)	0.9	1.1	1.4
Total Debt/Total Capital (%)	35.7	41.1	39.8

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

Source: CCXAP research

Corporate Profile

Founded in 2016, formerly known as Dujiangyan Xincheng Equity Investment Co., Ltd., DSOC is one of the 5 key subsidiaries of Chengdu Dujiangyan Investment Development Group Co., Ltd. ("CDID"). The Company is primarily responsible for infrastructure construction and resettlement housing construction in Dujiangyan City. Apart from public development projects, DSOC has a clear positioning of urban operation. The Company also derives revenue from businesses such as property sales, material trading, property leasing and management, carparking services and human resource services. As of 31 December 2023, CDID held 90% and Sichuan Provincial Department of Finance held the remaining 10% of the Company's shares. The Company was ultimately controlled by Dujiangyan State-owned Assets Supervision and Administration and Finance Bureau ("Dujiangyan SASAFB").

Exhibit 1. Revenue Structure in 2023**Exhibit 2. Gross profit Structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 December 2023

Source: Company information, CCXAP research

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

We believe the Dujiangyan City Government has a relatively strong capacity to provide support to the Company, given its good cultural and tourism resources, but relatively weak industrial base.

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.

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. Chengdu's GRP increased to RMB2.2 trillion in 2023, representing a YoY increase of 6.0%. The Chengdu government's general budgetary revenue amounted to RMB192.9 billion in 2023, a YoY increase of 12.0%. Its fiscal balance ratio was 74.6%, which was at a moderate level. Chengdu's debt burden is manageable. In 2023,

Chengdu's outstanding government debt increased to RMB522.9 billion with an increase trend, accounting for 101.3% of its total fiscal revenue and 23.7% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,991.7	2,081.8	2,207.5
GRP Growth (%)	8.6	2.8	6.0
General Budgetary Revenue (RMB billion)	169.8	172.2	192.9
General Budgetary Expenditure (RMB billion)	223.8	243.5	258.7
Local Government Debt (RMB billion)	404.3	464.1	522.9

Source: Statistic Bureau of Chengdu City, CCXAP research

Located in the northwest of Chengdu, with a total area of 1,208 square kilometers. Dujiangyan is known as an excellent tourist city in China. With its rich cultural heritage and beautiful natural landscapes, it attracts millions of tourists from all over the world every year. However, the industrial base of Dujiangyan is relatively weak, mainly focusing on mechanical manufacturing, food and beverage industries. Dujiangyan's GRP increased from RMB 48.4 billion in 2022 to RMB 50.7 billion in 2023, representing a YoY increase of 5.2%. Benefiting from economic recovery, Dujiangyan's government general budgetary revenue increased to RMB4.0 billion in 2023, a YoY increase of 28.0%, of which tax revenue accounted for 51.2%. Dujiangyan has a fair fiscal self-sufficiency, with an average general budgetary revenue/general budgetary expenditure ratio of 68.4% over the past three years. Dujiangyan's government debt balance amounted to RMB17.9 billion in 2023, up by 24.4% from 2022. Its debt burden is relatively heavy as the government outstanding debt accounted for 35.4% of its GRP and as of end of 2023.

Exhibit 5. Key Economic and Fiscal Indicators of Dujiangyan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	48.4	48.4	50.7
GRP Growth (%)	7.1	1.0	5.2
General Budgetary Revenue (RMB billion)	4.0	3.1	4.0
General Budgetary Expenditure (RMB billion)	5.3	5.2	6.2
Local Government Debt (RMB billion)	14.5	14.4	17.9

Source: Statistic Bureau of Dujiangyan City, CCXAP research

Government's Willingness to Provide Support

Important role as the major infrastructure constructor and urban operator in Dujiangyan City

In order to optimize the layout of state-owned capital, the Dujiangyan Government established CDID in 2020, which is the only primary platform in Dujiangyan City for consolidating regional assets and resources. CDID has 5 main subsidiaries and each with different positioning, including cultural and tourism, urban operation, industrial development, rural revitalization, and social livelihood. DSOC has a clear positioning of urban operation of Dujiangyan City. The Company is responsible for resettlement housing construction, infrastructure construction, and parking lot operation in Dujiangyan City. Considering the Company's high strategic significance to the development of Dujiangyan City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company had successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years. The Company continues to conduct infrastructure construction projects under

agency construction model. As of 31 December 2023, the Company had 4 infrastructure construction projects under construction or planning, with a total estimated investment amount of RMB372.6 million and an outstanding amount of RMB157.0 million.

The Company is also entrusted by the government to conduct the construction of resettlement housing and disaster reconstruction housing with self-raised funds. The Company achieves fiscal balance through government repurchase, or selling the remaining resettlement housing at market prices. As of 31 December 2023, the Company had 4 resettlement housing projects under construction or planning, with a total estimated investment amount of RMB228.5 million and an outstanding amount of RMB105.0 million.

Increasing exposure to commercial activities

In addition to public activities, DSOC is also involved in various commercial activities such as property sales, material trading, property leasing and management, car parking services and human resource services. We consider DSOC's commercial business exposure to be low, as its market-driven businesses account for lower than 10% of its total assets.

DSOC's property development business is market-oriented, as the Company is responsible for the construction of commercial property projects and their subsequent sales. As of 31 December 2023, the Company completed 1 major property development project, with a total investment amount of RMB320 million and it is almost complete sold out. The Company has 1 major commercial property development project under planning, with an estimated total investment amount of RMB2.6 billion and an outstanding amount of RMB1.9 billion. The large investment amount might exert great capital expenditure pressure on the Company. As the Company's property development business is market-driven, the sales income is greatly affected by the recovery of local real estate market.

In addition, the Company also engaged in the construction of self-operated projects, such as technology utilization park construction project. The self-operated projects are constructed by self-raised funds, which exerted certain capital expenditure pressure. As of 31 December 2023, it had 2 major self-operated projects under planning, with a total estimated investment of RMB141.0 million, for which the Company plans to receive operating income to achieve breakeven.

As a company positioned in urban operation business, DSOC also provides several commercial activities in Dujiangyan City, such as material trading, property leasing and management, carparking services and human resource services. The diversified business types provide certain supplementary income for the Company. The Company is involved in property leasing business, including supporting shops and commercial properties. Benefited by the low acquisition and operating cost, as well as the high occupancy rate, the gross profit margin of the Company's property leasing business remains at a relatively high level. In 2023, the property leasing business recorded a gross margin of 95.3%. DSCO also conducts car parking services in Dujiangyan City, including parking lots and temporary roadside parking spaces. Although these commercial activities have brought stable income to the Company, the small operating scales limit their contributions to the Company's overall profit.

Given the Company's blueprint to develop its market-driven businesses, we believe the Company will expand the scale of its commercial business exposure in the future. However, the business risk for commercial businesses is manageable as the urban operation business has relatively high business stability. In addition, we consider the initial investment in the construction of the commercial activities will be large, exerting certain capital expenditure pressure on the Company.

Track record of receiving government payments

DSOC has a track record of receiving payments from the Dujiangyan City Government and CDID. These payments take various forms, such as cash injections. In 2023, the Company continued to receive support from the government. During the year, the Company received cash injection of RMB140 million from CDID to support the Company business. Given DSOC's important role, we expect the Company will continue to receive support from the Dujiangyan City Government in the future.

Moderate asset liquidity

DSOC has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 82.3% of its total asset as of 31 December 2023. Inventories were mainly undeveloped land and investment costs for its construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. As there were relatively large amounts of unreceived payments from the repurchased projects, we will pay attention to the payment collection.

Short term debt repayment pressure

DSOC's total debt had slightly increased from RMB7.9 billion at end-2022 to RMB8.0 billion as of 31 December 2022, while its total capitalization decreased from 41.1% to 39.7% over the same period. However, its cash to short-term debt ratio was merely 0.3x and short-term debt's portion of total debt rose to 56.8% in 2023 from 45.3% in 2022, indicating certain short term debt repayment pressure. As of 31 December 2023, the Company had 11 major projects under construction or planning, with an expected investment of RMB3.3 billion and an outstanding amount of RMB2.3 billion. Given the Company's relatively large capital expenditure pressure, we expect the Company will have a relatively fast debt growth for the next 12-18 months.

Relatively high reliance on non-standard financing

DSOC has access to funding as reflected by its good banking relationships and access to the onshore debt capital market. As of 31 December 2023, it held total credit facilities of RMB4.7 billion and available credit facilities of RMB0.6 billion. Meanwhile, its parent Company CDID, held available credit facilities of RMB34.3 billion, which is likely to provide credit cushion when necessary. The Company has also diversified its financing channel to the onshore debt capital market, with an average coupon range of around 7.5%. However, the Company has a relatively high reliance on non-standard financing. Around 30% of debt financing was provided by non-standard financing, including trust financing and financial leasing. It also plans to issue offshore bonds to broaden its financing channel and reduce its reliance on non-standard financing.

High exposure to contingent risks

DSOC has high exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 December 2023, its external guarantee amount was RMB10.2 billion, accounting for 84.8% of its net asset, which also representing a YoY increase of 168.4% compared with end-2022 level. All the external guarantees are provided to state-owned enterprises in Dujiangyan City, which exposed the Company to the regional credit environment in Dujiangyan City. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

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. DSOC 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.

DSOC is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Dujiangyan 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. DSOC 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.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

	Dujiangyan Smart City Operation and Construction Development Group Co., Ltd.	Dujiangyan Urban and Rural Construction Group Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -
Shareholder	Chengdu Dujiangyan Investment Development Group Co., Ltd.	Chengdu Dujiangyan Investment Development Group Co., Ltd.
Positioning	Major entity responsible for infrastructure construction and resettlement housing construction in Dujiangyan City	Major entity responsible for rural construction, infrastructure construction in Dujiangyan City
Total Asset (RMB billion)	30.2	29.0
Total Equity (RMB billion)	12.1	12.1
Total Revenue (RMB billion)	1.4	1.3
Total Debt/Total Capital (%)	39.8	39.4

All ratios and figures are calculated using CCXAP's adjustments based on financial statements in 2023FY. However, the figures of Dujiangyan Urban and Rural Construction Group Co., Ltd. are from 2022FY.

Source: Company data, CCXAP research.

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