

Credit Opinion

2 July 2024

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

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Chengdu Sino French Ecological Park Investment Development Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Chengdu Sino French Ecological Park Investment Development Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Chengdu Sino French Ecological Park Investment Development Co., Ltd. ("SFEP" or the "Company") to BBB_g from BBB_{g-}, with stable outlook. The rating upgrade reflects that the Company, as the sole entity responsible for infrastructure construction in Chengdu Sino-French Ecological Park, is likely to receive a stronger government support due to the enhancing regional strength of Longquanyi District.

The BBB_g long-term credit rating of SFEP reflects Longquanyi District Government's very strong capacity to provide support, and its high willingness to support the Company, based on our assessment of the Company's characteristics.

Our assessment of Longquanyi District Government's capacity to provide support reflects that Longquanyi District ranked 3rd among 20 districts/counties by gross regional product ("GRP") in Chengdu City in 2023, with good economic fundamentals and fiscal strength.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) monopolistic business position in Chengdu Sino-French Ecological Park; and (2) good record of receiving government payments; and (3) high sustainability of its public service business.

However, the Company's rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high leverage and short-term repayment pressure; and (3) relatively large reliance on non-standard financing.

The stable outlook on SEFP'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 role, being the key investment and operation entity in the Sino-French Ecological Park.

Rating Drivers

- Monopolistic business position in Chengdu Sino-French Ecological Park
- High sustainability of its public service business
- Good record of receiving government payments
- High leverage and short-term repayment pressure
- Medium exposure to commercial activities
- Relatively large reliance on non-standard financing

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as reduced reliance on non-standard financing or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in company characteristics decrease the local government's willingness to support, such as reduced strategic significance or increased exposure to commercial activities.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	23.2	36.0	38.9
Total Equity (RMB billion)	6.8	9.7	10.7
Total Revenue (RMB billion)	4.0	3.6	3.5
Total Debt/Total Capital (%)	66.3	71.1	70.5

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

Source: Company information, CCXAP research

Corporate Profile

Founded in 2018, formerly known as Chengdu Eiffel Construction and Development Co., Ltd, and designated by the Longquanyi District Government, SFEP is a key investment and operation entity of the Sino-French Ecological Park in the Longquanyi District, which is also known as the Chengdu Economic and Technological Development Zone ("Chengdu ETDZ"), Chengdu City. The Company is dedicated to Sino-French Ecological Park development, and is responsible for a variety of work such as construction plan formulation, construction of infrastructure and public facilities, investment promotion, and other relevant services in the Sino-French Ecological Park. Apart from its main business, the Company also engages in other commercial business, such as leasing and self-operating projects.

As of end-2023, Chengdu Economic Development Industrial Investment Group Co., Ltd ("CEDI") owned 96.77% of the Company's shares and the ultimate controller of the Company is the Chengdu Economic and Technological Development Zone Management Committee ("Chengdu ETDZ Management Committee").

Exhibit 1. Revenue Structure in 2023

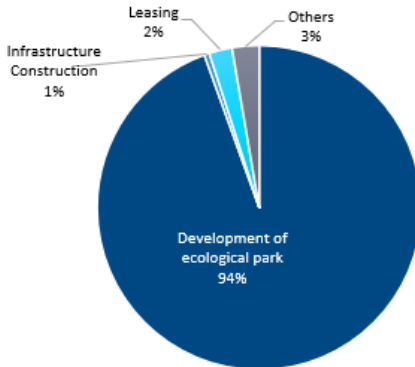
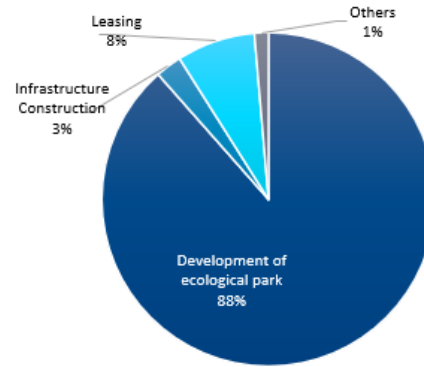
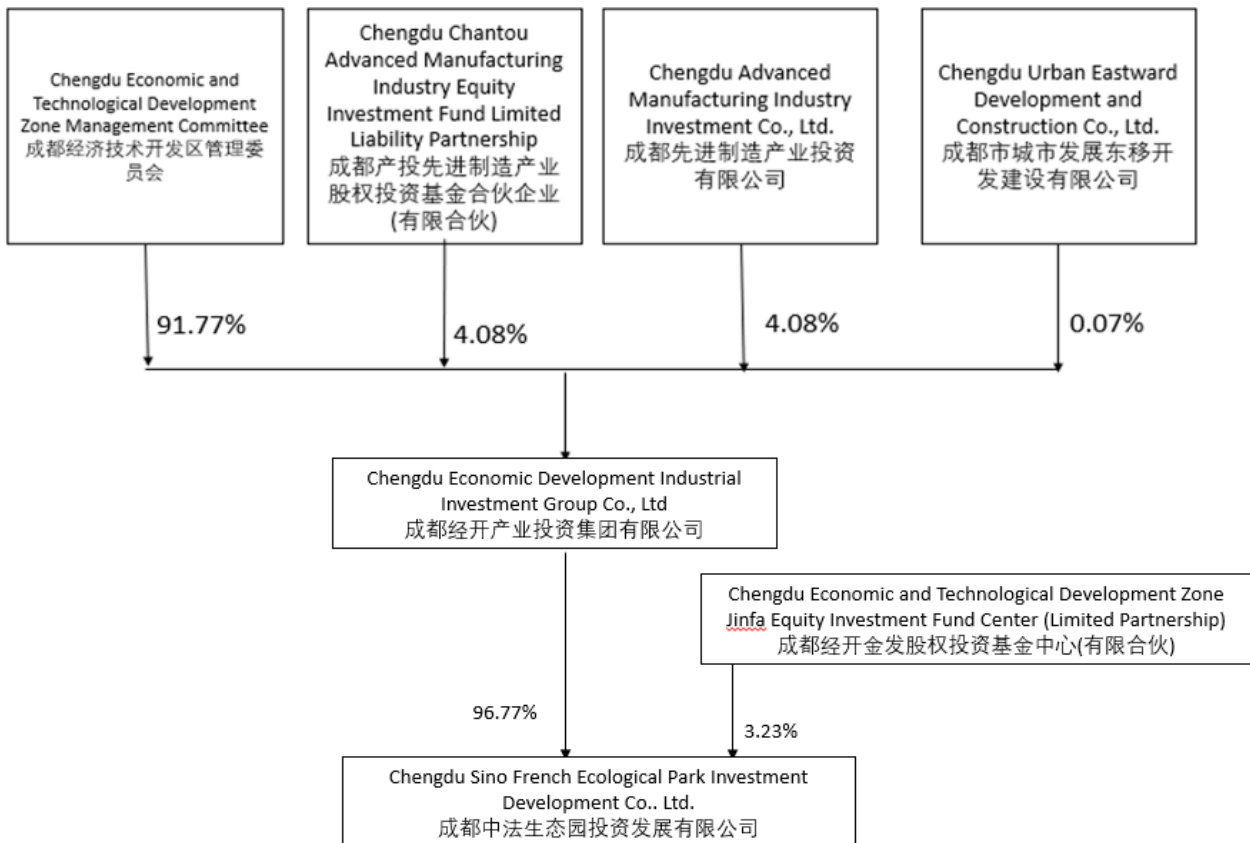


Exhibit 2. Gross Profit Structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Shareholding and organization chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Longquanyi District Government has a strong capacity to provide support for the Company given its good economic fundamentals and fiscal strengths, but relatively high regional debt ratio.

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

Longquanyi District is close to the five central districts of Chengdu City, and is a high-end manufacturing center in southwest China. Located in Longquanyi District, Chengdu ETDZ was approved by the State Council as a national-level economic development zone in 2000. Chengdu ETDZ combined the government administration with Longquanyi District and unified in government management, local planning and financing. Relying on the development of the automobile and auto parts industries, the economy of Longquanyi District has developed rapidly in recent years.

Longquanyi District's GRP increased from RMB 145.8 billion in 2022 to RMB150.3 billion in 2023, representing a YoY growth of 6.1%. Longquanyi District ranked 3rd among 20 districts/counties by GRP in Chengdu City, accounting for about 6.8% of Chengdu's GRP. Longquanyi District Government's general budgetary revenue also significantly increased from RMB7.5 billion in 2022 to RMB8.5 billion in 2023 a YoY growth of 13.3%. Meanwhile, it managed to maintain high fiscal stability, in which tax revenue accounted for around 81.1% in 2023. Longquanyi also has relatively good fiscal self-sufficiency, with an average fiscal balance ratio of 68.4% over the past three years. In addition, Longquanyi District's outstanding government debt amounted to RMB26.3 billion with an increasing trend, accounting for 20.8% of its GRP.

Chengdu Sino-French Ecological Park is located in Chengdu ETDZ with a total area of 131 square kilometers, it is a program under the cooperation between China and France concentrating on energy-saving and environment-friendly technologies and relevant products. The excellent location and great development potential of the Sino-French Ecological Park have driven its needs for infrastructure construction, public facilities as well as ancillary services, which in turn provides SFEP with great opportunities for business growth.

Exhibit 5. Key Economic and Fiscal Indicators of Longquanyi District

	2021FY	2022FY	2023FY
GRP (RMB billion)	150.4	154.6	150.3
GRP Growth (%)	7.2	1.8	6.1
General Budgetary Revenue (RMB billion)	7.9	7.5	8.5
General Budgetary Expenditure (RMB billion)	10.9	11.6	12.6
Local Government Debt (RMB billion)	25.6	26.3	31.2

Source: Statistic Bureau of Longquanyi District, CCXAP research

As the sole entity responsible for the infrastructure projects and public services of Sino-French Ecological Park, we believe the enhancing regional fiscal metrics of Longquanyi District will strengthen the local government's capacity to support the Company. It is very likely that the Longquanyi District Government will provide stronger support to the Company if needed.

Government's Willingness to Provide Support**Monopolistic business position in Chengdu Sino-French Ecological Park**

There are 3 major Local Infrastructure Investment and Financing Companies ("LIIFCs") in Longquanyi District, including CEDI, Chengdu Jingkai Guotou Investment Group Co., Ltd. ("CJGI"), and Chengdu Economic Development Holding Group Co., Ltd. ("CEDH"). CEDH was mandated to consolidate the LIIFCs in Longquanyi District and is now operating as a holding company. CJGI is CEDH's major subsidiary, and responsible for the urban development in Longquanyi District. CEDI is mainly responsible for the industrial development in Longquanyi District. In the future, further consolidation of the local LIIFCs maybe conducted according to government plans.

SFEP is one of the major subsidiaries of CEDI and the only LIIFC in Chengdu Sino-French Ecological Park. It has a monopolistic position as the Company is solely entrusted by the Chengdu ETDZ Government to develop the park. Chengdu ETDZ Management Committee authorized the Company to implement a closed operation of the Sino-French Ecological Park, including land development and infrastructure construction. It has strong strategic functions in operation, investments and construction in the Sino-French Ecological Park.

In addition, the Company is responsible for the operation and construction of the industrial parks in Longquanyi District. As a sole LIIFC in the Sino-French Ecological Park, as well as a major developer of industrial parks in Longquanyi District, we believe the Company's status as an important subsidiary of CEDI will not be easily changed in the foreseeable future.

High sustainability of its public service business

SFEP continues to focus on the development of major infrastructure construction in Chengdu Sino-French Ecological Park. The Company entered into a cooperation agreement with the Chengdu ETDZ Management Committee with respect to its main business projects. SFEP undertakes the construction work for the government regarding infrastructure and public facilities in the Sino-French Ecological Park. In return, the Company is entitled to obtain part of the government fund revenue generated from the sale of land use right in the Sino-French Ecological Park, and part of the value-added tax revenue generated within the Sino-French Ecological Park, as its operating revenue.

Moreover, the Company is also responsible for the infrastructure construction of industrial parks in Longquanyi District, such as schools, river restoration project, and other public facilities. The Company continues to conduct

the infrastructure construction projects under agency construction model.

The Company had a large number of projects in the pipeline, which ensure high sustainability of its public service business. As of 31 December 2023, the Company had 10 infrastructure projects under construction or planning, with an estimated total investment amount of RMB5.8 billion and an outstanding amount of RMB4.6 billion. In addition, the Company also engaged in land transfer business. However, due to the downturn in the property market and land transfer plan in the Sino-French Ecological Park, no land was transferred in 2023. The subsequent land transfer also faces uncertainty. Given SEFP's clear position and policy mandate, we believe that the Company will continue to undertake the majority of public projects in the future, including the investment and operation of Chengdu Sino-French Ecological Park and industrial parks in Longquanyi District. However, the large number of projects in the pipeline exert a relatively large amount of capital expenditure pressure on the Company.

Good record of receiving government payments

As a state-owned enterprise ultimately controlled by the local government in Chengdu ETDZ, the Company regularly receives financial support and certain preferential treatments from the Chengdu ETDZ Management Committee. In terms of project payment, the Company receives a repurchase payment of RMB1.7 billion from the government in 2023. In April 2023, the Company received capital injection of RMB700.1 million from the government and CEDI, increasing its paid-in capital and capital reserve by RMB667 million and RMB33.1 million, respectively. In addition, the Company regularly receives financial subsidies from the government. In 2023, the Company received financial subsidy of RMB266.8 million from the government. These supports come in various forms, such as favorable policies, special government bonds and government grants and subsidies. Considering the economic and financial growth of Longquanyi District, as well as the gradual construction of the Sino-French Ecological Park, we expect the Company will continue to receive support from the local government in the future.

Medium exposure to commercial activities

Apart from public projects, the Company also engages in property leasing and the construction of self-operating projects. We consider SEFP's commercial business exposure to be medium as its market-driven nature accounts for around 25% of its total assets.

The Company participated in the property leasing business. The Company mainly acquires investment properties through acquisition or construction. These properties include markets, shops, and park factories. As of 31 December 2023, the Company had a total leasable area of 558 thousand square meters, with good average occupancy rate. The Company's property leasing income increased from RMB74.7 million in 2022 to RMB81.3 million in 2023. The profit margin of the business is as high as 65% in 2023. Overall, the leasing business provides a stable supplementary income to the Company.

The Company also engages in the construction of self-operating projects, such as Sichuan (Chengdu) Intelligent Connected Vehicle Pilot Zone Construction Project, industrial parks, and innovation center. The Company constructs self-operating projects mainly with self-raised funds, and achieves a balance between revenue and expense by obtaining operating income from these projects. As of 31 December 2023, there were 2 major self-operating projects under planning, with an estimated total investment of RMB822.0 million and an outstanding amount of RMB820.8 million.

High leverage level and short-term repayment pressure

The Company's total debt slightly increased from RMB23.9 billion at end-2022 to RMB25.6 billion at end-2023, while its capitalization ratio slightly decreased from 71.1% to 70.5%, remained at a high level. In addition, the Company has an unbalance debt structure, with short-term debt accounting for 40.4% of its total debt (2022: 49.9%). The cash to short-term debt ratio was merely 0.2x, indicating relatively high short-term repayment pressure. As of 31 December 2023, the Company had a total of 12 projects that are either under construction or in planning, with a total investment amount of RMB6.6 billion and an outstanding investment amount of RMB5.4 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

Meanwhile, the Company has a moderate asset liquidity profile. As of end-2023, receivables and non-current assets were RMB20.9 billion and RMB10.4 billion, respectively, making up over 80% of its total asset. Receivables are mainly the investment cost incurred by other construction entities in the Sino-French Ecological Park, which the Company is entitled to collect subsequently. The repurchase payments progress are affected by the government's fiscal budget and the timeline of project handover. We assess the liquidity of these assets to be low.

Relatively large reliance on non-standard financing

In the past year, the Company actively expanded its financing channels and replaced some of its non-standard borrowings. However, as of 31 December 2023, the Company still has relatively large amount on non-standard financing, which accounted for 38.3% of the total debt (2022: 50.2%). The Company's overall financing cost was about 6.9%, while the non-standard financing cost of around 8.7%. The Company has broadened its financing channel to offshore capital market. In 2023, the Company issued 300 million RMB bond and 100 million USD bond, with coupon rate at 7.9% and 6.5% respectively. In addition, its parent Company CEDI held a total facility of RMB102.4 billion and available facility of RMB42.0 billion, which is likely to provide credit cushion when necessary. SEFP's relatively large capital expenditure could be supported by its bank refinancing channel and the Company has maintained good relationship with large domestic banks, with an average financing cost of 5.56%.

Meanwhile, as of end-2023, the Company provided external guarantee of RMB2.2 billion, representing 20.9% of its net asset. As the external guarantee was provided to local state-owned enterprises, we believe the contingent risk is manageable. If credit events occur, we believe the government is likely to provide necessary support

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. SEFP 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.

SEFP is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Chengdu Sino-French Ecological Park. 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.

Rating Methodology

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

Appendix

Exhibit 6. Peer Comparison

	Chengdu Xingdong Rural Development Group Co., Ltd.	Chengdu Sino French Ecological Park Investment Development Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g
Shareholder	CEDI	CEDI (96.77%), Chengdu ETDZ Jinfu Equity Investment Fund Center (3.23%)
Positioning	Responsible for agricultural development and rural revitalization in Longquanyi District.	Responsible for the construction of infrastructure and public facilities, investment promotion, and other relevant services in the Sino-French Ecological Park (located in Longquanyi District)
Total Asset (RMB billion)	46.1	38.9
Total Equity (RMB billion)	16.0	10.7
Total Revenue (RMB billion)	2.2	3.5
Total Debt/Total Capital (%)	58.7	70.5

Source: Company information, CCXAP research

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