

## Credit Opinion

15 October 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

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## Jiangyou Chuangyuan Development and Construction Investment Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Jiangyou Chuangyuan Development and Construction Investment Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Jiangyou Chuangyuan Development and Construction Investment Co., Ltd. ("JCDC" or the "Company") reflects Jiangyou City 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 Jiangyou City Government's capacity to support reflects Jiangyou as an important node in the Chengdu Plain urban agglomeration with transportation advantage, and increasing fiscal strength, but moderate fiscal profile.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) key role in the infrastructure construction of Jiangyou Industrial Park; and (2) solid track record of receiving government support.

However, the Company's rating is constrained by its (1) increasing debt burden with relatively large short-term debt repayment pressure; (2) weak assets liquidity; and (3) medium exposure to external guarantee.

The stable outlook on JCDC's rating reflects our expectation that the Jiangyou City Government's capacity to provide support will remain stable, and the Company will maintain its key role in the infrastructure construction of Jiangyou Industrial Park.

## Rating Drivers

- Key role in the infrastructure construction of Jiangyou Industrial Park
- Increasing proportion of industrial development and operation business
- Increasing debt burden with relatively large short-term debt repayment pressure
- Weak asset liquidity with large amount of account receivables and inventories
- Solid track record of receiving government support
- Medium exposure to external guarantee

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Jiangyou City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as reduced exposure to high-cost non-standard financing.

### What could downgrade the rating?

The rating could be downgraded if (1) Jiangyou City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as weakened market position or material decreased government support.

## Key Indicators

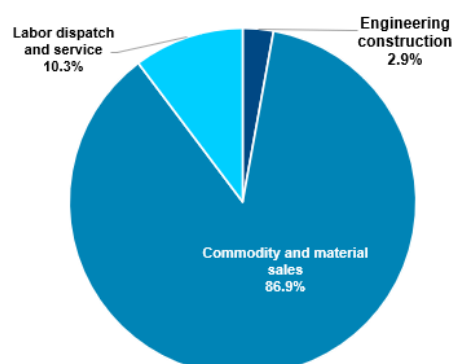
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	12.8	14.9	17.3
Total Equity (RMB billion)	6.8	7.6	7.8
Total Revenue (RMB billion)	1.1	1.3	1.6
Total Debt/Total Capital (%)	41.5	41.4	44.6

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

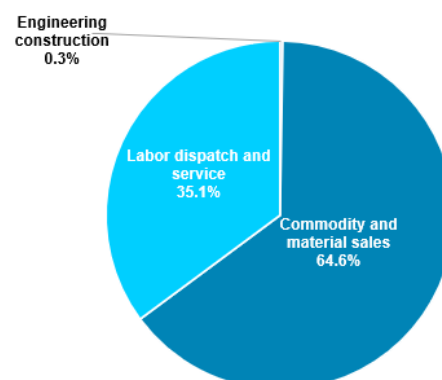
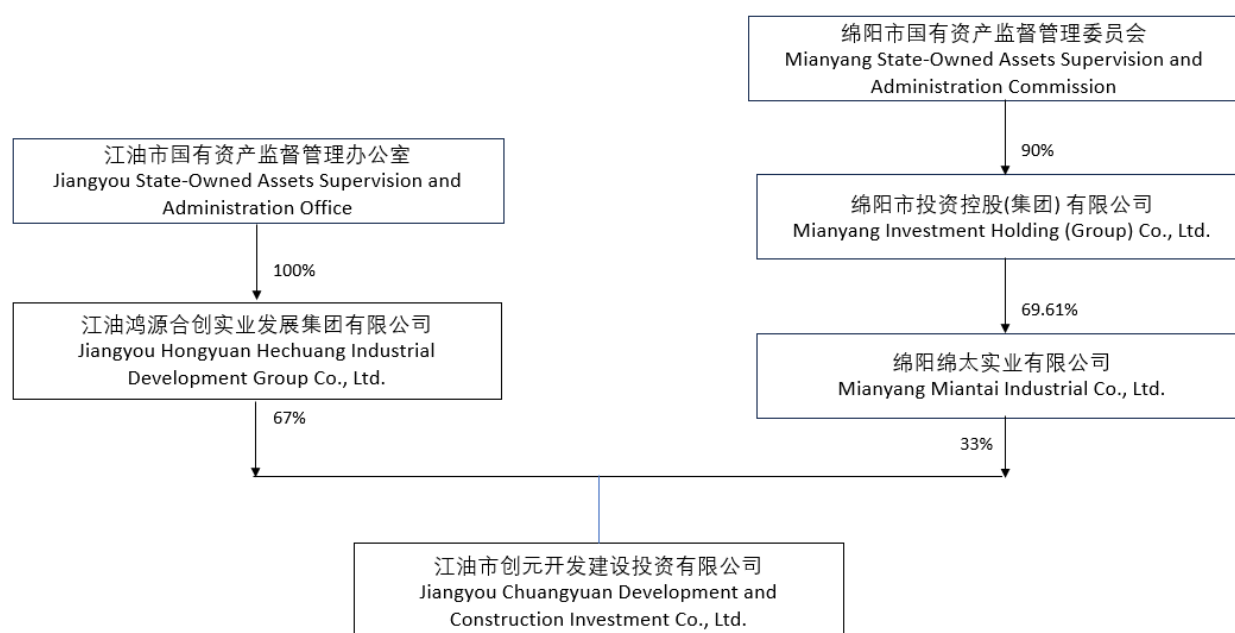
Source: Company data, CCXAP research

## Corporate Profile

JCDC is the major state-owned entity responsible for infrastructure construction in Jiangyou Industrial Park, Jiangyou City. Its business scope covers infrastructure construction, self-operated project construction, commodity and material sales, and labor service. In December 2023, Jiangyou Hongyuan Hechuang Industrial Development Group Co., Ltd became the controlling shareholder of the Company, replacing the Jiangyou State-Owned Assets Supervision and Administration Office ("Jiangyou SASAO"). Nevertheless, as of 30 June 2024, Jiangyou remained the actual controller of JCDC, holding 67.0% of the Company's shares. Besides, Mianyang Miantai Industrial Co., Ltd. held another 33% stake in the Company.

**Exhibit 1. Revenue Structure in 2023**

Source: Company information, CCXAP research

**Exhibit 2. Gross Profit Structure in 2023****Exhibit 3. Shareholding chart as of 30 June 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Jiangyou City Government has a relatively strong capacity to provide support, reflecting Jiangyou as an important node in the Chengdu Plain urban agglomeration transportation advantage, and increasing fiscal strength, but moderate fiscal profile.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a gross regional product ("GRP") of RMB6.0 trillion, with a year on year ("YoY") increase of 6.0%, ranking 5<sup>th</sup> 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. In 2024H1, Sichuan recorded a GRP of RMB2.9 trillion, with a YoY increase of 5.4%.

Mianyang City is located in the north of Sichuan Province, and in the heartland of the "West Triangle" of Chengdu, Chongqing, and Xi'an. As an important national defense research and electronics industry production base in China, Mianyang City has formed six key industries including electronic information, automobiles, new materials, energy conservation and environmental protection, high-end equipment manufacturing, and food and beverage. With the support of such pillar industries, its economy continues to grow and its financial strength continues to increase. In 2023, Mianyang City achieved a GRP of RMB403.9 billion, a YoY increase of 8.0%, ranking 2<sup>nd</sup> in Sichuan Province. In the first half of 2024, Mianyang recorded a GRP of RMB195.0 billion, an increase of 8.1% YoY, with a growth rate ranking 2<sup>nd</sup> among the prefecture-level cities in Sichuan Province. Mianyang Municipal Government's general budgetary revenue increased steadily from RMB16.0 billion in 2022 to RMB20.1 billion in 2023 as the local economy rebounded. However, it has a relatively weak financial self-sufficiency ratio of 34.9% at the same time. In 2023, Mianyang Municipal Government's outstanding debt amounted to RMB106.6 billion, accounting for 26.4% of its GRP.

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

	2021FY	2022FY	2023FY
GRP (RMB billion)	335.0	362.7	403.9
GRP Growth (%)	8.7	5.0	8.0
General Budgetary Revenue (RMB billion)	15.9	16.0	20.1
General Budgetary Expenditure (RMB billion)	46.7	50.1	57.8
Local Government Debt (RMB billion)	70.5	85.1	106.6

Source: Statistic Bureau of Mianyang City, CCXAP research

Jiangyou City is a county-level city under the administration of Mianyang City. After years of development, Jiangyou City has formed a special metallurgy and new material industry cluster supported by small and medium-sized enterprises such as Panzhihua Iron and Steel Group Jiangyou Great Wall Special Steel Co., Ltd., with an annual output of approximately 500,000 tons of high-quality special steel materials, accounting for more than 80% of Sichuan Province's output. In 2022, Jiangyou City achieved a GRP of RMB66.9 billion, ranking 2<sup>nd</sup> among the county-level cities/districts under Mianyang City, an increase of 5.7% over the previous year. Its general budgetary revenue amounted to RMB3.6 billion in 2023, representing a YoY increase of 20.0% and ranking 1<sup>st</sup> among the county-level cities/districts under Mianyang City. The increase is mainly driven by the income from the use of state-owned assets. However, the revenue quality remained vulnerable, with tax revenue accounting for 39.3% in 2023. Its government fund revenue recorded RMB6.0 billion in 2023 (2022: RMB6.1 billion), which is still under pressure due to the property market downturn and land sales fluctuations. Meanwhile, Jiangyou City has a relatively moderate debt level. The outstanding government debt was RMB12.7 billion in 2023, representing 19.0% of its GRP.

#### Exhibit 5. Key economic and fiscal indicators of Jiangyou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	52.8	60.1	66.9
GRP Growth (%)	8.6	3.9	5.7
General Budgetary Revenue (RMB billion)	2.4	3.0	3.6
General Budgetary Expenditure (RMB billion)	4.6	5.4	6.2
Local Government Debt (RMB billion)	8.0	10.4	12.7

Source: Statistic Bureau of Jiangyou City, CCXAP research

Jiangyou Industrial Park was founded in 1992. It was designated as a provincial key development zone by the Sichuan Provincial Government in 2001 and was approved as a provincial high-tech industrial park namely Jiangyou High-tech Zone in 2018. The total planned area is 28.02 square kilometers and the built-up area is 19.16 square kilometers. The park's leading industries include high-end equipment manufacturing, biomedicine, and new materials. The development of the park provides support for the long-term sustainable development of the Company.

## **Government's Willingness to Provide Support**

### **Key role in the infrastructure construction of Jiangyou Industrial Park**

JCDC is the major state-owned entity responsible for local infrastructure construction in Jiangyou Industrial Park, undertaking infrastructure construction and providing supporting services in the region. The Company's infrastructure construction business is conducted by itself as well as its subsidiary Jiangyou Urban and Rural Construction Development Co., Ltd. The Company conducts infrastructure projects by signing agency construction agreements with Jiangyou City Finance Bureau, which would pay the construction management fee to the Company. The payment to the Company is calculated based on the project cost plus 10%. In the past, the Company completed several infrastructure projects such as plants and roads in Jiangyou Industrial Park as well as Jiangyou City. Affected by the regional development plan, the Company did not incur any revenue from the infrastructure construction business in 2023 and has no agency construction project under construction as of end-2023. The sustainability of this segment faces uncertainty.

### **Increasing proportion of industrial development and operation business**

In addition to public activities, JCDC is also involved in other commercial activities such as self-operated project construction, commodity and material sales, engineering construction, as well as labor dispatch and sales. We estimate that the Company has low commercial exposure as the proportion of commercial business assets accounts for around 10% of its total assets.

The commercial activities that the Company is engaged in are mainly commodity sales. The main products sold are electronic products, chemical products and construction materials. Profits are obtained through distribution price differences. In 2023, the Company's revenue from commodity sales increased by 10.6% to RMB1.3 billion, accounting for around 90% of total revenue. However, the Company is not engaged in production and is limited by factors such as trade scale. Its bargaining power with the upstream and downstream enterprises is weak, resulting in a low gross margin of commodity sales business (1.5% in 2023). Besides, the customer and supplier concentration of commodities is high, with the top 5 customers and suppliers accounting for 68% and 79% of total revenue and procurement, respectively. Most suppliers and customers are private-owned enterprises, so there may be certain credit risks in payment collection.

The Company is also responsible for building plants and resettlement housing in Jiangyou Industrial Park. As of the end of 2023, the Company had a total estimated investment amount of RMB1.3 billion and an outstanding amount of RMB720 million in self-operated projects. After the completion of these projects, the Company mainly relies on plant leasing and sales, and parking space sales to obtain profits. However, given the moderating macroeconomic growth, this business segment may face uncertainty in terms of its future cash inflow. In addition, with the completion of the projects, the Company's exposure to commercial business will increase accordingly.

In 2023, the Company initiated the engineering construction business, which mainly provides relevant engineering services to Pangang Group Jiangyou Changcheng Special Steel Co. Ltd. ("Pangang Jiangyou"), including structure demolition, office building/factory maintenance, equipment disassembly and transportation.

In 2023, the revenue of this segment recorded RMB43 million, but the gross margin was only 0.1%. As these services are mainly provided to Pangang Jiangyou, this segment faces relatively high concentration risk.

The Company also provides labor dispatch and sales services, which mainly serve the needs of Pangang Jiangyou. In 2023, revenue from this segment recorded a steady growth of 5.7%, but the gross margin remained low (2023: 5.4%). As the segment mainly targets Pangang Jiangyou, it also faces a relatively high concentration risk.

### **Solid track record of receiving government support**

As the key entity in charge of infrastructure construction in the Jiangyou Industrial Park, the Company has a good track record of receiving support from the local government in the past few years. In 2023, the government injected capital of RMB125 million and a 20% equity stake in another local state-owned enterprise of RMB18.9 million. Besides, the Jiangyou City Government strongly supports the Company by providing regular subsidies. In 2023, the Company received government subsidies of RMB209 million. In light of JCDC's important regional position in the Jiangyou Industrial Park, we expect the Company will continue to receive ongoing support from the local government over the coming 12-18 months.

### **Increasing debt burden with relatively large short-term debt repayment pressure**

Project construction and asset purchases have caused the Company's total debt to continue to rise in the past few years. The debt growth rate accelerated in 2023, amounting to 17.2% in 2023 (2022: 11.7%). As of 31 December 2023, JCDC's total capitalization ratio was 44.6%. Moreover, the portion of short-term debt is high, with short-term debt accounting for 49.3% of total debt at end-2023. In the meantime, the cash reserve of JCDC was RMB0.5 billion, which was insufficient to cover its short-term debt, and the cash/short-term debt ratio was around 0.2x, implying certain liquidity pressure on the Company.

### **Weak asset liquidity with large amount of account receivables and inventories**

Moreover, JCDC has weak asset liquidity. The Company's total asset mainly consists of receivables and inventories, which totally accounted for 84.9% of its total assets as of 31 December 2023. Receivables are mainly unreceived payments from the agencies of the government or other state-owned companies, with uncertainty regarding the time of payback; inventories are mainly investment costs for construction projects, all of which are considered low liquidity. As of 31 December 2023, the Company's total restricted assets were RMB10.2 billion which accounted for 59.0% of its total assets, which were mainly land inventory pledged for financing.

### **Medium exposure to external guarantee**

The Company bears certain contingent risks arising from the external guarantee. As of 31 December 2023, the Company had outstanding external guarantees of RMB2.5 billion, representing 31.8% of its net assets. All of the guarantees were provided to local state-owned enterprises ("SOEs"). In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

### Relatively high financing cost

JCDC's large investment needs could be partially supported by its good relationship with large domestic banks. Around 74.2% of the Company's debt was provided by bank loans in 2023. As of 31 December 2023, the Company possessed a total credit facility of RMB6.1 billion, of which the undrawn credit line amounted to RMB1.3 billion. In addition, around 9.3% of the Company's debt was from bond financing.

However, the Company has relatively high exposure to high-cost non-standard financing, though the portion of non-standard financing has declined to 16.5% of the Company's total debt in 2023 (2022: 34.2%). Non-standard financing is less stable than bank financing, and therefore the Company faces higher financing costs and greater refinancing pressure. As of the end of 2023, the average financing cost of the Company was around 8%. The Company plans to issue offshore bonds to improve its debt structure.

### ESG Considerations

JCDC 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.

JCDC bears social risks as it implements public policy initiatives by building public infrastructure in the Jiangyou Industrial Park. 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.

JCDC's governance considerations are also material as the Company is subject to oversight by the Jiangyou City 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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