

## Credit Opinion

17 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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## Chongqing Fengdu Industrial Development Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Chongqing Fengdu Industrial Development Group 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 Chongqing Fengdu Industrial Development Group Co., Ltd. ("CFID" or the "Company") reflects Chongqing Fengdu County Government's (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Fengdu County Government's capacity to provide support reflects its ongoing economic growth, but is constrained by its modest fiscal profile and relatively heavy debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) most important policy role in Fengdu County with strong regional franchise advantage; (2) high sustainability of public policy businesses; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) large capital expenditure pressure; (2) medium exposure to commercial activities; and (3) moderate asset liquidity.

The stable outlook on CFID's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its most important policy role in Fengdu County.

## Rating Drivers

- The most important policy role in Fengdu County with a strong regional franchise advantage
- High sustainability of public policy businesses, but large capital expenditure pressure
- Good track record of receiving government payments
- Medium exposure to commercial activities
- Reasonable debt leverage and moderate asset liquidity
- Multiple financing sources with low exposure to non-standard financing

## 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) changes in company's characteristics enhance local government's willingness to provide support, such as improved asset liquidity or decreased exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or increased debt leverage.

## Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	64.5	70.2	76.8	81.2
Total Equity (RMB billion)	41.1	43.0	44.6	45.9
Total Revenue (RMB billion)	2.2	2.2	1.9	0.5
Total Debt/Total Capital (%)	28.0	29.0	28.8	27.7

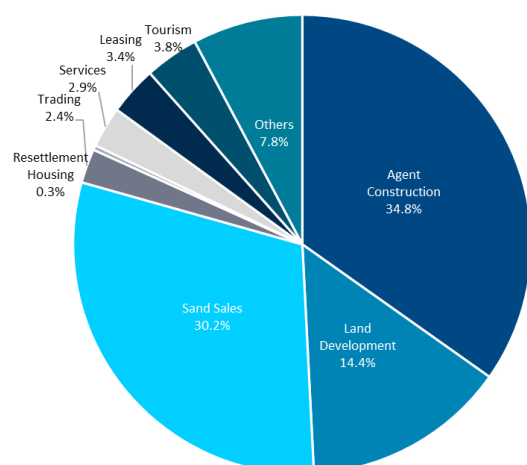
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Founded in 2018, formerly known as Fengdu Hongfeng Construction Development Co., Ltd. In 2022, after the consolidation of 4 major local infrastructure investment and financing companies ("LIIFCs"), CFID became the most important LIIFC in Fengdu County. The Company is primarily responsible for infrastructure construction, land consolidation and development, resettlement housing construction, and shantytown renovation projects in Fengdu County. Apart from public projects, the Company also undertakes various commercial activities, such as property leasing, commercial housing sales, engineering constructions, and civilian blasting products sales. As of 30 June 2024, the Company was wholly owned and ultimately controlled by Fengdu County State-owned Assets Affairs Center.

## Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Fengdu County Government has a relatively good capacity to provide support to the Company, given its ongoing economic growth, but restrained by its relatively heavy debt burden.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2023, Chongqing City recorded a gross regional product ("GRP") of RMB3.0 trillion with a GRP growth rate of 6.1% year-on-year ("YoY"), ranking 5<sup>th</sup> among municipalities and prefecture-level cities in China, and becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. In the first half of 2024, Chongqing's GRP recorded RMB1.5 trillion, a YoY increase of 6.1%. Meanwhile, thanks to the economic recovery, key financial indicators of Chongqing City showed a restorative uptrend in 2023. Chongqing City's tax revenue increased from RMB127.1 billion in 2022 to RMB147.6 billion in 2023, resulting in the rising general public budget revenue from RMB210.3 billion in 2022 to RMB244.1 billion in 2023, with a growth rate of 16.1% YoY. We consider Chongqing City to bear a relatively high debt burden owing to its relatively large scale of direct government debt and the debt burden of local state-owned enterprises. As of end-2023, the outstanding direct government debt balance of Chongqing City amounted to RMB1.2 trillion, accounting for 40.7% of its GRP for that year.

## Exhibit 2. Key Economic and Fiscal Indicators of Chongqing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	2,789.4	2,912.9	3,014.6
GRP Growth (%)	8.3	2.6	6.1
General Budgetary Revenue (RMB billion)	228.5	210.3	244.1
General Budgetary Expenditure (RMB billion)	483.5	489.3	530.4
Local Government Debt (RMB billion)	861.0	1,007.1	1,225.8

Source: Statistic Bureau of Chongqing City, CCXAP research

Fengdu County is located in the eastern part of the Chongqing main district, with a total area of 2,901 square kilometers. Fengdu County is an important transportation hub for Chongqing, with its planned port throughput accounting for one-fifth of Chongqing City. Relying on its pillar industries such as food processing, new building materials, medical equipment, and biomedicine, electromechanical industry, Fengdu County has continued to grow and develop in recent years. The GRP of Fengdu County increased from RMB39.1 billion in 2022 to RMB40.6 billion in 2023, with a YoY growth rate of 6.5%, driven by growing social consumption along with economic recovery. In the first half of 2024, Fengdu County's GRP reached RMB19 billion, up 7.6% YoY. The general budgetary revenue of Fengdu County rose by 9.8% YoY to RMB2.8 billion and the tax revenue increased by 32.4% YoY to RMB1.1 billion in 2023. However, Fengdu County Government's fiscal stability is relatively weak as its tax revenue accounted for only 38.1% of the general budgetary revenue in 2023. Benefiting from recovering land market transactions, the government fund income of Fengdu County increased from RMB786.0 million in 2022 to RMB1.5 billion in 2023. Moreover, Fengdu County has low fiscal self-sufficiency and a relatively heavy debt burden. It recorded an average general budgetary revenue/general budgetary expenditure ratio of 38.8% over the past three years. Fengdu County Government's debt has shown an increasing trend, with an outstanding debt of RMB16.4 billion, accounting for 40.3% of Fengdu County's GRP in 2023.

### Exhibit 3. Key Economic and Fiscal Indicators of Fengdu County

	2021FY	2022FY	2023FY
GRP (RMB billion)	37.5	39.1	40.6
GRP Growth (%)	7.5	4.0	6.5
General Budgetary Revenue (RMB billion)	2.4	2.5	2.8
General Budgetary Expenditure (RMB billion)	6.2	6.5	7.0
Local Government Debt (RMB billion)	11.1	12.6	16.4

Source: Statistic Bureau of Fengdu County, CCXAP research

### Government's Willingness to Provide Support

#### Most important policy role in Fengdu County with a strong regional franchise advantage

There are three major LIIFCs in Fengdu County, CFID, Chongqing Fengdu Tourism Culture Group Co., Ltd. ("CFTC"), and Chongqing Fengdu Industry Development Group Co., Ltd ("FIDG"), each with clear positioning in the development of the region. CFTC is mainly responsible for infrastructure construction and scenic spot operation of Ming Mountains and Nantian Lake in Fengdu County; FIDG is mainly engaged in the industrial park construction in Fengdu County. CFID is the largest and most important infrastructure construction entity in the region, and undertakes important functions such as infrastructure construction, land consolidation, resettlement housing construction, and shantytown renovation projects in Fengdu County, which are beneficial to local social and economic development. Considering CFID's most important policy role in implementing the local government's development plan, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

#### High sustainability of public policy businesses

As the major developer and operator of Fengdu County, CFID has participated in primary land development and infrastructure construction businesses through its subsidiaries. There are considerable construction projects in the pipeline from these public policy businesses, ensuring their sustainability, but exerting high capital expenditure pressure on the Company.

CFID conducts land development business mainly through an agency construction model. Entrusted by the Fengdu County Government, the Company would pay land consolidation fees to conduct land acquisition, demolition, compensation, development, and consolidation within the planned area. The Land Reserve Center of Fengdu County would pay the Company based on the cost of land consolidation plus a certain markup after completion of the land consolidation. As of 31 March 2024, the Company had 3 major land consolidation projects under construction with an invested amount of RMB98.0 million, which are expected to be completed by 2028. At present, the three land consolidation projects have good returns, with a total repayment of RMB107.0 million. However, the income and profit from the land development business are largely susceptible to the land market conditions and government's budget, resulting in certain fluctuations.

Entrusted by the local government, CFID also undertakes infrastructure construction projects in Fengdu County through an agency construction model. The Company has completed a number of agency construction projects, such as roads and bridges, in Fengdu County. As of 31 March 2024, the Company had completed 25 infrastructure construction projects with a total investment of around RMB10.7 billion and received repayment of RMB4.3 billion. Meanwhile, the Company had 21 major infrastructure construction projects under construction, with a total planned investment of RMB8.2 billion and an outstanding amount of RMB1.3 billion. Furthermore, the Company had 16 projects under planning with an estimated investment of RMB3.5 billion.

In addition, the Company is also responsible for the shantytown renovation projects in Fengdu County, including the construction of resettlement housing, and renovation, management and maintenance of the shantytown. The Company will first construct with self-raised funds, and receive repurchase payment after the project is transferred to the government. As of 31 March 2024, the Company had completed 3 major shantytown renovation projects, with a total investment of RMB4.4 billion.

### **Medium exposure to commercial activities**

In addition to public activities, CFID is also involved in various commercial activities such as sand sales, self-operating projects construction, property sales and leasing, engineering constructions, tourism and civilian blasting products sales. We consider the Company's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets. We expect these activities have been a good supplement to the Company's revenue but could exert certain funding pressure and business risks.

The Company broadened its business scope to sand sales business in 2023, utilizing sand operating rights of up to 10 years transferred from the local government in 2021, with sand reserves of 153,279 thousand cubic meters. The sand sales business becomes the second largest income driver of the Company, which generated a substantial income of RMB587.9 million in 2023, accounting for 30.2% of its total revenue. Moreover, the gross profit margin of the business is relatively high at 14.7% in 2023, providing cash flow to the Company. However, the sustainability of the business relies highly on the government's policies.

CFID's trading mainly focuses on the trading of civilian explosion products. The business is subject to a certain concentration risk in terms of suppliers and customers. There is a high concentration risk regarding upstream suppliers and downstream customers as there was only 1 supplier and the top three customers accounted for 74.5% of total sales in 2024Q1.

The Company undertakes engineering construction projects in Fengdu County through public bidding with self-raised funds, equipped with different qualifications including construction engineering, municipal public works, urban and road lighting engineering, ancient building engineering, decoration engineering, urban landscaping and municipal maintenance. The engineering construction business has brought stable supplemental income

to the Company but contribution is limited due to its small scale.

CFID participates in the construction of self-operating projects, such as reservoir, logistics center, and breeding farm. The Company constructs self-operating projects with self-raised funds and government funds, and achieves capital balance mainly through leasing and operating income. As of 31 March 2024, the Company had 36 self-operating projects under construction, with a total planned investment of RMB1.6 billion. Considering the relatively large scale of capital expenditure and the long payback period, as well as the slow progress of project construction, there are uncertainties about the subsequent fund balancing of these projects. As these projects are completed and put into operation, we expect the Company's exposure to commercial activities will increase in the future.

The Company is also engaged in commercial property development under market-driven model. As of 31 March 2024, the Company completed one major commercial housing project, with a total salable area of 62,684 square meters ("sqm"), and an unsold area of 14,875 sqm. The Company had 1 commercial housing project under construction, with a total planned investment of RMB164.4 million. The Company's property development business is facing relatively high operating risk, given the current downward pressure on the real estate market. The Company is also engaged in the property leasing business with leased assets of gyms and commercial storefronts of Longhedong resettlement housing.

### **Good track record of receiving government payments**

As the most important LIIFC in Fengdu County, CFID has a track record of receiving payments from the Fengdu County government. These payments take various forms, such as government subsidies, assets and capital injections. In 2021, the local government transferred the operating rights of sandstone resources with an estimated value of RMB9.1 billion to the Company without compensation. In 2022, Fengdu County State-owned Assets Center injected RMB1.6 billion into the Company in cash, enhancing its capital strength. In 2023, the Company received RMB1.3 billion in refinancing bonds issued by the Chongqing Municipal Government to repay its debts. From 2022 to 2024H1, the Company received a total government subsidy of RMB624.6 million. Given CFID's most important policy role in the region, we expect the Company will continue to receive support from the Fengdu County Government in the future.

### **Reasonable debt leverage**

CFID's total debt was RMB17.6 billion as of 30 June 2024, with a reasonable capitalization ratio of 27.7%, indicating reasonable debt leverage. However, the Company's short-term debt repayment pressure has increased as the proportion of short-term debt to total debt was 19.8% and its cash to short-term debt ratio was 0.3x, compared to 8.6% and 0.7x at end-2022, respectively. Considering the Company's ongoing investment needs from its large development pipelines in infrastructure construction and shantytown renovation, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

As of 30 June 2024, the total amount of external guarantees of the Company was RMB3.4 billion, representing 7.4% of its net assets. All the external guarantees are provided to local state-owned enterprises in Fengdu District. As a result, we consider that the Company's contingent liability risk is relatively controllable.

### **Moderate asset liquidity**

CFID's asset liquidity is considered moderate. The Company's assets mainly consist of inventories, and receivables, all with relatively low liquidity. The inventories are mainly development costs from construction



projects and land use rights, and the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 53.2% of total assets as of 30 June 2024. Furthermore, as of 30 June 2024, the Company had intangible assets of RMB9.3 billion, mainly sand operating rights, accounting for around 11.4% of total assets, which can provide supplemental revenue and cash flow to the Company.

### **Multiple financing sources with low exposure to non-standard financing**

The Company's funding channels include banks, debt market and non-standard financing, which may partially mitigate the liquidity risks. More than 75% of the Company's debt financing was provided by domestic banks. As of 30 June 2024, it held total credit facilities of RMB23.1 billion and available credit facilities of RMB5.4 billion, indicating a sufficient liquidity buffer. It also has access to the onshore bond market. From 2017 to 2021, the Company's subsidiary raised RMB4.2 billion from the onshore bond market via the issuance of MTNs, special bonds, and corporate bonds but the coupon rates were relatively high, ranging from 6.4% to 7.8%. In addition, the Company issued a bond of RMB420.0 million in the offshore debt market in 2024, with a coupon rate of 4.8%. CFID has a low exposure to non-standard financing, such as financial leasing, which accounted for only 6.5% of its total debt as of 30 June 2024. We consider that diversified funding sources can alleviate the Company's large capital needs.

## **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. CFID 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.

CFID is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Fengdu County. 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. 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 \(July 2022\)](#).

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