Credit Opinion

23 October 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g+
Outlook	Stable

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Chongqing Fuling Industrial Development Group Co., Ltd

Surveillance credit rating report

CCXAP affirms Chongqing Fuling Industrial Development Group Co., Ltd.'s BBB_g+ long-term credit rating, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Chongqing Fuling Industrial Development Group Co., Ltd ("FIDG" or the "Company") reflects Chongqing Fuling District Government's 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 Fuling District Government's capacity to support reflects its good industrial foundation and steady economic growth, but is constrained by its modest fiscal balance situation.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong strategic position as the most important state-owned assets operation entity in Fuling District; (2) solid track record of receiving government payments; and (3) increasing revenue, with a large portfolio of high-quality equity in listed companies.

However, the rating is constrained by the Company's (1) medium exposure to commercial business; (2) fair debt growth with certain short-term debt repayment pressure; and (3) moderate assets liquidity.

The stable outlook on FIDG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its key role as an important state-owned capital investment and assets operation entity in Fuling District.

Rating Drivers

- Strong strategic position as the most important state-owned assets operation entity in Fuling District
- Increasing revenue, with a large portfolio of high-quality equity in listed companies
- Solid track record of receiving government payments
- Medium exposure to commercial business
- Fair debt growth with certain short-term debt repayment pressure
- Moderate asset liquidity
- Diversified financing channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial business 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 regional significance or increased debt growth.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	129.2	141.4	159.0	162.6
Total Equity (RMB billion)	67.8	73.4	81.3	82.1
Total Revenue (RMB billion)	9.2	10.1	14.5	4.2
Total Debt/Total Capital (%)	46.6	43.5	44.8	45.8

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2011, formerly known as Chongqing Zhanxin Investment Co., Ltd., FIDG is the most important state-owned capital investment and assets operation entity in Fuling District. The Company has played an important role in operating and investing in the incubator industry in Fuling District as well as undertaking a number of strategically important projects of land consolidation, resettlement housing, and shantytown reconstruction in Fuling District. FIDG also engages in diversified market-oriented businesses such as food processing, aluminum product processing and sales, sales of shale gas, and other businesses. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Fuling District ("Fuling SASAC") is the sole shareholder and actual controller of the Company.

Exhibit 1. Revenue Structure in 2023

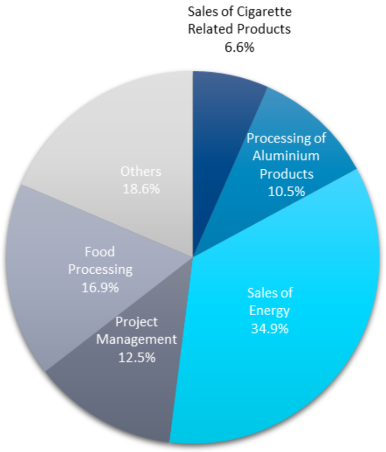
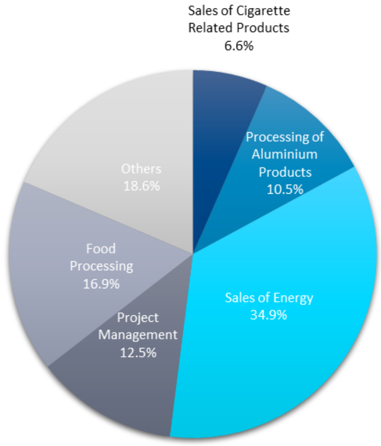


Exhibit 2. Gross Profit Structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Fuling District Government has a strong capacity to provide support to the Company, given its good industrial foundation and steady economic growth, but constrained by its modest fiscal balance situation.

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 5th 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. In the first half of 2024, Chongqing's general public budget revenue reached RMB130.7 billion, an increase of 12.2%, of which tax revenue was RMB80.1 billion. 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 3. 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

Fuling District is located in the central part of Chongqing City. As the first 100 billion GRP district outside the central district of Chongqing, the economy of Fuling District has continued to develop in recent years. In 2013, the National Energy Administration approved the establishment of the Fuling National Shale Gas Demonstration Zone. Fuling Shale Gas Field is the first large-scale shale gas field in China and the largest shale gas field outside North America. The proven reserve of the shale gas in Fuling has reached 900 billion cubic meters, accounting for 34% of the national shale gas proven reserve. On the back of its geographical advantages and shale gas resources, it has a good industrial base forming 6 pillar industries of materials, including equipment manufacturing, clean energy, consumer goods, biomedicine, and electronic information. In 2023, Fuling District achieved a GRP of RMB162.6 billion with a YoY increase of 8.0%, ranked 5th among 38 districts or counties in Chongqing City. In the first half of 2024, Fuling District's GRP amounted to RMB80.6 billion, up 5.8% YoY. Fuling District Government's fiscal strength has also improved along with the economic growth. Its general budgetary revenue increased from RMB6.1 billion in 2021 to RMB7.0 billion in 2023 with tax income contributing to over 70% of the general budgetary revenue over the past three years, indicating good fiscal stability. However, its fiscal balance ratio in 2023 was recorded at a moderate level of 50.5%. Fuling District Government's outstanding debt has shown an increasing trend, with outstanding debts of RMB34.3 billion in 2023, accounting for 21.1% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Fuling District

	2021FY	2022FY	2023FY
GRP (RMB billion)	140.3	150.4	162.6
GRP Growth (%)	8.7	2.6	8.0
General Budgetary Revenue (RMB billion)	6.1	6.0	7.0
General Budgetary Expenditure (RMB billion)	10.1	12.1	13.9
Local Government Debt (RMB billion)	21.1	23.4	34.3

Source: Statistic Bureau of Fuling District, CCXAP research

Government's Willingness to Provide Support

Strong strategic position as the most important state-owned assets operation entity in Fuling District

FIDG is the largest state-owned assets operation entity by assets scale in Fuling District. It assumes functions of land consolidation, infrastructure construction, and state-owned assets operation, with strong capital strength. As an important entity of land consolidation and development in Fuling District, it is mainly responsible for the demolition and reconstruction of shanty towns in the old urban area and land consolidation in industrial parks. Given FIDG's important position and policy mandate, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company continues to focus on the development of primary land consolidation projects in Fuling District, including the construction of supporting infrastructures such as site leveling, road paving, water supply, power supply, and gas supply on the state-owned land in Fuling District. As of the end of 2023, the Company had a total land parcel area of 30,326.5 mu under consolidation, with an estimated investment amount of RMB36.9 billion and an outstanding amount of RMB5.8 billion, exerting a certain capital expenditure pressure.

In addition, the Company is also engaged in land quota sales in Fuling District, which had total land resources of 1,090.0 mu and generated a total land quota of 14,983 mu, with a total book value of RMB6.6 billion as of 31 March 2024, which can ensure the sustainable development of this business. However, uncertainty exists in this business as it is subject to the local government's policy and the land market conditions. Affected by the macroeconomic slowdown and the downturn of the real estate market, the Company has not traded any land quota since 2021.

Medium exposure to commercial business

Apart from public-policy projects, FIDG also engages in commercial activities including resettlement housing leasing, energy sales, food processing, aluminum product sales, cigarette-supporting product sales, shale gas sales, civil blasting products sales. We consider FIDG's commercial business exposure to be medium as its market-driven nature accounts for over 30% of its total assets. Benefiting from rich energy and industrial resources in the region, most of the Company's commercial projects have a monopoly nature in Fuling District, with certain public service functions, and bring good profits to the Company. However, these commercial businesses would pose the Company with related business risks that require prudent risk control.

FIDG engages in the resettlement housing projects in Fuling District. The Company has not generated any resettlement housing sales income since 2022, and operates the resettlement housing through leasing. As of 31 March 2024, the total estimated sales amount of the Company's completed resettlement housing projects was RMB4.5 billion, with a relatively good collected payment of RMB4.1 billion. At the same time, the Company had unsold resettlement housing of 785,800 square meters, which will be leased out in the market. However, given the relatively large initial investment in resettlement housing projects of about RMB6.2 billion, we expect that the payback period of the resettlement housing project will be enlarged, and the debts formed by the resettlement housing construction may bring certain debt repayment pressure to the Company.

The Company started engaging in the energy sales business in 2022, including electricity, gas, new energy, and new materials, which became the largest income driver of the Company and accounted for 34.9% of its total revenue in 2023 with a gross profit margin of 6.8%. The Company's energy sector has a good development foundation and prospects since it belongs to the clean energy industry, which is one of the six pillar industries in Fuling District, and abundant local industrial enterprises with strong energy demand provide great opportunities to the Company.

FIDG has the food processing business through Chongqing Fuling Zhacai Group Co., Ltd ("Fuling Zhacai", Stock Code: 002507. SZ), which is the largest mustard processing enterprise in China with products selling well both on domestic markets and overseas markets. It provides a stable and major source of revenue for the Company. In 2023, food processing generated revenue of RMB2.5 billion, accounting for 16.9% of the Company's total revenue; the gross profit margin of the food processing business maintained above 50% over the past three years.

Benefiting from huge demand from local aluminum industrial projects, aluminum product sales are also one of the major sources of income for the Company, which accounted for 10.5% of the total revenue in 2023. However, there is a high concentration risk regarding upstream suppliers and downstream customers as the top five suppliers accounted for 87% of the total procurement in 2023 and the sales from the top five customers accounted for 100% of the total sales in 2023. Moreover, most of the customers are private-owned enterprises, which causes a certain payment collection risk.

As the Company’s commercial businesses are self-supporting, they are more market-driven. The volumes of products are subject to the changes in demand in end markets that the products are consumed, government policies and regulations. Furthermore, declines in the price of products or increases in the supply of products in the market could adversely impact the Company’s operations and earnings of its commercial businesses. Moreover, the Company is also responsible for operating other businesses such as cigarette-supporting product sales, civil blasting products sales, insurance, and financial leasing, making limited contributions to the Company’s total revenue due to their small operating scale.

Solid track record of receiving government payments

As a state-owned enterprise controlled by the Fuling SASAC, FIDG has a solid track record of receiving government payments from the Fuling District government. In 2021, the Company received 31 project assets of RMB127 million from the Chongqing Fuling District Transportation Bureau without compensation. In 2022, the Company received a capital injection of RMB140 million in cash and a capital reserve of RMB4.5 billion was converted into paid-in-capital, and equity assets with a total estimated value of RMB42 million without compensation from the Fuling District government. In 2023, the Fuling District Government transferred multiple operation rights with a total value of RMB7.6 billion to the Company without compensation. Meanwhile, from 2021 to 2024Q1, the Company continuously received operating subsidies from the local government with a total amount of around RMB2.9 billion. Given the Company’s strong strategic position, we expect the Company will continue to receive support from the Fuling District Government in the future.

Fair debt growth with certain short-term debt repayment pressure

The Company’s total debt increased from RMB56.6 billion at end-2022 to RMB69.3 billion as of 31 March 2024, while its total capitalization ratio maintained at around 45.8% over the same period. The Company is exposed to certain short-term debt repayment pressure as its short-term debt accounted for around 41.8% of total debt and its cash to short-term debt was 0.7x as of 31 March 2024, indicating that its cash reserve could not fully cover the short-term debt. As the Company’s future financing will focus on debt repayment and capital investment, we expect the Company’s debt growth will remain conservative for the next 12-18 months.

The Company has low exposure to external guarantees. As of 31 March 2024, the Company's external guarantee amounted to RMB3.2 billion, accounting for about 3.9% of its net assets. All of the guarantees are provided to local state-owned enterprises, with relatively low credit risk.

Moderate asset liquidity

The Company holds a large portfolio of shares in listed companies. According to the closing price at the end of March 2024, the total market value of important listed companies held by the Company was about RMB7.8 billion, with good asset liquidity and asset quality, contributing considerable investment return. However, the proportion of the Company's non-current assets to total assets has remained above 75%. The Company also holds a large number of land use rights, which are considered low liquidity. As of 31 December 2023, land use rights from investment property amounted to RMB24.5 billion, accounting for 16.7% of the Company’s total assets. Moreover, as of 31 March 2024, the Company had a certain amount of restricted assets totaling RMB15.4 billion, which accounted for 9.5% of its total assets.

Exhibit 5. Shareholding of listed companies at end of March 2024

Company Name	Ticker	Market Cap (RMB billion)	Shareholding Ratio (%)	Stock Market Value (RMB billion)
Chongqing Fuling Zhacai Group Co., Ltd.	002507.SZ	15.6	35.3	5.5
Cecep Solar Energy Co., Ltd	000591.SZ	20.5	2.3	0.5
Chongqing Taiji Industry (Group) Co., Ltd.	600129.SH	18.5	7.9	1.5
Guocheng Mining Co., LTD.	000688.SZ	13.1	0.9	0.1
Southwest Securities Co., Ltd.	600369.SH	25.8	0.2	0.1
Chongqing Sanfeng Environment Group Corp., Ltd	601827.SH	12.9	0.6	0.1
Chongqing Maxim Yishen Machinery Co., Ltd.	873833.BJ	0.8	12.4	0.1
Total		**107.2**	**-**	**7.8**

Source: public information, CCXAP research

Diversified financing channels

FIDG has diversified financing channels, including both onshore and offshore debt capital markets, and maintains a good relationship with large domestic banks. Around 35.4% of the Company's debt financing was provided by domestic banks at-end-2023. It held total credit facilities of RMB70.1 billion and available credit facilities of RMB43.2 billion as of the end of March 2024. Around 49.5% of its debt was provided by the debt capital market, which exposed the Company to higher uncertainties from the volatility of the capital market and policy changes. From January 2023 to March 2024, the Company and its subsidiaries raised RMB1.2 billion in the onshore debt market by issuing various types of bonds, including corporate bonds, medium-term notes, and private placement notes. Also, the Company issued 3 tranches of offshore bonds to raise RMB4.0 billion, further diversifying its financing channels. In addition, the Company had a certain exposure to non-standard financing, including trust and financial leasing, which accounted for about 15.1% of its total debt. Taking into account the good development of the region and the important position of the Company, we expect that the Company will continue to have good access to funding to support its business operations and expansions in the future.

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. FIDG 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.

FIDG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Fuling District. 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. FIDG 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).

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