

Credit Opinion

29 October 2024

Renshou Urban Investment Group Co., Ltd.

Surveillance credit rating report

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

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CCXAP affirms Renshou Urban Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Renshou Urban Investment Group Co., Ltd. ("RUIG" or the "Company") reflects Renshou County Government's (1) strong capacity to provide support, and (2) extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Renshou County Government's capacity to support reflects Renshou County's ongoing economic growth, with relatively rich agricultural resources.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) crucial status as the most important infrastructure construction and state-owned assets operation entity in Renshou County; and (2) track record of government funding supports for its construction projects; and (3) diversified funding channels.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities, with operating performance lower than expectations; (2) large capital expenditure pressure; and (3) relatively large short-term debt repayment pressure and moderate asset liquidity.

The stable outlook on RUIG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Renshou County.

Rating Drivers

- Most important infrastructure construction and state-owned assets operation entity in Renshou County
- Good track record of receiving government support
- Diversified funding channels with low exposure to non-standard financing
- Medium exposure to commercial activities, generating relatively large amounts of cash flow
- Relatively large short term debt repayment pressure
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Renshou County 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 materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Renshou County 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 deteriorated access to fundings, or material decreased government support.

Key Indicators

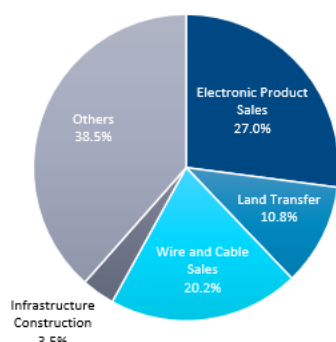
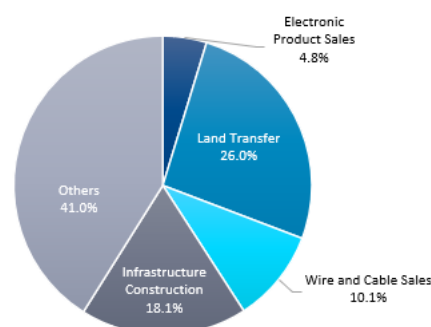
| | 2021FY | 2022FY | 2023FY |
|------------------------------|--------|--------|--------|
| Total Asset (RMB billion) | 50.9 | 63.3 | 87.9 |
| Total Equity (RMB billion) | 29.7 | 36.3 | 52.0 |
| Total Revenue (RMB billion) | 5.0 | 6.5 | 8.6 |
| Total Debt/Total Capital (%) | 35.5 | 38.9 | 36.4 |

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

Source: Company data, CCXAP research

Corporate Profile

Formerly known as Renshou County Heilongtan Sunshine Cultural Tourism Development Co., Ltd., RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County. After consolidating Renshou Development Investment Group Co., Ltd. and other local state-owned enterprises, the Company became the largest Local Infrastructure Investment and Financing Company ("LIIFC") by asset in Renshou County. RUIG is primarily engaged in infrastructure construction, land consolidation, public transport operation, water supply, and sewage treatment in Renshou County. It also undertakes commercial activities such as self-operating projects, electronic product sales, wire and cable sales, property leasing, and inspection services. As of 31 December 2023, the Company is wholly owned and ultimately controlled by the Renshou County State-owned Assets Supervision and Administration Bureau ("Renshou SASAB").

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 that the Renshou County Government has a strong capacity to provide support for the Company given its ongoing economic growth, with relatively rich agricultural resources.

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 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. In 2024H1, Sichuan recorded a GRP of RMB2.9 trillion, with a YoY increase of 5.4%.

Meishan City is a prefecture-level city of Sichuan Province. It is a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone and a key area of the Cheng (Du) Le (Mountain) Golden Corridor. In 2023, Meishan City achieved a GRP of RMB173.7 billion, an increase of 6.2% YoY, 0.2% higher than the GRP growth rate of Sichuan Province in 2023. Its general budgetary revenue amounted to RMB16.0 billion in 2023, ranking 8th among all cities in Sichuan Province, a YoY increase of 2.4%. In 2024H1, Meishan City recorded GRP of RMB85.3 billion, representing a YoY growth of 8.5%. Meanwhile, its general budgetary revenue amounted to RMB9.5 billion.

Exhibit 3. Key economic and fiscal indicators of Meishan City

| | 2021FY | 2022FY | 2023FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 154.8 | 163.6 | 173.7 |
| GRP Growth (%) | 8.4 | 3.8 | 6.2 |
| General Budgetary Revenue (RMB billion) | 13.8 | 15.6 | 16.0 |
| General Budgetary Expenditure (RMB billion) | 27.7 | 31.1 | 36.9 |
| Local Government Debt (RMB billion) | 53.9 | 63.6 | 71.6 |

Source: Statistic Bureau of Meishan City, CCXAP research

Renshou County located in the southeast of Meishan City, with a total area of 2,717 square kilometers. Renshou County is the most populous county in Sichuan Province, with a permanent population of around 851 thousand. Renshou County is one of the top 100 counties in China for comprehensive strength, its GRP and general budgetary revenue ranks 2nd and 1st among 6 districts/counties in Meishan City in 2023, respectively. As one of

the three major grain bases in Sichuan Province, it also has rich agricultural resources. Relying on its pillar industries of electronic information, food and agricultural sideline products processing, and advanced construction materials, Renshou County has continued to develop in recent years. Renshou County recorded a GRP growth rate of 4.5% in 2023. The Renshou County Government's general budgetary revenue slightly increased from RMB5.0 billion in 2022 to RMB5.1 billion in 2023, of which tax revenue accounted for 53.0%. Renshou County has a moderate fiscal self-sufficiency, with an average fiscal balance ratio of 48.6% over the past three years, indicating that the local fiscal strength relies heavily on transfer payments from upper-level government. At end-2023, Renshou County's outstanding government debt was RMB19.8 billion with an increasing trend, accounting for 36.5% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Renshou County

| | 2021FY | 2022FY | 2023FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 50.1 | 52.0 | ~* |
| GRP Growth (%) | 8.4 | 3.0 | 4.8 |
| General Budgetary Revenue (RMB billion) | 4.5 | 5.0 | 5.1 |
| General Budgetary Expenditure (RMB billion) | 8.9 | 9.7 | 11.8 |
| Local Government Debt (RMB billion) | 15.5 | 18.0 | 19.8 |

*The local government has not yet released the "Renshou County 2023 National Economic and Social Development Statistical Bulletin"

Source: Statistic Bureau of Renshou County, CCXAP research

Government's Willingness to Provide Support

The most important Infrastructure construction and state-owned assets operation entity in Renshou County

RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, with a clear strategic role in regional development and the largest asset scale. The Company is mainly responsible for major public infrastructure and welfare projects construction in Renshou County, as well as land transfer and land consolidation. The Company also conducts public utilities in Renshou County, including public transport operation, water supply, and sewage treatment. We believe that the replacement cost for the Company's role is high as these public services are essential for local residents and regional development.

RUIG is responsible for the land consolidation and transfer in Renshou County. In 2023, the Company mainly transferred 7 plots of land, with a total land area of 194,600 square meters, and realized land transfer income of RMB928 million. In addition, the Company has a large amount of land reserves. As of the end of 2023, the Company's book value of undeveloped land was RMB22.2 billion, which mainly consisted of urban residential land and retail commercial land. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty in its land transfer income.

RUIG also undertakes infrastructure construction projects such as roads, resettlement housing, and hospitals in the region with self-raised funds and government funds. The infrastructure construction projects undertaken by the Company are mainly carried out through an agency construction model. As of 31 December 2023, the Company had 9 major infrastructure construction projects under construction or planning, with a total planned investment of RMB5.3 billion and an outstanding amount of RMB4.3 billion. RUIG's construction agency business has sufficient project reserves and good business sustainability, but it still requires a large scale of capital expenditure and the payback collection is relatively prolonged.

The Company's public utility services business includes water supply, water installation services, and sewage treatment in Renshou County. As of 31 December 2023, the Company had 5 water supply plants with a total water supply capacity of 355 thousand tons per day. Due to the renovation of the pipe network, the leakage rate has been reduced, but still at a high level of 17.8% in 2023 (2022: 20.8%). The Company also conducted sewage treatment business which processed a total of 24.9 million tons of water during 2023. Moreover, the Company is also responsible for the public transport operation in Renshou County. Due to the increasing operation cost and the public welfare nature of this business, the Company continues to suffer losses for its public transport operations despite the increase in revenue, and receives financial subsidies from the government. Overall, given the strong regional franchise of the utility services, the business has good stability and sustainability.

Medium exposure to commercial activities, generating relatively large amounts of cash flow

RUIG is also engaged in commercial activities such as electronic product sales, wire and cable sales, self-operated projects, property leasing, and inspection services. The diversified business portfolio generates a relatively large amount of cash flow to the Company, but has also significantly increased its commercial business risks. We consider the Company's commercial business risk to be medium, because its commercial activities accounted for around 30% of its total assets.

Wire and cable sales business are one of the Company's major sources of income, which accounted for 20.2% of the total revenue in 2023. The wire and cable sales business mainly engages in the procurement, processing, production and sales of soft optical cables, wires, aluminum (alloy) poles, overhead insulated wires and other related products. However, the business is subject to a certain concentration risk. In 2023, the top 5 customers accounted for 74.8% of the sales, while the top 5 suppliers accounted for 54.7% of the procurement. In addition, the sales of the business have a relatively large reliance on affiliated enterprises. The top 2 customers are affiliated enterprises of the operating subsidiary, which accounted for 65.1% of the total sales in 2023. Due to the intensified industry competition and the increasing operation cost, the wire and cable sales business recorded a modest gross profit margin of around 9.7% in 2023.

The Company has also participated in the electronic product sales business, which accounted for 27.1% of the Company's total revenue in 2023. It mainly engages in the production and sales of thin film transistor (TFT-LCD) liquid crystal displays and other semiconductor products. Similar to the Wire and cable sales business, the electronic product sales business is also subject to relatively high concentration risk. In 2023, the top 5 customers accounted for 57.0% of total sales, while the top 5 suppliers accounted for 71.2% of the procurement. Revenue from this segment has increased significantly since 2023. In 2023, the business has shown turnaround and generated gross profit of RMB79 million, but with low gross margin of 3.4%. According to the Company's investment agreement with Truly Electronic Co., Ltd., who may repurchase the Company's shares for investment exit, and the company may no longer carry out display sales business.

RUIG is engaged in construction of self-operating projects, such as meeting hall, tourism project, and sewage treatment plant. The Company constructs these projects with self-raised funds, and achieves breakeven through receiving operating income. As of 31 December 2023, the Company had 9 major self-operating projects under construction, with a total planned investment of RMB4.0 billion and an outstanding amount of RMB1.9 billion, exerting a certain large capital expenditure pressure.

RUIG is also engaged in engineering construction business. In 2023, this segment recorded a revenue of RMB1.3 billion (2022: RMB227 million), which is mainly due to the progress made on Xiangshui Xinyuan project. However, the gross margin of engineering construction projects is low, resulting in an overall low segmental

gross margin of 1.7% in 2023. As of end-2023, the Company had 9 major engineering construction projects, with a total investment amount of RMB814 million and an outstanding amount of RMB721 million.

Other businesses such as property leasing, and medical device sales provide supplementary income to the Company. However, the small operating scale of these businesses limits its contribution to the Company's overall cash flow and profit.

Good track record of receiving government support

The Company has a solid track record of receiving support from the local government in the past few years, including government subsidies, cash injections, asset injections, and equity transfers. In 2023, the Company received asset injection of RMB14.2 billion from the local government, mainly sandstone operating rights, pipeline networks, and investment properties. Meanwhile, the local government also provided financial subsidies of around RMB960 million to the Company in 2023. Besides, the Company received cash injection of RMB665 million from the local government. Considering that RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, we expect the Company to receive ongoing support from the local government in the future.

Relatively large short-term debt repayment pressure

RUIG has demonstrated a fast debt growth as a result of relatively large capital demands for the construction projects. RUIG's total debt had increased significantly from RMB23.1 billion at the end of 2022 to RMB29.8 billion as of 31 December 2023. Benefited by the asset injections from the local government, its capitalization ratio slightly decreased from 38.9% to 36.3% over the same period. However, the Company has a relatively large short term debt repayment pressure. The Company's short-term debt accounted for 43.9% of total debt as of 31 December 2023. Meanwhile, its cash to short-debt ratio was only 0.4x. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-18 months. Fortunately, some of the Company's infrastructure project expenditure can be supported by government special bonds, which can partially reduce the Company's capital expenditure pressure.

The Company bears manageable risks arising from external guarantees. As of 31 December 2023, the Company had outstanding external guarantees of RMB3.2 billion, representing 6.2% of its net assets. The majority of external guarantee was provided to local state-owned enterprises, with manageable default risks, as they can received government support to withstand unfavorable market condition.

Moderate asset liquidity

In addition, the Company has moderate asset liquidity, which may undermine its financial flexibility. As of 31 December 2023, the Company had a relatively large amount of restricted assets totaling RMB20.3 billion, which accounted for 23.1% of its total assets. Most of the restricted assets are used for pledge financing. Moreover, the Company's total asset mainly consists of inventories and receivables (inventories are mainly construction cost and receivables are mainly receivables from local government institutions), accounting for 41.4% of its total assets as of 31 December 2023, which are considered low liquidity.

Diversified funding channels with low exposure to non-standard financing

RUIG has good access to the debt capital market and maintains a good relationship with large domestic banks. As of 31 December 2023, about 68.3% of the Company's debt financing was provided by domestic banks. The Company has sufficient standby liquidity, given its relatively large amount of available credit facility. As of 31

December 2023, it held a total bank credit facility of RMB34.0 billion, and the available credit facility was RMB12.2 billion. Around 19.2% of the Company's debt was provided by the debt capital market. For the first nine months of 2024, the Company issued two tranches offshore bonds, with a total issuance amount of RMB484.0 million and USD55.0 million. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for only 12.4% of its total debt.

ESG Considerations

RUIG 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.

RUIG bears social risks as it implements public policy initiatives by building public infrastructure in Renshou County. 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.

RUIG's governance considerations are also material as the Company is subject to oversight by Renshou County 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 \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison

| | Renshou Urban Investment Group Co., Ltd.. | Renshou Xingxin Industrial Investment Co., Ltd. |
|------------------------------|---|--|
| Long-Term Credit Rating | BBB _g | BBB _g - |
| Shareholder | Renshou SASAB (100%) | Renshou Development Investment Group Co., Ltd. (100%) |
| Positioning | Largest LIIFC by asset in Renshou County. RUIG is primarily engaged in infrastructure construction, land consolidation, public transport operation, water supply, and sewage treatment. | Mainly responsible for the industrial infrastructure construction in Renshou County. |
| Total Asset (RMB billion) | 87.9 | 19.7 |
| Total Equity (RMB billion) | 52.0 | 9.0 |
| Total Revenue (RMB billion) | 8.6 | 0.4 |
| Total Debt/Total Capital (%) | 36.4 | 43.2 |

2023Q3 data is applied for Renshou Xingxin Industrial Investment Co., Ltd..

Source: Company information, CCXAP research

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