

Credit Opinion

30 December 2024

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

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Meishan Tianfu New Area Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Meishan Tianfu New Area Investment Group Co., Ltd.'s BBB_g+ long-term credit rating, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Meishan Tianfu New Area Investment Group Co., Ltd. ("MTAI" or the "Company") reflects Meishan Municipal 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 Meishan Municipal Government's capacity to provide support reflects its status as a crucial part of Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone as well as a key area of the Cheng (Du) Le (Mountain) Golden Corridor, with ongoing economic and fiscal growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) monopoly role in the development of Meishan Tianfu New Area; (2) solid track record of receiving government support; and (3) strong access to funding from banks and bond markets.

However, the rating is constrained by the Company's (1) medium commercial business risks in self-operated projects and property development; (2) rapid debt growth and certain liquidity pressure; and (3) moderate asset liquidity.

The stable outlook on MTAI's rating reflects our expectation that the Meishan Municipal Government's capacity to provide support will remain stable, and the Company's characteristics as its monopoly role in the development of Meishan Tianfu New Area will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Monopoly role in the development of Meishan Tianfu New Area
- Undertaking major projects with high business sustainability
- Solid track record of receiving government support
- Strong access to funding from banks and bond markets
- Medium exposure to commercial activities
- Rapid debt growth and certain liquidity pressure
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Meishan Municipal 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) Meishan Municipal 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, deteriorated access to fundings, or material decreased government support.

Key Indicators

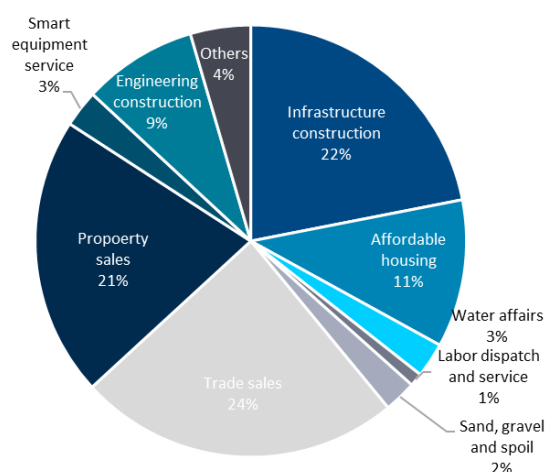
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	51.8	67.4	81.6	90.5
Total Equity (RMB billion)	27.7	27.5	30.5	31.5
Total Revenue (RMB billion)	3.7	5.9	10.6	4.6
Total Debt/Total Capital (%)	35.2	46.5	51.2	54.7

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

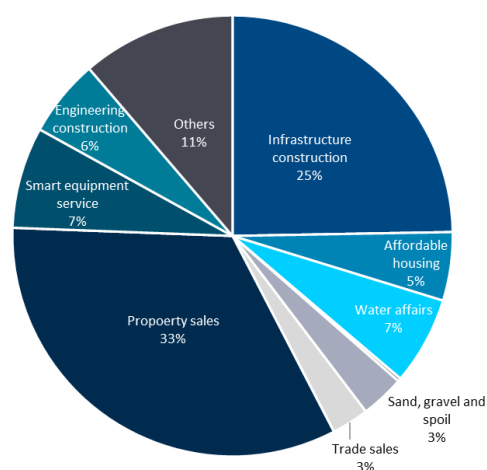
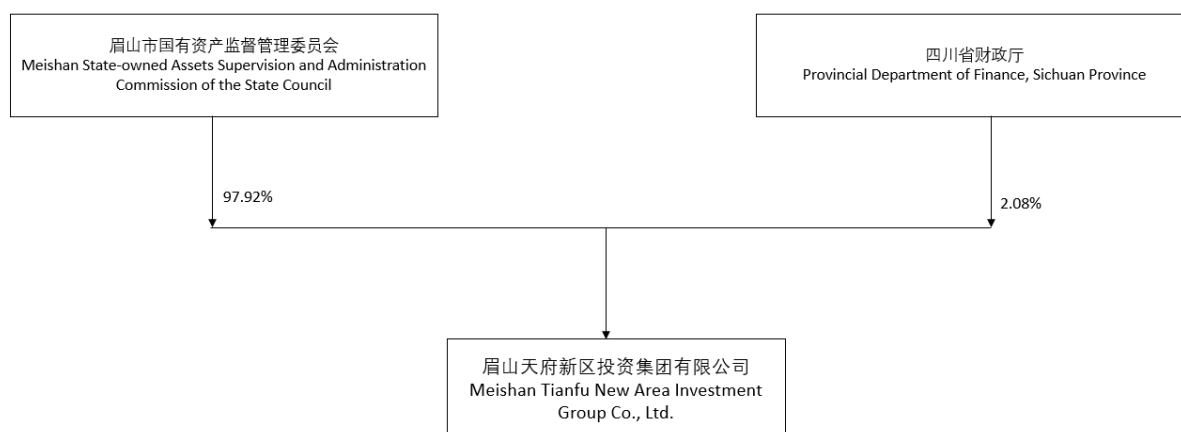
Source: Company information; CCXAP research

Corporate Profile

MTAI was established by the Meishan State-owned Assets Supervision and Administration Commission ("Meishan SASAC") in December 2018. The Company is the sole entity responsible for infrastructure construction, investment and financing activities in Meishan Tianfu New Area. Its business scope covers infrastructure construction, water affairs, real estate development, engineering construction, trade, smart equipment service and sales, fund investment, and small loans. As of 30 June 2024, Meishan SASAC was the Company's actual controller and the largest shareholder, holding 97.9% of the shares.

Exhibit 1. Revenue Structure in 2023

Source: Company information, CCXAP research

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

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Meishan Municipal Government has a strong capacity to provide support, given its ongoing economic and fiscal growth.

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 13.3% YoY. In 2024Q3, Sichuan recorded a GRP of RMB4.5 trillion, up 5.3% YoY.

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. According to Meishan City's 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 Outline, the Meishan Municipal Government promotes in-depth cooperation between Meishan Tianfu New Area and Chongqing Liangjiang New Area in the fields of new energy vehicles, electronic information, digital economy, medical care and health care. Meishan City's

industrial development and living environment are expected to be comprehensively improved, its economic development is expected to have new opportunities. In 2023, Meishan City achieved a GRP of RMB173.7 billion with an increase of 6.2% YoY, ranking 12th among all cities in Sichuan Province. Its general budgetary revenue amounted to RMB15.9 billion in 2023, ranking 8th among all cities in Sichuan Province. However, its government fund revenue decreased from RMB26.7 billion in 2022 to RMB24.4 billion in 2023 due to land market downturn and real estate market fluctuations. The government debt increased fast from RMB63.6 in 2022 to RMB71.6 billion in 2023, representing 41.2% of its GRP. In 2024Q3, Meishan City recorded GRP of RMB130.7 billion, representing a YoY growth of 7.2%.

Exhibit 4. 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

Meishan Tianfu New Area is an important part of the Sichuan Tianfu New Area, which is a national-level new area established in 2014. Meishan Tianfu New Area includes Pengshan District and parts of Renshou County in Meishan City, connecting to Chengdu Science City to the north, Chengdu Eastern New District to the east, and Meishan City downtown area to the south. Key industries in the Area include electronic information, digital economy, new energy and new materials. In 2023, Meishan Tianfu New Area achieved a GRP of RMB21.6 billion, a YoY increase of 3.7%; during the same period, Meishan Tianfu New Area achieved a general budgetary revenue of RMB3.3 billion, a YoY increase of 6.6%. Government fund revenue has always been an important supplement to the financial resources of Meishan Tianfu New Area, reaching RMB7.8 billion in 2023 but subject to the land market downturn and real estate market fluctuations in recent years.

Government's Willingness to Provide Support

Monopoly role in the development of Meishan Tianfu New Area

MTAI is the sole entity responsible for local infrastructure construction in Meishan Tianfu New Area, as well as an important state-owned assets investment and operation entity in Meishan City. In addition, there has been an increase in provincial and municipal key projects approved by the local Development and Reform Commission, such as Meishan International Railway Port, with an estimated total investment of around RMB12.6 billion. As MTAI's infrastructure construction projects are crucial to local social and economic development that benefits the general public and local employment, we believe that the Company's replacement cost is relatively high.

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 12 infrastructure construction projects under construction and planning, with a total investment amount of RMB15.3 billion, an outstanding amount of RMB8.6 billion and a received repayment of RMB2.0 billion. Given the sufficient infrastructure projects in the pipeline and the large infrastructure construction demand in Meishan Tianfu New Area, we expect the sustainability of the Company's infrastructure construction business is good. However, the initial construction funds are mainly raised by the Company itself, so we expect the Company will face relatively large capital expenditure pressure.

The Company's utility services business includes water supply and installation. Benefited from newly added water plant and pressure station in 2023, the Company's water supply capacity improved and therefore the income generated grew in recent years, which amounted to RMB273.0 million in 2023, up 25.2% YoY. As of the end of 2023, the Company had 2 water supply plant and 2 water supply pressure station with a total water supply capacity of 173,100 tons per day, serving Shigao District, Qingshui Town, and Xingshen Village. In addition, the Company also conducted sewage treatment business within 7 townships in Meishan Tianfu New Area. As of the end of 2023, there were 81 sewage treatment plants that have been put into operation, with a total processing volume of 68,286m³ per day; there were 2 sewage treatment plants under construction or planning, with a total planning processing volume of 40,000m³ per day. We expect that the Company's utility services business will maintain good business stability. However, due to its public welfare nature, this business' contribution to the Company's total income is small, and the local government provides certain operational subsidies every year.

In addition, the Company conducts affordable housing projects through the government purchase service model. As of the end of 2023, the Company had 1 affordable housing project with a total investment amount of RMB830.0 million and an outstanding amount of RMB426.0 million. the Company also had 7 property development projects that are conducted based on joint development model (40% affordable housing and 60% commercial housing). The sufficient project reserves demonstrated the sustainability of the Company's public-policy businesses. In addition, with the government repurchase of affordable housing, the Company received a total repayment of RMB8.5 billion as of the end of 2023.

Medium exposure to commercial activities

MTAI is also engaged in commercial activities such as self-operated construction, property sales, trading, engineering construction as well as smart equipment service sales. Diversified businesses bring supplementary income to the Company, but also significantly increase 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.

The Company's self-operated construction mainly facilitates the investment attraction of Meishan Tianfu New Area. The Company is responsible for building business centers, industrial parks, standardized factories and other properties to obtain leasing and other operating income. As of the end of 2023, the Company had 13 self-construction projects under construction and planning, with a total estimated investment amount of RMB10.6 billion and an outstanding amount of RMB8.8 billion. Given the large amount of self-operated projects in the pipeline, the Company has large expenditure pressure and there is uncertainty in its future funding balance.

Despite for the affordable housing projects, MTAI's property development business is mainly comprised of joint development projects and commercial housing projects. As of the end of 2023, the Company had 15 real estate projects under construction and planning, with a total planned investment of RMB44.6 billion and an outstanding amount of RMB24.2 billion. Given that part of the projects is resettlement housing with government repurchase commitment, which provides a certain guarantee for property destocking and business sustainability. However, as a large amount of investment is required for projects under construction or planning, the Company will face relatively large capital expenditure pressure. In addition, during the sluggish period in China's property market, the future balance of funds in property development may suffer higher volatility due to the progress of project construction and sales.

The Company conducts engineering construction business in Meishan City. Benefiting from enriching construction qualification, the income from engineering construction business increased significantly from

RMB509.0 million in 2022 to RMB899.0 million in 2023. In 2023, there were 23 newly signed contracts with a total contract value of RMB1.3 billion. As of 31 December 2023, the Company had a total contract value of RMB1.7 billion in hand, indicating good business stability. In addition, some of the customers are the private-owned enterprises, which may expose the Company to credit contagion risk.

The Company mainly engages in trading business, with trading products of steel, copper rods, scrap steel, wine, sugar, sand and gravel, and garlic. Benefiting from enriching trading products in 2023, the revenue from trading increased from RMB1.9 billion in 2022 to RMB2.5 billion in 2023, with low profit margin of 1.5%. However, in 2023, the top 5 suppliers and customers of trading business represented 64.0% and 66.7% of the total procurement and sales amount, respectively, demonstrating relatively high concentration risks. In addition, the Company would provide an account period to the customers (2 to 8 months), which may expose the Company to recovery risk on its account receivables.

In 2022, the Company participated in the establishment of the Regional Collaborative Development Investment Guidance Fund on behalf of the Meishan Municipal Government, and invested in the Sichuan Rural Revitalization Investment Guidance Fund Partnership (Limited Partnership). As of 31 December 2023, the regional collaborative fund's agreed fundraising scale was RMB7.4 billion, of which RMB3.2 billion had been paid in, and the Company's investment amount was RMB360.0 million with a paid-in amount of RMB100.0 million. The Company recognized dividend income of RMB2.6 million in 2023.

Moreover, the Company is also responsible for operating other businesses such as smart equipment service sales, micro loans, financing leasing, labor dispatch, sand and gravel business. These businesses contribute less to the Company's overall revenue as each accounted for less than 5% of the Company's total revenue in 2023.

Solid track record of receiving government support

As the sole entity in charge of infrastructure construction in the Meishan Tianfu New Area, the Company has a good track record of receiving support from the local government in the past few years. The Meishan Municipal Government and the Meishan SASAC support the Company's business diversification strategy by providing regular subsidies to its various segments ranging from water supply to school construction. From 2023 to 2024H1, the Company received total government subsidies of RMB65.6 million. In 2023, Meishan SASAC decided to increase the Company's registered capital by RMB5 billion, of which RMB4.2 billion has been injected into the Company as of 30 June 2024. In light of MTAI's important regional position in infrastructure construction and investment attraction in the Meishan Tianfu New Area, we expect the Company to receive ongoing support from the local government over the coming 12-18 months.

Rapid debt growth and certain liquidity pressure

Due to the large amount of projects construction, MTAI's total debt had increased significantly from RMB24.0 billion at end-2022 to RMB38.0 billion at mid-2024, with a capitalization ratio growing from 46.5% to 54.7% during the same period. In addition, the Company faces increasing short-term debt repayment pressure given that its short-term debt/total debt was 52.7% as of mid-2024 (compared with 33.7% at end-2022). As of 30 June 2024, the unrestricted cash/short-term debt ratio was merely 0.2x, implying a certain liquidity pressure of the Company. Given the Company's large capital expenditure pressure from its construction projects, we expect the Company will maintain a high debt growth for the next 12-18 months.

Moderate asset liquidity

The Company has moderate asset liquidity. As of 30 June 2024, its total receivables and inventories accounted for a relatively high proportion, totaling around 65.5% of total assets. The Company's inventories were mainly the development cost of its infrastructure construction and property construction projects and land to be developed, and the total receivables were mainly related to the government-related departments, all of which are considered low liquidity. At the same time, the Company had investment properties of RMB5.1 billion and intangible assets (mainly sandstone operation right) of RMB6.8 billion, accounting for around 5.6% and 7.5% of total assets, respectively, providing supplementary income to the Company.

In addition, the Company pledged some assets for loans, including cash, inventories, and investment properties, with a relatively large amount of restricted assets totaling RMB19.1 billion, which accounted for 21.1% of its total assets as of 30 June 2024.

Strong access to funding from banks and bond markets

MTAI's large capital needs can be alleviated through its diversified financing channels. MTAI has good access to diversified funding such as bank loans, and onshore bond financing. The Company has also possessed abundant credit resources with a total credit facility of RMB42.3 billion, of which the unused credit line amounted to RMB16.3 billion as of 31 December 2023. The Company also has a good track record for fund-raising activities in capital market. In 2024, the Company issued 4 tranches of onshore bonds, including private placement notes, raising RMB3.4 billion. In addition, the Company has little exposure to non-standard financing.

Certain exposure to contingent liability risk

MTAI has certain exposure to external guarantees. As of 30 June 2024, the total amount of the Company's external guarantee was RMB6.3 billion, accounting for 20% of its net assets. 98.1% of the external guarantees are provided to local state-owned enterprises in Meishan City and 1.9% are provided to local private-owned enterprises, which could potentially increase its repayment obligations. Nevertheless, we believe that the contingent risk of the external guarantee is moderately controllable, considering the Company may receive timely support from the local government.

ESG Considerations

MTAI 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.

MTAI bears social risks as it implements public policy initiatives by building public infrastructure in the Meishan Tianfu New Area. 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.

MTAI's governance considerations are also material as the Company is subject to oversight by Meishan Municipal 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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