

Credit Opinion

31 December 2024

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

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Chengdu Medical City Urban Construction Development Co., Ltd.

Surveillance credit rating report

CCXAP affirms Chengdu Medical City Urban Construction Development Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Medical City Urban Construction Development Co., Ltd. ("CMCC" or the "Company") reflects Chengdu Wenjiang District Government's strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Wenjiang District Government's capacity to provide support reflects Wenjiang District's gross regional product ("GRP") maintains a moderate level in Chengdu City, with relatively good fiscal self-sufficiency.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) monopoly position in the development of Chengdu Medical City; (2) solid track record of receiving government payments; and (3) relatively low debt burden.

However, the rating is constrained by the Company's (1) weakened sustainability of infrastructure construction; (2) moderate asset liquidity; and (3) large capital expenditure pressure associated with construction projects.

The stable outlook on CMCC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the sole infrastructure construction entity in Chengdu Medical City.

Rating Drivers

- Monopoly position in the development of Chengdu Medical City
- Increasing exposure to commercial activities
- Relatively low debt burden but large future capital expenditure pressure
- Moderate asset liquidity
- Good access to funding channels
- Solid track record of receiving government payments

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance the local government's willingness to support, such as decreasing exposure to external guarantees or improving assets liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or weakening access to financing channels.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	32.9	41.1	44.9	50.2
Total Equity (RMB billion)	15.8	19.8	19.8	23.0
Total Revenue (RMB billion)	1.1	1.2	1.1	1.0
Total Debt/Total Capital (%)	28.0	26.8	35.0	37.4

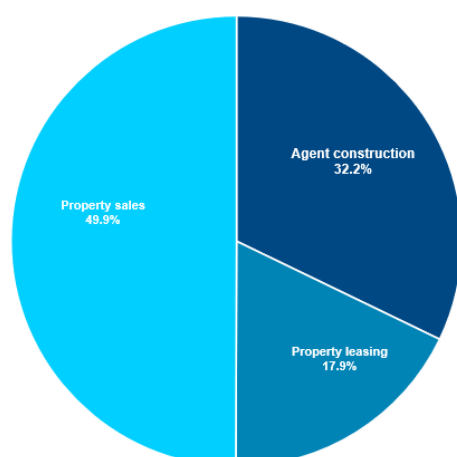
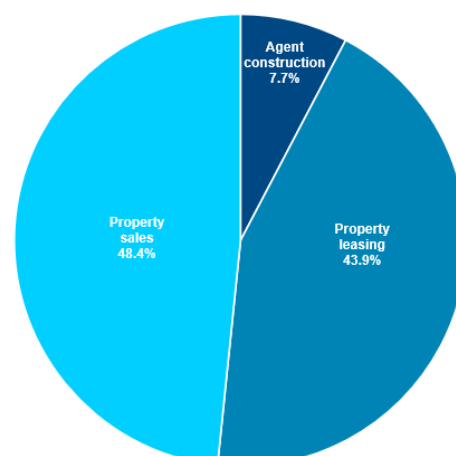
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

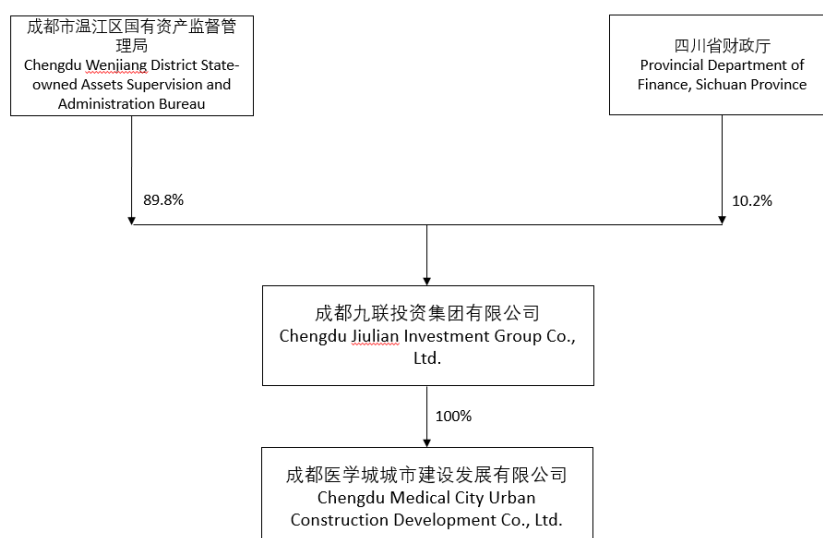
Corporate Profile

Founded in 2018, CMCC was set up by its parent Chengdu Jiulian Investment Group Co., Ltd. ("Jiulian Investment"), a major local infrastructure investment and financing company ("LIIFC") in charge of urbanization projects in the southern part of Wenjiang District of Chengdu City. The Company itself is mainly engaged in agency construction and property leasing business in the Chengdu Medical City. As of 30 September 2024, Jiulian Investment is the sole shareholder of the Company, and Wenjiang District State-owned Assets Supervision and Administration Bureau ("Wenjiang SASAB") is the ultimate controller of the Company.

In July 2023, according to the resolution of its board of directors, Jiulian Investment transferred 100% of the equity of Chengdu Hongsheng Industrial City Technology Co., Ltd. and Chengdu Jiudong Industrial City Technology Co., Ltd, 90% of the equity of Chengdu Haike Asset Management Co., Ltd. and Chengdu Jiulian Kehai Health Technology Co., Ltd. to the Company. Meanwhile, the Company transferred 100% equity interest in Haike Investment Co., Ltd. and Chengdu Lianxun Construction Engineering Co., Ltd. to Jiulian Investment, which weakened the sustainability of the Company's public business.

Exhibit 1. Revenue Structure in 2023**Exhibit 2. Gross Profit Structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 September 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Wenjiang District Government has a strong capacity to provide support for the Company, given its moderate GRP level in Chengdu City and good fiscal self-sufficiency.

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 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 the first three quarters of 2024, Sichuan recorded a GRP of RMB4.5 trillion, with a YoY increase of 5.3%.

Chengdu City is a sub-provincial city that serves as the capital city of Sichuan Province. Chengdu City is also an important economic and financial center, as well as a transportation and communication hub in Southwest China, with a solid economic foundation. Its economy is characterized by industries such as electronic

information product manufacturing, machinery, automotive, metallurgy, building materials and light industry. Chengdu's GRP increased to RMB2.2 trillion in 2023, representing a YoY increase of 6.0%. The Chengdu government's general budgetary revenue amounted to RMB192.9 billion in 2023, a YoY increase of 12.0%. Its fiscal balance ratio was 74.6%, which was at a moderate level. Chengdu's debt burden is manageable. In 2023, Chengdu's outstanding government debt increased to RMB522.9 billion with an increase trend, accounting for 23.7% of its GRP. In the first three quarters of 2024, the GRP of Chengdu City recorded a YoY increase of 5.5% and the general budgetary revenue slightly decreased by 1.7%.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,991.7	2,081.8	2,207.5
GRP Growth (%)	8.6	2.8	6.0
General Budgetary Revenue (RMB billion)	169.8	172.2	192.9
General Budgetary Expenditure (RMB billion)	223.8	243.5	258.7
Local Government Debt (RMB billion)	404.3	464.1	522.9

Source: Statistic Bureau of Chengdu City, CCXAP research

Wenjiang District is located in northwest of Chengdu City, with a total area of 277 square kilometers. Relying on its advantageous natural environment, Wenjiang District has been recognized as a national ecological system construction demonstration zone and a model city of green development in China. Supported by its pillar industries, such as flowers and plants, biopharmaceuticals, food and beverage, medical health and eco-tourism industries, Wenjiang District demonstrated ongoing economic growth in the past few years. In 2023, the GRP of Wenjiang District increased by 5.5% to RMB72.9 billion YoY; its general budgetary revenue was recorded as RMB5.6 billion. Wenjiang District had a relatively good fiscal self-sufficiency rate of 68.3% in 2023. Its tax revenue was RMB4.4 billion, accounting for 80.1% of its general budgetary revenue in 2023, indicating good fiscal quality. However, Wenjiang District has a moderate debt profile, with a government debt to GRP ratio of 27.6% as of 31 December 2023.

Exhibit 5. Key Economic and Fiscal Indicators of Wenjiang District

	2021FY	2022FY	2023FY
GRP (RMB billion)	68.8	71.7	72.9
GRP Growth (%)	7.2	3.0	5.5
General Budgetary Revenue (RMB billion)	5.0	5.2	5.6
General Budgetary Expenditure (RMB billion)	6.9	7.8	8.2
Local Government Debt (RMB billion)	16.3	18.4	20.1

Source: Statistic Bureau of Wenjiang District, CCXAP research

As the key area for the development of the biomedical industry in Chengdu, Chengdu Medical City has a total planned area of 33.4 square kilometers. It is divided into two zones, of which Zone A focuses on the development of high-end pharmaceutical and device manufacturing and healthy food, while Zone B focuses on the development of medical research and development, medical services, big data and AI. Supported by its diversified enterprise portfolio, Chengdu Medical City has formed a health industry highland with concentrated industries, complete categories, as well as complete ecology in the western region of China. More than 2,000 enterprises of various types have settled in Chengdu Medical City, including 253 industrial enterprises above the designated size and 567 medical and health enterprises.

Government's Willingness to Provide Support

Monopoly position in the development of Chengdu Medical City

There are three major LIIFCs in Wenjiang District, including Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. ("WXCO"), Jiulian Investment, and Chengdu Longke Urban and Rural Development Group Co., Ltd. ("LURD"). WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District; LURD is committed to promoting the rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District; while Jiulian Investment is mainly responsible for infrastructure construction and industry operation in the southern part of Wenjiang District and Chengdu Medical City. The Company is the largest and most important subsidiary of Jiulian Investment, and is also the most important development and construction entity of Chengdu Medical City.

The Company's infrastructure construction agency business covers infrastructure, resettlement housing, shantytown reconstruction projects within the Chengdu Medical City, as well as some transportation hubs, municipal roads and other projects in Wenjiang District. As the major subsidiary responsible for infrastructure construction, Haike Investment Co., Ltd., was transferred away from the Company. The sustainability of the Company public project business faces uncertainty. As of the end of September 2024, the Company had 3 projects under construction with total investment amount of RMB348.9 million and uninvested amount of RMB156.7 million. In addition, as the Company's business focus gradually shifts from the construction of infrastructure projects to the construction of operating projects, the investment in agent construction projects decreases year by year. As Jiulian Investment changes the Company's positioning, it will gradually become the major industrial investment and operation entity in Wenjiang District. Meanwhile, the major infrastructure construction projects will be conducted by other subsidiaries of Jiulian Investment in the future.

Increasing exposure to commercial activities

In addition to public welfare activities, CMCC is also involved in other commercial activities such as self-operated construction and leasing. We consider CMCC's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

CMCC engages in self-operated projects, such as industrial parks and R&D center, to facilitate the investment attraction of Chengdu Medical City. The funds of self-operated projects are mainly self-raised funds and bank loans, while the revenue of this segment is mainly generated by subsequent sales and leasing. As of 30 September 2024, the Company had abundant self-operated projects under construction or planning, with total investment amount of RMB19.6 billion and uninvested amount of RMB8.8 billion. There is uncertainty about the Company's future project operation capabilities and project income, as they are subject to the progress of investment attraction. As the investment payback period is expected to be long, there will be large capital expenditure pressure. Some of the self-operating projects are the construction of talent apartments, and the sales of talent apartments are subjects to the progress of investment attraction.

CMCC also engages in leasing via its subsidiary, which mainly covers office buildings and hospitals. As of 31 December 2023, the customers of leasing were mainly government-related entities and biotech companies, with a total leasing area of around 362,000 square meters. The gross margin and occupancy ratio of property leasing is quite high, reaching 78.6% and 80.9% respectively, providing stable cash inflow to the Company each year. With the advancement of the self-operated projects construction and investment promotion in Chengdu Medical City, it is expected that the scale of properties held for leasing will continue to increase. But on the other hand, the Company's exposure to commercial business will also gradually increase.

Solid track record of receiving government payments

CMCC has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, debt replacement and equity transfers. From 2023 to 2024Q3, the Company received project repayment of around RMB580.5 million. Meanwhile, the local government also provided RMB10.2 million to the Company. In addition, Julian investment transferred the equity interests of its major subsidiaries to the Company, enhancing its capital strength and broadening its business mix. We believe these measures are vital for the Company's liquidity improvement and capital strength. In light of the Company's position in the Chengdu Medical City, we expect the Company will continue to receive ongoing support from the local government and its shareholder over the next 12 to 18 months.

Relatively low debt burden but large future capital expenditure pressure

With the project construction progressing, CMCC's total debt increased from RMB7.2 billion at the end of 2022 to RMB13.7 billion at 30 September 2024, while its total capitalization ratio increased from 26.8% to 37.4%. In terms of debt structure, the Company has a reasonable short-term debt burden. As of 30 September 2024, the ratio of short-term debt to total debt was 26.3%. However, given the Company's large capital expenditure pressure of its self-operated projects, we expect the Company's debt will continue to increase over the next 12-18 months.

Moderate asset liquidity

CMCC has moderate asset liquidity. As of 30 September 2024, the Company's total asset consisted mainly of inventories, receivables and investment property, accounting for 86.4% of its total asset. Among them, inventories are mainly land and construction costs, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, both of which are considered to be low liquidity. However, the investment property can generate a certain revenue for the Company. Besides, as of 30 September 2024, the Company's total restricted assets (mainly pledged land use rights and receivables) were RMB11.7 billion, representing 23.2% of total assets.

Furthermore, the Company bears contingent risk arising from external guarantees. As of end-2023, the Company had outstanding external guarantees of RMB6.0 billion, representing 30.4% of its net assets. Most of them 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.

Good access to funding channels

The Company's large investment needs are greatly supported by its financing channels. The Company maintains a good relationship with banks. As of 30 September 2024, around 89.5% of the Company's debt financing was provided by domestic banks. Currently, the Company does not have exposure to bond financing. Meanwhile, the exposure to non-standard financing is low, accounting for around 10.0% of its total debt, mainly financial leasing. The financing cost of the Company is relatively low, given that the overall funding cost of the Company stays at around 5.0%.

ESG Considerations

CMCC 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.

CMCC bears social risks as it implements public policy initiatives by building public infrastructure in the Chengdu Medical City. 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.

CMCC's governance considerations are also material as the Company is subject to oversight by Wenjiang 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 6. Peer Comparison

	Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.	Chengdu Longke Urban and Rural Development Group Co., Ltd.	Chengdu Medical City Urban Construction Development Co., Ltd.
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g
Shareholder	Wenjiang District SASAB	Wenjiang District SASAB	Chengdu Jiulian Investment Group Co., Ltd.
Positioning	Responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District	Responsible for rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District.	Responsible for infrastructure construction in the Chengdu Medical City and industrial investment and operation in Wenjiang District
Total Asset (RMB billion)	101.2	68.9	44.9
Total Equity (RMB billion)	55.2	47.5	19.8
Total Revenue (RMB billion)	4.0	2.1	1.1

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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