

CCXAP affirms Chengdu Sino French Ecological Park Investment Development Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Hong Kong, 31 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Chengdu Sino French Ecological Park Investment Development Co., Ltd. (“SFEP” or the “Company”) at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of SFEP reflects Chengdu Longquanyi District (“Longquanyi District”) Government’s strong capacity and high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Longquanyi District Government’s capacity to support reflects that Longquanyi District ranked first among 20 districts/counties by gross regional product (“GRP”) in Chengdu City in 2022, as a high-end manufacturing center in southwest China, with good economic fundamentals and fiscal strength, albeit relatively high regional debt ratio.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) monopolistic business position in Chengdu Sino-French Ecological Park; (2) good record of receiving government payments; and (3) broadening business scope after the consolidation of Chengdu Longquanyi District Longquan Industrial Investment Operation Co., Ltd. (“LIIO”). However, the Company’s rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high debt growth driven by a large number of construction projects; and (3) relatively large reliance on non-standard financing.

Corporate Profile

Founded in 2018, formerly known as Chengdu Eiffel Construction and Development Co., Ltd, and designated by the Longquanyi District Government, SFEP is a key investment and operation entity of the Sino-French Ecological Park in the Longquanyi District, which is also known as the Chengdu Economic and Technological Development Zone (“Chengdu ETDZ”), Chengdu City. The Company is dedicated to Sino-French Ecological Park development, and is responsible for a variety of work such as construction plan formulation, construction of infrastructure and public facilities, investment promotion, and other relevant services in the Sino-French Ecological Park. Apart from its main business, the Company also engages in other business, such as leasing and self-operating projects.

The Company is a wholly-owned subsidiary of Chengdu Economic Development Industrial Investment Group Co., Ltd (“CEDI”), and the ultimate controller of the Company is the Chengdu Economic and Technological Development Zone Management Committee (“Chengdu ETDZ Management Committee”). As of the end of 2022, the Company’s paid-in capital was RMB4.5 billion.

Rating Rationale

Credit Strengths

Monopolistic business position in Chengdu Sino-French Ecological Park. The Company is one of the major subsidiaries of CEDI and the only Local Infrastructure Investment and Financing Company (“LIIFC”) in Chengdu Sino-French Ecological Park. It has a monopolistic position as the Company is solely entrusted by the Chengdu ETDZ Government to develop the park. As a sole LIIFC in the Sino-French Ecological Park, as well as a major developer of industrial parks in Longquanyi District, we believe the Company's status as an important subsidiary of CEDI will not be easily changed in the foreseeable future.

Broadening business scope after the consolidation of LIIO. SFEP continues to focus on the development of major infrastructure construction in Chengdu Sino-French Ecological Park. The Company entered into a cooperation agreement with the Chengdu ETDZ Management Committee with respect to its main business projects. Following the consolidation of LIIO, the Company is also responsible for the infrastructure construction of industrial parks in Longquanyi District, such as schools, river restoration project, and other public facilities.

Good record of receiving government payments. As a state-owned enterprise ultimately controlled by the Chengdu ETDZ Management Committee, the Company regularly receives financial support and certain preferential treatments from the Chengdu ETDZ Management Committee. Considering the economic and financial growth of Longquanyi District, as well as the gradual construction of the Sino-French Ecological Park, we expect the Company will continue to receive support from the Chengdu ETDZ Management Committee in the future.

Credit Challenges

Medium exposure to commercial activities. Apart from public projects, the Company also engages in property leasing and the construction of self-operating projects. We consider SEFP's commercial business exposure to be medium as its market-driven nature accounts for around 15%-30% of its total assets.

High debt growth driven by a large number of construction projects. SEFP has high debt growth owing to its debt-driven business expansion. The total debt increased from RMB13.3 billion at end-2021 to RMB23.9 billion at end-2022, with a relatively high capitalization ratio of 71.1%. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt growth for the next 12-18 months.

Relatively large reliance on non-standard financing. As of 31 December 2022, the Company still relies heavily on non-standard financing, which accounted for 50.2% of the total debt. The Company's overall financing cost was about 6.3%, while the non-standard financing cost of around 7.2%.

Rating Outlook

The stable outlook on SEFP'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, being the key investment and operation entity in the Sino-French Ecological Park.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as reduced reliance on non-standard financing 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 strategic significance or increased exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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