

CCXAP upgrades Chengdu Longke Urban and Rural Development Group Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Hong Kong, 7 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Chengdu Longke Urban and Rural Development Group Co., Ltd. (“LURD” or the “Company”) to BBB_g from BBB_{g-}, with stable outlook.

The BBB_g long-term credit rating of LURD reflects the improving regional strength, which strengthens the local government’s capacity to support the Company. It also reflects the regional importance of LURD, as an important rural revitalization infrastructure construction entity in Wenjiang District.

The long-term credit rating of LURD 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 that 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) ultimate control by Wenjiang District Government; (2) strategic position of infrastructure construction in the northern area of Wenjiang District; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) relatively high debt growth driven by a large number of construction projects.

Corporate Profile

Founded in 2014, formerly known as Chengdu Sanlian Property Management Co., Ltd., LURD was mainly engaged in the property service business. Since 2021, Wenjiang District SASAB has successively transferred the equity shares of Chengdu Longbo Investment Co., Ltd. (“Longbo Investment”) and other state-owned entities into the Company, LURD has become an important infrastructure construction entity in Wenjiang District. The Company is primarily responsible for infrastructure construction and demolition in the north of Wenjiang District. Apart from its main business, the Company is also engaged in other commercial businesses, such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. As of 30 June 2023, the Company is directly and wholly owned by the Chengdu Wenjiang District State-Owned Assets Supervision and Administration Bureau (“Wenjiang District SASAB”).

Rating Rationale

Credit Strengths

Strategic position of infrastructure construction in the northern area of Wenjiang District.

The Company has a clear positioning and is committed to promoting the rural revitalization and

integrated development of urban and rural areas in Wenjiang District. The Company is mainly engaged in the construction of infrastructure, seedling bases, agricultural parks and other projects in the northern area of Wenjiang District, as well as demolition in the northern and southern areas of Wenjiang District.

Undertaking local infrastructure construction and demolition projects. LURD is mandated by the government to undertake local infrastructure construction project, such as road upgrading projects and land consolidation. In addition, LURD has been entrusted by the government to undertake demolition projects in the northern and southern areas of Wenjiang District since 2018.

Solid track record of receiving government payments. LURD has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections and equity transfers. Overall, given its important position and contribution to regional economic development, we believe that LURD will receive ongoing government support to support its business operations.

Access to multiple financing channels. The Company's large investment needs could be partly supported by its financing channels. As of 30 June 2023, around 60.7% of the Company's debt financing was provided by domestic banks. Around 32.3% of debt financing was provided by the onshore debt capital market. In addition, the Company is less dependent on non-standard financing, such as financial leasing, which accounted for around 7.0% of its total debt.

Credit Challenges

Medium exposure to commercial activities. In addition to public welfare activities, LURD is also involved in other commercial activities such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. We consider LURD's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

Relatively high debt growth driven by a large number of construction projects. LURD has a relatively high debt growth. Total debt increased from RMB12.7 billion at the end of 2022 to RMB16.4 billion on 30 June 2023. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. In addition, LURD has weak asset liquidity.

Rating Outlook

The stable outlook on LURD'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 important rural revitalization infrastructure construction entity in Wenjiang District.

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 local government's willingness to support, such as decreasing exposure to commercial activities or improving debt management.

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.

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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