
CCXAP affirms Dujiangyan Smart City Operation and Construction Development Group Co., Ltd.’s long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 13 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of BBB_{g-} of Dujiangyan Smart City Operation and Construction Development Group Co., Ltd. (“DSOC” or the “Company”), with stable outlook.

The BBB_{g-} long-term credit rating of Dujiangyan Smart City Operation and Construction Development Group Co., Ltd. (“DSOC” or the “Company”) reflects Dujiangyan City Government’s relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Dujiangyan City Government’s capacity to provide support reflects Dujiangyan City’s vital position in Chengdu City, given its good cultural and tourism resources, but relatively weak industrial base.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the major infrastructure constructor and urban operator in Dujiangyan City; and (2) track record of receiving government payments. However, the rating is constrained by the Company’s (1) relatively high reliance on non-standard financing; (2) high exposure to contingent risk; and (3) short-term debt repayment pressure.

Corporate Profile

Founded in 2016, formerly known as Dujiangyan Xincheng Equity Investment Co., Ltd., DSOC is one of the 5 key subsidiaries of Chengdu Dujiangyan Investment Development Group Co., Ltd. (“CDID”). The Company is primarily responsible for infrastructure construction and resettlement housing construction in Dujiangyan City. Apart from public development projects, DSOC has a clear positioning of urban operation. The Company also derives revenue from businesses such as property sales, material trading, property leasing and management, carparking services and human resource services. As of 31 December 2023, CDID held 90% and Sichuan Provincial Department of Finance held the remaining 10% of the Company’s shares. The Company is ultimately controlled by Dujiangyan State-owned Assets Supervision and Administration and Finance Bureau (“Dujiangyan SASAFB”).

Rating Rationale

Credit Strengths

Important role as the major infrastructure constructor and urban operator in Dujiangyan City. DSOC has a clear positioning of urban operation of Dujiangyan City. The Company is responsible for resettlement housing construction, infrastructure construction, and parking lot operation in Dujiangyan City. Considering the Company’s high strategic significance to the development of Dujiangyan City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Track record of receiving government payments. DSOC has a track record of receiving payments from the Dujiangyan City Government and CDID. These payments take various forms, such as cash injections. In 2023, the Company continued to receive support from the government. During the year, the Company received cash injection of RMB140 million from CDID to support the Company business. Given DSOC's important role, we expect the Company will continue to receive support from the Dujiangyan City Government in the future.

Credit Challenges

Short term debt repayment pressure. DSOC's total debt had slightly increased from RMB7.9 billion at end-2022 to RMB8.0 billion as of 31 December 2022, while its total capitalization decreased from 41.1% to 39.7% over the same period. However, its cash to short-term debt ratio was merely 0.3x and short-term debt's portion of total debt rose to 56.8% in 2023 from 45.3% in 2022, indicating certain short term debt repayment pressure. Given the Company's relatively large capital expenditure pressure, we expect the Company will have a relatively fast debt growth for the next 12-18 months.

Relatively high reliance on non-standard financing. DSOC has access to funding as reflected by its good banking relationships and access to the onshore debt capital market. However, the Company has a relatively high reliance on non-standard financing. Around 30% of debt financing was provided by non-standard financing, including trust financing and financial leasing.

High exposure to contingent risks. DSOC has high exposure to contingent risks due to its relatively large amount of external guarantees. As of 31 December 2023, its external guarantee amount was RMB10.2 billion, accounting for 84.8% of its net asset, which also representing a YoY increase of 168.4% compared with end-2022 level. All the external guarantees are provided to state-owned enterprises in Dujiangyan City, which exposed the Company to the regional credit environment in Dujiangyan City. However, should a credit event occurs, the Company may face certain contingent risks, which could inversely impact its credit quality.

Rating Outlook

The stable outlook on DSOC's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important position in the infrastructure construction and urban operation in Dujiangyan City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as decreased exposure to contingent risk and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support



weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced regional significance.

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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