

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

Hong Kong, 2 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Chengdu Xingdong Rural Development Group Co., Ltd. (“CXRD” or the “Company”) to BBB_g from BBB_g-, with stable outlook.

The rating upgrade of CXRD reflects that the Company, as the sole entity responsible for rural revitalization and agricultural development in Longquanyi District, is likely to receive a stronger government support due to the enhancing regional strength of Longquanyi District.

The long-term credit rating of CXRD reflects Longquanyi District Government’s very strong capacity to provide support, and its high willingness to support the Company, based on our assessment of the Company’s characteristics. Our assessment of Longquanyi District Government’s capacity to provide support reflects that Longquanyi District ranked first among 20 districts/counties by gross regional product (“GRP”) in Chengdu City in 2023, with good economic fundamentals and fiscal strength.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic role as the sole agricultural infrastructure constructor and service provider in Longquanyi District; (2) good sustainability of infrastructure construction business; and (3) track record of receiving government payments. However, the rating is constrained by the Company’s (1) moderate exposure to commercial activities; (2) high debt leverage with large short-term debt maturities; and (3) relatively large reliance on non-standard financing.

Corporate Profile

Founded in 2019, formerly known as Chengdu Jingkai Xingdong Construction Development Co., Ltd., CXRD has a clear positioning of rural revitalization and agricultural development in Longquanyi District. The Company is primarily responsible for agricultural infrastructure development and rural revitalization projects in Longquanyi District. Apart from public projects, the Company also derives revenue from businesses such as agricultural sales and property leasing. As of 31 December 2023, CXRD was wholly owned by Chengdu Economic Development Industrial Investment Group Co., Ltd. (“CEDI”), and the ultimate controller of the Company is the Management Committee of Chengdu Economic and Technological Development Zone (“Chengdu ETDZ Management Committee”).

Rating Rationale

Credit Strengths

Strategic role as the sole agricultural infrastructure constructor and service provider in Longquanyi District. The Company is one of the major subsidiaries of CEDI and the only LIIFC in Longquanyi District that focuses on agricultural development and rural revitalization. The Company has a clear positioning of investment, construction, operation, and management

of the local agricultural industry in Longquanyi District. It is responsible for the agricultural infrastructure construction, rural revitalization projects and agricultural product sales. Considering the Company's high strategic significance to the development of Longquanyi District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good sustainability of infrastructure construction business. CXRD had successfully delivered a series of large-scale agricultural infrastructure projects and public welfare facilities over the past few years, such as roads, rural demolition and resettlement projects, agricultural industry projects and tourism projects. We believe these projects are vital to the local development plan as many of them involve the ecological migration project in an effort to restore and enhance local ecosystem. We expect that the projects in the pipelines can ensure the sustainability of the public policy business, but exert large capital expenditure pressure on the Company.

Track record of receiving government payments. CXRD has a track record of receiving payments from the Longquanyi District Government. These payments take various forms, such as government subsidies and capital injections. Given CXRD's important strategic role, we expect the Company will continue to receive support from the Longquanyi District Government in the future.

Credit Challenges

Moderate exposure to commercial activities. In addition to public activities, CXRD is also involved in various commercial activities such as agricultural product sales, and property leasing. We consider CXRD's commercial business exposure to be medium, as its market-driven businesses account for around 15% of its total assets.

High debt leverage with large short-term debt maturities. The Company's total debt had decreased from RMB25.3 billion at end-2022 to RMB22.8 billion at end-2023, and its total capitalization slightly decreased from 61.5% in 2022 to 58.7% in 2023, maintained at a relatively high level. The Company had an unbalanced debt structure with relatively high short-term repayment pressure. Given the Company's relatively large capital expenditure pressure, we expect the Company will maintain a relatively high debt level for the next 12-18 months.

Relatively large reliance on non-standard financing. Around 54.3% of the Company's debt was provided by bank loans. The Company currently has access to the onshore debt market through its subsidiary, Chengdu City Longquan Modern Agricultural Investment Co., Ltd. However, the Company has a relatively high reliance on non-standard financing. Around 33.0% of debt financing was provided by non-standard financing. The Company plans to issue offshore bonds to broaden its financing channel and reduce its reliance on non-standard financing.

Rating Outlook

The stable outlook on CXRD's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in the agricultural infrastructure construction in Longquanyi District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as improved debt management 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) changes in company characteristics decrease the local government's willingness to provide support, such as higher commercial business risk and reduced government payments.

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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