

## **CCXAP upgrades Chengdu Sino French Ecological Park Investment Development Co., Ltd.’s long-term credit rating to BBB<sub>g</sub>, 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 Sino French Ecological Park Investment Development Co., Ltd. (“SFEP” or the “Company”) to BBB<sub>g</sub> from BBB<sub>g-</sub>, with stable outlook.

The rating upgrade of SFEP reflects that the Company, as the sole entity responsible for infrastructure construction in Chengdu Sino-French Ecological Park, is likely to receive a stronger government support due to the enhancing regional strength of Longquanyi District.

The long-term credit rating of SFEP 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 3<sup>rd</sup> 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 support, which is based on the Company’s (1) monopolistic business position in Chengdu Sino-French Ecological Park; and (2) good record of receiving government payments; and (3) high sustainability of its public service business. However, the Company’s rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high leverage and short-term repayment pressure; 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 commercial business, such as leasing and self-operating projects.

As of end-2023, Chengdu Economic Development Industrial Investment Group Co., Ltd (“CEDI”) owned 96.77% of the Company’s shares and the ultimate controller of the Company is the Chengdu Economic and Technological Development Zone Management Committee (“Chengdu ETDZ Management Committee”).

## Rating Rationale

### Credit Strengths

**Monopolistic business position in Chengdu Sino-French Ecological Park.** SFEP is one of the major subsidiaries of CEDI and the only 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. Chengdu ETDZ Management Committee authorized the Company to implement a closed operation of the Sino-French Ecological Park, including land development and infrastructure construction. It has strong strategic functions in operation, investments and construction in the Sino-French Ecological Park.

**High sustainability of its public service business.** SFEP continues to focus on the development of major infrastructure construction in Chengdu Sino-French Ecological Park. Moreover, the Company is also responsible for the infrastructure construction of industrial parks in Longquanyi District. Given SEFP's clear position and policy mandate, we believe that the Company will continue to undertake the majority of public projects in the future, including the investment and operation of Chengdu Sino-French Ecological Park and industrial parks in Longquanyi District.

**Good record of receiving government payments.** As a state-owned enterprise, the Company regularly receives support 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 local government 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 25% of its total assets.

**High leverage level and short-term repayment pressure.** The Company's total debt slightly increased from RMB23.9 billion at end-2022 to RMB25.6 billion at end-2023, while its capitalization ratio slightly decreased from 71.1% to 70.5%, remained at a high level. In addition, the Company has an unbalance debt structure, with short-term debt accounting for 40.4% of its total debt (2022: 49.9%). The cash to short-term debt ratio was merely 0.2x, indicating relatively high short-term repayment pressure. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

**Relatively large reliance on non-standard financing.** In the past year, the Company actively expanded its financing channels and replaced some of its non-standard borrowings. However, as of 31 December 2023, the Company still has relatively large amount on non-standard financing, which accounted for 38.3% of the total debt (2022: 50.2%). The Company has broadened its financing channel to offshore capital market. SEFP's relatively large capital

expenditure could be supported by its bank refinancing channel and the Company has maintained good relationship with large domestic banks, with an average financing cost of 5.56%.

### **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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