

Credit Opinion

14 December 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Chengdu Medical City Urban Construction Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Chengdu Medical City Urban Construction Development Co., Ltd. with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Medical City Urban Construction Development Co., Ltd. (“CMCC” or the “Company”) 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 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) monopoly position in the development of Chengdu Medical City; (2) solid track record of receiving government payments; and (3) relatively low debt burden.

However, the rating is constrained by the Company’s (1) moderate asset liquidity; and (2) large capital expenditure pressure associated with construction projects.

The stable outlook on CMCC’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 sole infrastructure construction entity in Chengdu Medical City.

Rating Drivers

- Monopoly position in the development of Chengdu Medical City
- Increasing exposure to commercial activities
- Relatively low debt burden but large future capital expenditure pressure
- Moderate asset liquidity
- Good access to funding channels
- Solid track record of receiving government payments

Rating Sensitivities

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 the local government's willingness to support, such as decreasing exposure to external guarantees or improving assets liquidity.

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.

Key Indicators

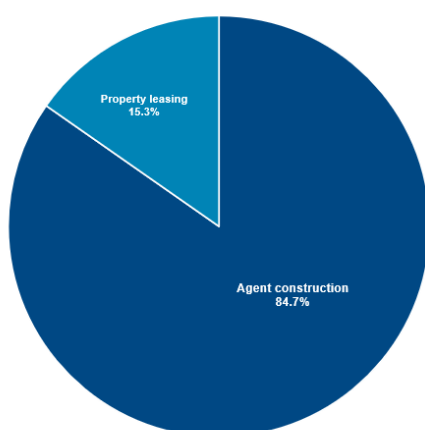
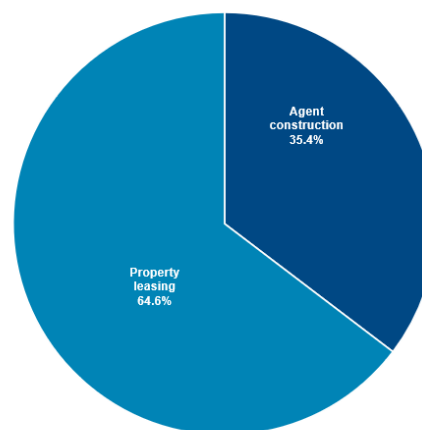
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	50.6	44.1	50.5	52.2
Total Equity (RMB billion)	27.5	26.1	30.2	30.3
Total Revenue (RMB billion)	0.9	1.0	1.2	0.4
Total Debt/Total Capital (%)	23.1	9.3	8.4	11.8

All ratios and figures are calculated using CCXAP's adjustments.

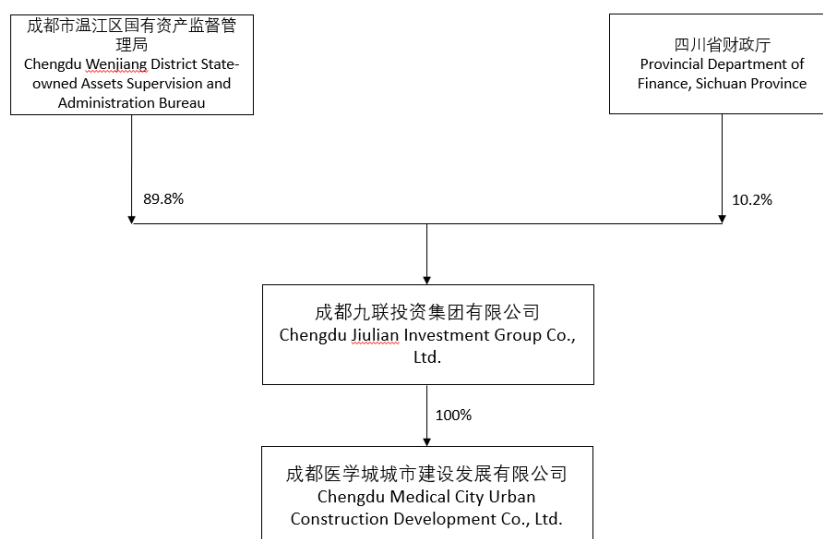
Source: Company data, CCXAP research

Corporate Profile

Founded in 2018, CMCC was set up by its parent Chengdu Jiulian Investment Group Co., Ltd. ("Jiulian Investment"), a major local infrastructure investment and financing company ("LIIFC") in charge of urbanization projects in the southern part of Wenjiang District of Chengdu City. The Company itself is mainly engaged in agency construction and property leasing business in the Chengdu Medical City. As of 30 June 2023, Jiulian Investment is the sole shareholder of the Company, and Wenjiang District State-owned Assets Supervision and Administration Bureau ("Wenjiang SASAB") is the ultimate controller of the Company.

Exhibit 1. Revenue Structure in 2023H1**Exhibit 2. Gross Profit Structure in 2023H1**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 30 June 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Wenjiang District Government has a strong capacity to provide support for the Company, given its moderate GRP level in Chengdu City and good fiscal self-sufficiency.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a GRP of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"). In the first three quarters of 2023, Sichuan's GRP was RMB4.3 trillion, a YoY increase of 6.5%; its general budgetary revenue increased to RMB409.6 billion, up by 6.7% YoY.

Chengdu City is a sub-provincial city that serves as the capital city of Sichuan Province. Chengdu City is also an important economic and financial center, as well as a transportation and communication hub in Southwest China, with a solid economic foundation. Its economy is characterized by industries such as electronic information product manufacturing, machinery, automotive, metallurgy, building materials and light industry. In

2022, Chengdu achieved a GRP of RMB2.1 trillion, a YoY increase of 2.8%. Affected by the pandemic and tax refund, the Chengdu Municipal Government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. In the first three quarters of 2023, Chengdu recorded a GRP of RMB1.6 trillion, an increase of 6.7% YoY. Chengdu government's general budgetary revenue increased to RMB139.0 billion in the first three quarters of 2023 from RMB120.3 billion in the same period of 2022. In 2022, its fiscal balance ratio was 70.7%, which was at a moderate level. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increasing trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,771.7	1,991.7	2,081.8
GRP Growth (%)	4.0	8.6	2.8
General Budgetary Revenue (RMB billion)	152.0	169.8	172.2
General Budgetary Expenditure (RMB billion)	215.8	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

Source: Statistic Bureau of Chengdu City, CCXAP research

Wenjiang District is located in northwest of Chengdu City, with a total area of 277 square kilometers. Relying on its advantageous natural environment, Wenjiang District has been recognized as a national ecological system construction demonstration zone and a model city of green development in China. Supported by its pillar industries, such as flowers and plants, biopharmaceuticals, food and beverage, medical health and eco-tourism industries, Wenjiang District demonstrated ongoing economic growth in the past few years. In 2022, the GRP of Wenjiang District increased by 3.0% to RMB71.7 billion YoY; its general budgetary revenue was recorded as RMB5.2 billion. In the first half of 2023, the GRP of Wenjiang District recorded RMB38.1 billion, with an increase of 5.8% YoY; while the Wenjiang District Government's general budgetary revenue increased to RMB2.8 billion, up by 7.4% YoY. Wenjiang District had a relatively good fiscal self-sufficiency rate of 67.1% in 2022. Its tax revenue was RMB4.2 billion, accounting for 79.7% of its general budgetary revenue in 2022, indicating good fiscal quality. However, Wenjiang District has a moderate debt profile, with a government debt to GRP ratio of 25.7% as of 31 December 2022.

Exhibit 5. Key Economic and Fiscal Indicators of Wenjiang District

	2020FY	2021FY	2022FY
GRP (RMB billion)	62.4	68.8	71.7
GRP Growth (%)	5.1	7.2	3.0
General Budgetary Revenue (RMB billion)	4.6	5.0	5.2
General Budgetary Expenditure (RMB billion)	7.1	6.9	7.8
Local Government Debt (RMB billion)	14.4	16.3	18.4

Source: Statistic Bureau of Wenjiang District, CCXAP research

As the key area for the development of the biomedical industry in Chengdu, Chengdu Medical City has a total planned area of 33.4 square kilometers. It is divided into two zones, of which Zone A focuses on the development of high-end pharmaceutical and device manufacturing and healthy food, while Zone B focuses on the development of medical research and development, medical services, big data and AI. Supported by its diversified enterprise portfolio, Chengdu Medical City has formed a health industry highland with concentrated industries, complete categories, as well as complete ecology in the western region of China. More than 2,000

enterprises of various types have settled in Chengdu Medical City, including 253 industrial enterprises above the designated size and 567 medical and health enterprises. In 2022, the pharmaceutical and health industry achieved an operating income of RMB40.0 billion, growing more than 20% YoY.

Government's Willingness to Provide Support

Monopoly position in the development of Chengdu Medical City

There are three major LIIFCs in Wenjiang District, including Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. ("WXCO"), Jiulian Investment and Chengdu Longke Urban and Rural Development Group Co., Ltd. ("LURD"). According to the development blueprint of Wenjiang District, the southern part of the district, covering 110 km², is set to become the downtown and a hub of modern industries. The 167 km² northern part will be an ecological area with more than 7,000 forestry areas and more than 200,000 mu (13,333 hectares) of flower and tree nurseries. WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District; LURD is committed to promoting the rural revitalization and integrated development of urban and rural areas in the northern part of Wenjiang District; while Jiulian Investment is mainly responsible for infrastructure construction and industry operation in the southern part of Wenjiang District and Chengdu Medical City. The Company is the largest and most important subsidiary of Jiulian Investment, and is also the sole development and construction entity of Chengdu Medical City.

The Company's infrastructure construction agency business covers infrastructure, resettlement housing, shantytown reconstruction projects within the Chengdu Medical City, as well as some transportation hubs, municipal roads and other projects in Wenjiang District. The Company entered into entrustment construction agreements with the local government and local state-owned enterprises, who would arrange repayment to the Company based on the total investment amount plus 13% to 18%. The funds for project construction mainly consist of government fiscal funds, the Company's self-owned funds, and loans from financial institutions. In recent years, the infrastructure construction business has been the main contributor to the Company's revenue. However, this segment faces certain volatility as revenue is calculated based on the uneven project progress. As of the end of June 2023, the Company has completed projects with actual investment of RMB3.8 billion, and recognized revenue of RMB4.3 billion, of which RMB1.7 billion has yet to be repaid, implying that the repayment progress was relatively prolonged. In addition, as the Company's business focus gradually shifts from the construction of infrastructure projects to the construction of operating projects, the investment in agent construction projects decreases year by year. As of the end of June 2023, the Company has RMB654.0 million to be invested in the projects under construction and planning. Overall, as the sole infrastructure construction entity of Chengdu Medical City, the sustainability of the infrastructure construction business is moderate, which exerts certain capital expenditure pressure on the Company.

Increasing exposure to commercial activities

In addition to public welfare activities, CMCC is also involved in other commercial activities such as self-operated construction and property leasing. We consider CMCC's commercial business exposure to be low, as its market-driven businesses account for around 15% of its total assets.

CMCC engages in self-operated projects, such as industrial parks and R&D center, to facilitate the investment attraction of Chengdu Medical City. The funds of self-operated projects are mainly self-raised funds and bank loans, while the revenue of this segment is mainly generated by subsequent sales and leasing. As of 30 June 2023, there were no completed self-operated projects yet. There is uncertainty about the Company's future project operation capabilities and project income. In addition, the projects under construction and planning still require an investment of RMB6.7 billion. As the investment payback period is expected to be long, there will be

large capital expenditure pressure.

CMCC also engages in property leasing via its subsidiary, which mainly covers office buildings and hospitals. As of 30 June 2023, the customers of property leasing were mainly government-related entities such as Wenjiang District Government Affairs Management Bureau, with a total leasing area of 214,000 square meters. The gross margin and occupancy ratio of property leasing is quite high, reaching 88.8% and 100.0% respectively, this business brings stable cash inflow to the Company each year. With the advancement of the self-operated projects construction and investment promotion in Chengdu Medical City, it is expected that the scale of properties held for leasing will continue to increase. But on the other hand, the proportion of the Company's commercial business will also gradually increase.

Solid track record of receiving government payments

CMCC has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, debt replacement and equity transfers. From 2020 to 2022, the Company received government subsidies of RMB9.2 million, RMB119.3 million and RMB106.9 million, respectively. The Company has received government support in many aspects such as business operations, debt structure, and liquidity improvement, resulting in a great improvement in its solvency. In 2022, Jiulian Investment transferred the equity of the three subsidiaries to the Company, which effectively enriched the Company's asset scale and capital strength. The Company has become the largest and most important subsidiary of Jiulian Investment, with functional positioning and comprehensive strength has been further strengthened. In light of the Company's monopoly position in the Chengdu Medical City, we expect the Company will continue to receive ongoing support from the local government and its shareholder over the next 12 to 18 months.

Relatively low debt burden but large future capital expenditure pressure

Due to a subsidiary being removed from the Company in 2021, CMCC's total debt decreased significantly from RMB8.3 billion at the end of 2020 to RMB4.0 billion at 30 June 2023, with a total capitalization ratio of 11.8%. In terms of debt structure, the Company had a reasonable short-term debt burden, and the ratio of short-term debt to total debt was 21.1% as of 30 June 2023. However, given the Company's large capital expenditure pressure of its self-operated projects, we expect the Company's debt will gradually increase over the next 12-18 months.

Moderate asset liquidity

CMCC has moderate asset liquidity. As of 30 June 2023, the Company's total asset consists mainly of inventories, receivables and investment property, accounting for 94.4% of its total asset. Among them, inventories are mainly land and construction costs, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, both of which are considered to be low liquidity. However, the investment property can generate a certain revenue for the Company when necessary. Besides, as of 30 June 2023, the Company's total restricted assets (mainly pledged land use rights and receivables) were RMB8.2 billion, representing 15.7% of total assets.

Furthermore, the Company bears contingent risk arising from external guarantees. As of 30 June 2023, the Company had outstanding external guarantees of RMB8.0 billion, representing 26.3% of its net assets. All of them were provided to local state-owned enterprises ("SOEs"). In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality. However, we estimate most of these local SOEs are likely to be supported by the local government when necessary, and therefore

contingent risk would be controllable.

Good access to funding channels

The Company's large investment needs are greatly supported by its financing channels. As of 30 June 2023, around 82.4% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB2.1 billion. Around 17.6% of debt financing was provided by the onshore debt capital market and non-standard financing. The financing cost of the Company is relatively low, given that the overall funding cost of the Company stays at 5.0%.

ESG Considerations

CMCC bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

CMCC bears social risks as it implements public policy initiatives by building public infrastructure in the Chengdu Medical City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

CMCC's governance considerations are also material as the Company is subject to oversight by Wenjiang Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

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