

Credit Opinion

27 December 2023

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

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Chengdu Yunlai Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Chengdu Yunlai Investment Group Co., Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Summary

The BBB_g- long-term credit rating of Chengdu Yunlai Investment Group Co., Ltd. ("CYIG" or the "Company") reflects Chengdu Qionglai 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 Qionglai City Government's capacity to provide support reflects Qionglai City's increasing economic growth but is constrained by a relatively small economic scale.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) importance in the development of Qionglai City; (2) solid track record of receiving government payments; and (3) low exposure to non-standard financing.

However, the rating is constrained by the Company's (1) high debt growth driven by a large number of construction projects; (2) medium exposure to commercial activities; and (3) contingent liability risk from external guarantees.

The stable outlook on CYIG'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 key investment and operating entity in Qionglai City.

Rating Drivers

- Important role in the development of Qionglai City
- Medium exposure to commercial activities
- Solid track record of receiving government payments
- High debt growth and moderate asset liquidity
- Low exposure to non-standard financing
- Contingent liability risk from external guarantees

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 local government's willingness to support, such as reducing exposure to risky commercial activities or reducing exposure to external guarantees.

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 increasing exposure to commercial activities.

Key Indicators

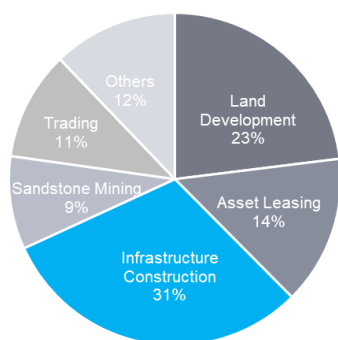
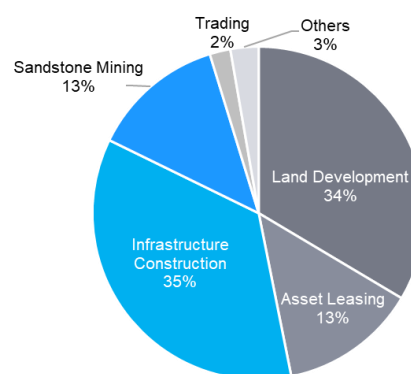
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	35.3	62.1	62.2	63.6
Total Equity (RMB billion)	21.6	44.0	43.5	43.6
Total Revenue (RMB billion)	1.1	2.1	2.4	1.1
Total Debt/Total Capital (%)	27.4	19.0	22.5	25.0

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2005, formerly known as Qionglai City Development Co., Ltd., CYIG is an important infrastructure construction entity in Qionglai City. CYIG is mainly responsible for infrastructure construction and land development in Qionglai City, as well as self-operated projects, such as resettlement housing construction and industrial park development. In addition, the Company is also involved in local public services such as bus operations. The Company is also engaged in commercial business, such as asset leasing, trading and labor dispatch. As of 30 June 2023, the Company is directly and wholly owned by the Qionglai City State-owned Assets Investment Supervision Service Centre ("Qionglai SASSC").

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Qionglai City Government has a relatively strong capacity to provide support for the Company, which is supported by its ongoing economic growth but constrained by a relatively small economic scale.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a gross regional product ("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 3. 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

Qionglai City is located in the southwest of Chengdu Plain, and also in the "half-hour economic circle" of Chengdu City. It is an important transportation hub in western Sichuan. The leading industries in Qionglai City are new energy and new materials, medicine and medical equipment, as well as food production. In the process of promoting industrial agglomeration in Qionglai City, three characteristic industrial parks have gradually formed, including the Industry Functional Area of Tianfu New District, the Green Food Industry Park, and the Tianfu Modern Seed Industry Park. In recent years, the economy of Qionglai City has shown rapid growth, but its economic aggregate is relatively weak, ranking at the middle-to-lower level among all districts and counties in Chengdu. In 2022, Qionglai City showed increasing economic growth as its GRP increased by 3.8% YoY to RMB40.1 billion. In the first three quarters of 2023, Qionglai recorded a GRP of RMB31.0 billion, an increase of 6.8% YoY. Its general budgetary revenue achieved RMB3.1 billion in 2022, with moderate general budgetary revenue to the general budgetary expenditure of 48.5%, of which tax contributed 48.5% of its general budgetary revenue in 2022. As of 31 December 2022, Qionglai City reported a total government debt balance of RMB8.5 billion with an increasing trend, with a government debt to GRP ratio of 21.2%.

Exhibit 4. Key Economic and Fiscal Indicators of Qionglai City

	2020FY	2021FY	2022FY
GRP (RMB billion)	35.1	38.6	40.1
GRP Growth (%)	5.1	8.6	3.8
General Budgetary Revenue (RMB billion)	2.8	3.1	3.1
General Budgetary Expenditure (RMB billion)	5.4	5.9	6.6
Local Government Debt (RMB billion)	6.5	7.6	8.5

Source: Statistic Bureau of Qionglai City, CCXAP research

Government's Willingness to Provide Support

An important role in the development of Qionglai City

There are two major local infrastructure investment and financing companies ("LIIFCs") in Qionglai City, including Chengdu Lailing Investment Group Co., Ltd ("CLIG") and the Company. CLIG is mainly responsible for the development of the tourism industry in Qionglai City and the construction of Yang'an New City. CYIG is mainly responsible for the urban development of Qionglai City, including infrastructure construction such as roads, bridges, and schools, as well as land development. The Company is also engaged in the construction of self-operated projects such as resettlement housing and the development of the Green Food Industrial Park. Given the Company's important role in Qionglai City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

The Company continues to conduct infrastructure construction projects mainly through an agency construction model with self-raised funds. As of 30 June 2023, the Company had completed a large amount of infrastructure

construction projects with a total investment of approximately RMB13.6 billion and recognized revenue of RMB5.0 billion, of which RMB1.7 billion has yet to be repaid, implying relatively prolonged repayment progress. It also had 25 projects under construction or planning, with a planned investment of RMB6.1 billion and an uninvested amount of RMB3.1 billion.

The Company also continues to conduct land development projects, including land demolition and reconstruction projects. As of 30 June 2023, the Company had completed a large amount of land development projects with a total investment of approximately RMB4.3 billion and a total cash collection of RMB1.4 billion. Since 2018, the Company no longer undertakes land development projects independently but merges them with infrastructure projects. Currently, the Company's land development income comes from projects before 2018. Overall, given its relatively large amount of construction projects and large amount of unreceived cash collection from the land development projects, we believe the Company's business will be sustainable in the next 3-5 years, but it also exerts certain capital expenditure pressure on the Company.

In addition, as an important urban operation entity of Qionglai City, the Company is also responsible for public transportation operations in Qionglai City. However, since public transportation operation has a public welfare nature, this business continues to generate losses and is subsidized by the local government.

Medium exposure to commercial activities

Apart from public-related activities, CYIG also engages in diversified commercial activities including self-operated project construction and operation, asset leasing, labor dispatch and trading. We consider CYIG's commercial business exposure to be medium.

CYIG conducts resettlement housing construction projects under the self-operated model. These projects mainly rely on self-raised funds. After the completion of resettlement housing construction projects, the Company will obtain revenue through the sales of resettlement houses and the rental or sale of supporting shops and parking lots. As of 30 June 2023, the Company had 5 projects under construction or planning, with a total investment of RMB3.1 billion and an uninvested amount of RMB2.8 billion. The large-scale investment in resettlement housing projects has brought certain capital expenditure pressure on the Company. Besides, the Company's self-operated projects also include the construction of the Green Food Industrial Park, focusing on the development of food and beverages, high-quality liquor, and medical equipment, with a planned area of 153.9 square kilometers. In the past five years, the Company has built a strong modern industrial system with the support of industrial functional areas and introduced industrialization projects including WEGO, Yili and Danone into Qionglai City. We expect that the Company will continue to invest in the construction of industrial parks in the foreseeable future.

The Company's asset leasing business started in 2021. It received the green assets, underground pipe network and street lamps assets from the local government, mainly for leases or sales to Qionglai City Guosheng Regional Comprehensive Development and Operation Co., Ltd. and other local state-owned enterprises in Qionglai City. This business generated a supplement income for the Company, with revenue of RMB344.8 million, accounting for 14.5% of its total revenue in 2022.

CYIG has undertaken its trading business since 2020, and the main trading commodities are steel products, electrolytic copper and cables. The Company purchases the trading commodities according to the order and does not keep inventory. The trading business recognized revenue of RMB251.8 million in 2022, but with a low gross profit margin of 2.7%. However, the Company is subject to the risk of a high concentration of upstream

and downstream customers. In 2022, the top 5 customers and top 3 suppliers accounted for 98% and 100% of the total sales and procurement, respectively.

Solid track record of receiving government support

CYIG has a proven track record of receiving ongoing government support from Qionglai SASSC, including government subsidies, asset injections and equity transfers. To support the Company's business expansion, Qionglai SASSC has injected cash and the equity of a local state-owned company into the Company with a total value of RMB5.0 billion in 2022. From 2022 to 2023H1, CYIG also received government subsidies of approximately RMB143.4 million. Considering the important role of CYIG after consolidation, we expect the Company will continue to receive support from Qionglai City in the future.

High debt growth and moderate asset liquidity

The Company's total debt increased from RMB10.4 billion at the end of 2021 to RMB14.6 billion in mid-2023, while its total capitalization ratio increased from 19.0% to 25.0% over the same period, maintained at a reasonable level. The increase in debt was mainly attributable to the fast expansion of infrastructure construction projects. In terms of debt structure, the ratio of short-term debt to total debt was 29.1% in mid-2023. Given the Company's large capital expenditure pressure from its construction projects and refinancing needs from its short-term debts, we expect the Company will rely on external financing and maintain a high debt growth for the next 12-18 months.

In addition, CYIG's asset liquidity is moderate. As of 30 June 2023, the Company pledged a number of assets for loans, such as receivables and commercial properties, with a total amount of RMB11.8 billion, accounting for around 18.5% of its total assets; the Company's inventories amounted to RMB34.1 billion, accounting for 53.6% of the total assets. The Company's inventory mainly includes the investment costs of roads, lands, industrial park construction projects and resettlement housing projects, which we consider as low liquidity.

Low exposure to non-standard financing

CYIG has relatively good access to various sources of funding, including bank loans and bond financing. The Company maintains good long-term relationships with several banks. As of 30 June 2023, the Company had total credit facilities of RMB6.8 billion and available credit facilities of RMB1.4 billion. In addition, the Company's subsidiary had 8 outstanding domestic bonds including MTN, PPN, and corporate bonds with a total amount of RMB5.5 billion as of 30 June 2023. CYIG had low exposure to non-standard financing accounting for around 5.7% of its total debt as of 30 June 2023.

Contingent liability risk from external guarantees

CYIG has a medium exposure to contingent liabilities. As of 30 June 2023, the Company's external guarantee amount was RMB12.7 billion, accounting for 29.1 % of its net assets. All the external guarantees are provided to local state-owned enterprises in Qionglai City. The state-owned enterprise has a strong ability to avoid liability risks. However, due to the regional concentration of guaranteed enterprises, the Company may face considerable contingent liability risk when a default event occurs, which is credit negative for its credit quality.

ESG Considerations

CYIG assumes environmental risks through its infrastructure construction and land development projects. Such risks could be moderated through environmental studies and detailed planning before the start of the projects and close supervision during construction.

CYIG bears social risks as it implements public policy initiatives by building public infrastructure in Qionglai City by participating in the provision of the construction of public infrastructure projects including roads, bridges, schools, and other facilities.

CYIG's governance considerations are also material as the Company is subject to oversight by Qionglai City's Government and must 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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