

Credit Opinion

2 July 2024

Chengdu Xingdong Rural Development Group Co., Ltd.

Surveillance credit rating report

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

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

Summary

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 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 BBB_g 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.

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.

Rating Drivers

- Strategic role as the major agricultural infrastructure constructor and service provider in Longquanyi District
- Good sustainability of infrastructure construction business
- Track record of receiving government payments
- Moderate exposure to commercial activities
- High debt leverage with large short-term debt maturities
- Relatively large reliance on non-standard financing

Rating Sensitivities

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.

Key Indicators

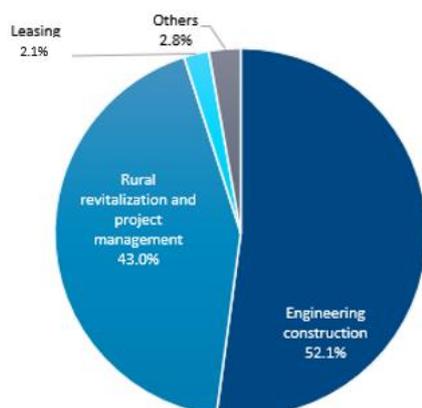
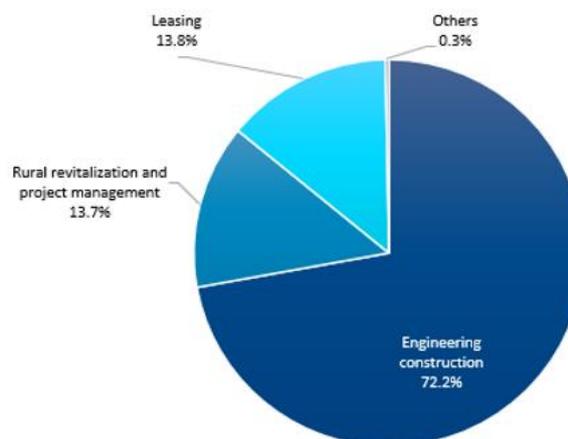
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	38.8	48.2	46.1
Total Equity (RMB billion)	11.6	15.9	16.0
Total Revenue (RMB billion)	1.2	2.0	2.2
Total Debt/Total Capital (%)	64.0	61.5	58.7

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

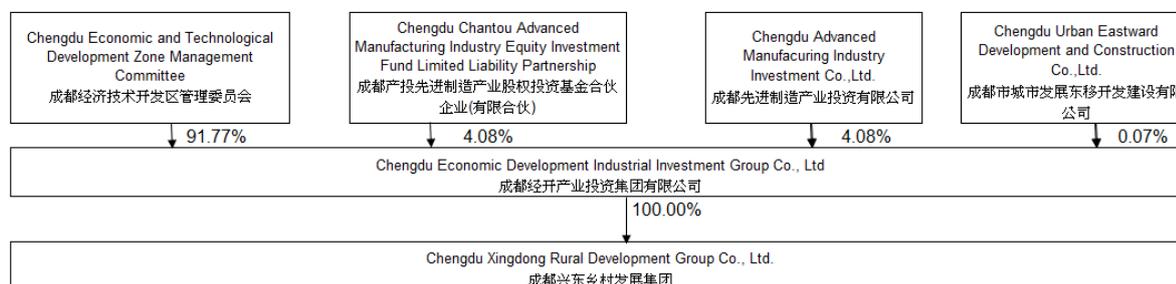
Source: Company information; CCXAP research

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").

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding and organization chart as of 31 December 2023

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Longquanyi District Government has a strong capacity to provide support for the Company given its good economic fundamentals and fiscal strengths.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a GRP of RMB6.0 trillion, with a YoY increase of 6.0%, ranking 5th in terms of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB522.9 billion in 2023, up by 13.3% 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. Chengdu's GRP increased to RMB2.2 trillion in 2023, representing a YoY increase of 6.0%. The Chengdu government's general budgetary revenue amounted to RMB192.9 billion in 2023, a YoY increase of 12.0%. Its fiscal balance ratio was 74.6%, which was at a moderate level. Chengdu's debt burden is manageable. In 2023, Chengdu's outstanding government debt increased to RMB522.9 billion with an increase trend, accounting for 101.3% of its total fiscal revenue and 23.7% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Chengdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,991.7	2,081.8	2,207.5
GRP Growth (%)	8.6	2.8	6.0
General Budgetary Revenue (RMB billion)	169.8	172.2	192.9
General Budgetary Expenditure (RMB billion)	223.8	243.5	258.7
Local Government Debt (RMB billion)	404.3	464.1	522.9

Source: Statistic Bureau of Chengdu City, CCXAP research

Longquanyi District is close to the five central districts of Chengdu City, and is a high-end manufacturing center in southwest China. Located in Longquanyi District, Chengdu ETDZ was approved by the State Council as a national-level economic development zone in 2000. Chengdu ETDZ combined the government administration with Longquanyi District and unified in government management, local planning and financing. Relying on the development of the automobile and auto parts industries, the economy of Longquanyi District has developed rapidly in recent years.

Longquanyi District's GRP increased from RMB 145.8 billion in 2022 to RMB150.3 billion in 2023, representing a YoY growth of 6.1%. Longquanyi District ranked 1st among 20 districts/counties by GRP in Chengdu City, accounting for about 6.8% of Chengdu's GRP. Longquanyi District Government's general budgetary revenue also significantly increased from RMB7.5 billion in 2022 to RMB8.5 billion in 2023 a YoY growth of 13.3%. Meanwhile, it managed to maintain high fiscal stability, in which tax revenue accounted for around 81.1% in 2023. Longquanyi also has relatively good fiscal self-sufficiency, with an average fiscal balance ratio of 68.4% over the past three years. In addition, Longquanyi District's outstanding government debt amounted to RMB26.3 billion with an increasing trend, accounting for 20.8% of its GRP.

Exhibit 5. Key Economic and Fiscal Indicators of Longquanyi District

	2021FY	2022FY	2023FY
GRP (RMB billion)	150.4	145.1	150.3
GRP Growth (%)	7.2	1.8	6.1
General Budgetary Revenue (RMB billion)	7.9	7.5	8.5
General Budgetary Expenditure (RMB billion)	10.9	11.6	12.6
Local Government Debt (RMB billion)	25.6	26.3	31.2

Source: Statistic Bureau of Longquanyi District, CCXAP research

As the key entity responsible for rural revitalization and agricultural development in Longquanyi District, we believe the enhancing regional fiscal metrics of Longquanyi District will strengthen the local government's capacity to support the Company. It is very likely that the Longquanyi District Government will provide stronger support to the Company if needed.

Government's Willingness to Provide Support**Strategic role as the sole agricultural infrastructure constructor and service provider in Longquanyi District**

There are 3 major Local Infrastructure Investment and Financing Companies ("LIIFCs") in Longquanyi District, including CEDI, Chengdu Jingkai Guotou Investment Group Co., Ltd. ("CJGI"), and Chengdu Economic Development Holding Group Co., Ltd. ("CEDH"). CEDH was mandated to consolidate the LIIFCs in Longquanyi District and is now operating as a holding company. CJGI is CEDH's major subsidiary, and responsible for the

urban development in Longquanyi District. CEDI is mainly responsible for the industrial development in Longquanyi District. In the future, further consolidation of the local LIIFCs maybe conducted according to government plans.

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. The Company continues to conduct infrastructure projects mainly under agency construction model. 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. As of end-2023, the Company had 9 infrastructure construction projects under construction or planning, with a total estimated investment amount of RMB9.4 billion and an outstanding amount of RMB1.3 billion. 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.

The Company also undertakes the rural revitalization projects in Longquanyi District, and is responsible for the development of collectively-owned land parcels. The Company will first bear the cost of land development and the developed land will then be sold via the public market. As of 31 December 2023, the Company had 6 major land development projects under consolidation or planning, with a total estimated investment amount of RMB7.2 billion and an outstanding amount of RMB3.7 billion.

In addition, the Company is mandated by the local government to purchase ecological migration projects owned by local village committees. As of end-2023, the Company has purchased relevant projects worth RMB26.8 billion. According to the local government, relevant local government institutions will repurchase the ecological migration project from the Company. However, the detailed repurchase arrangement has not yet been clarified, causing relatively large capital occupation. Therefore, the repayment progress needs to be closely monitored. Nevertheless, the Company has the right to sell the resettlement houses or earn rental income on the properties associated with the ecological migration projects.

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.

The Company engages in leasing business, such as residential shops, local markets and community commercial complexes. Notably, the Company is the sole entity responsible for managing all the vegetable markets in Longquanyi District, which mainly supply vegetables and other agricultural products to the local residents. Given the high occupancy rate of the leased properties, this segment provided a stable rental income to the Company, which recorded a rental income of RMB48.7 million in 2023.

The agricultural sales business mainly covers various raw materials of catering service, such as wheat and oil. The downstream customers are mainly local government institutions and state-owned enterprises. The agricultural sales revenue increased from RMB12.7 million in 2022 to RMB56.9 million in 2023, but recording negative gross profit. In addition, the Company also engages in other commercial business such as commodity trading and plantation. However, the scales of these segments are relatively small, hence the contribution of these business to the total revenue is limited.

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. In 2023, the local government provided financial subsidy of RMB25.2 million. In addition, the Company also received equity of a local funeral service business company from the local government, with a total book value of RMB3.8 million. The Company also regularly receives repurchase payments for its public policy projects. Given CXRD's important strategic role, we expect the Company will continue to receive support from the Longquanyi District Government in the future.

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. Its short-term debt accounted for around 53.1% (2022:40.2%) of its total debt as of 31 December 2023, of which non-standard financing accounted for around 43.2%. Meanwhile, it plans to replace existing non-standard borrowings with bank loan, especially project loan. Besides, its cash to short-term debt remained at 0.1x. 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.

Moderate asset liquidity

CXRD has moderate asset liquidity. The Company's total asset mainly consists of receivables and non-current assets, which accounted for 84.3% of its total asset as of 31 December 2023. Receivables are mainly unreceived payments from the agencies of the government or other state-owned companies. Non-current assets are investment costs for its public projects, all of which are considered low liquidity. Meanwhile, the restricted asset of the Company amounted to RMB2.4 billion as of end-2023, which accounted for 14.9% of net asset.

Relatively large reliance on non-standard financing

CXRD has access to funding as mainly reflected by its good banking relationships and access to the onshore debt market. Around 54.3% of the Company's debt was provided by bank loans. As of end-2023, the Company had a total of bank facility of RMB14.5 billion and available balance of RMB2.7 billion. In addition, its parent Company CEDI held a total facility of RMB102.4 billion and available facility of RMB42.0 billion, which is likely to provide credit cushion when necessary. 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, including financial leasing, trust financing and asset management financing. The Company's overall financing cost was about 6.9%, while the non-standard financing cost of around 9%. The Company plans to issue offshore bonds to broaden its financing channel and reduce its reliance on non-standard financing.

Furthermore, the Company has certain exposure to contingent liability risks as its external guarantee amount accounted for 13.6% of net assets at end-2023 and most of the guarantee was provided to local state-owned enterprises.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CXRD assumes environmental risks for its infrastructure construction projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CXRD is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Longquanyi District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CXRD believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

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

Appendix

Exhibit 6. Peer Comparison

	Chengdu Xingdong Rural Development Group Co., Ltd.	Chengdu Sino French Ecological Park Investment Development Co.Ltd.
Long-Term Credit Rating	BBB _g	BBB _g
Shareholder	CEDI	CEDI (96.77%), Chengdu ETDZ Jinfa Equity Investment Fund Center (3.23%)
Positioning	Responsible for agricultural development and rural revitalization in Longquanyi District.	Responsible for the construction of infrastructure and public facilities, investment promotion, and other relevant services in the Sino-French Ecological Park (located in Longquanyi District)
Total Asset (RMB billion)	46.1	38.9
Total Equity (RMB billion)	16.0	10.7
Total Revenue (RMB billion)	2.2	3.5

Source: Company information, CCXAP research

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