

## Credit Opinion

27 June 2024

## Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd.

### Surveillance credit rating report

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

**CCXAP affirms Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd. (“JAID” or the “Company”) reflects Jianyang City 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 the Jianyang City Government’s capacity to provide support reflects Jianyang City’s vital position in Chengdu City, given its good industrial base, but constrained by relatively small economic scale and heavy debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic role as the major agricultural infrastructure constructor and service provider in Jianyang City; (2) high sustainability of infrastructure construction business; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) increasing debt leverage with large short-term debt maturities; (2) funding channels need to be improved; and (3) moderate assets liquidity.

The stable outlook on JAID’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 infrastructure construction in Jianyang City.

### Analyst Contacts

Jonathan Kwong +852-2860 7132

Credit Analyst

[jonathan\\_kwong@ccxap.com](mailto:jonathan_kwong@ccxap.com)

Waldo Li +852-2860 7137

Assistant Credit Analyst

[waldo\\_li@ccxap.com](mailto:waldo_li@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

*\*The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

### Client Services

Hong Kong +852-2860 7111

## Rating Drivers

- Strategic role as the major agricultural infrastructure constructor and service provider in Jianyang City
- High sustainability of infrastructure construction business
- Solid track record of receiving government payments
- Low exposure to commercial activities
- Increasing debt leverage with large short-term debt maturities
- Funding channels need to be improved
- Moderate asset liquidity

## 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 reduced government payments.

## Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	9.4	13.9	14.3
Total Equity (RMB billion)	3.9	5.9	5.8
Total Revenue (RMB billion)	0.6	0.8	1.3
Total Debt/Total Capital (%)	45.4	48.7	50.6

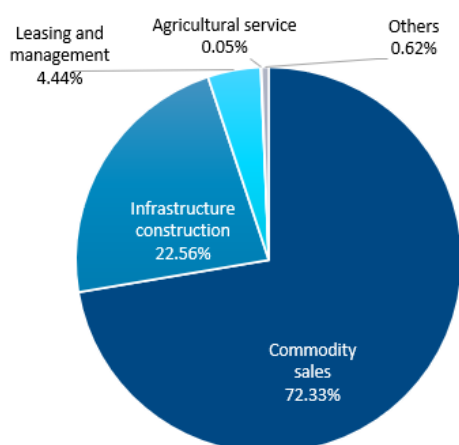
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Founded in 2016, formerly known as Jianyang Huizhong Agricultural Investment Development Co., Ltd. JAID has a clear positioning of rural revitalization and agricultural development. The Company is primarily responsible for agricultural infrastructure development in Jianyang City. Apart from public development projects, the Company also derives revenue from businesses such as agricultural sales, agricultural services, leasing and management. As of 31 December 2023, Jianyang State-owned Assets Management Committee ("Jianyang SAMC") controlled 95% of JAID's shares and was the ultimate controller.

### Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Jianyang City Government has a strong capacity to provide support to the Company, given its good industrial base, but relatively small economic scale and heavy debt burden.

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 5<sup>th</sup> 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 2. 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

Jianyang City is a county-level city under the administration of Chengdu, with a total area of 2,213 square kilometers. Chengdu Tianfu International Airport is located in Jianyang City, which plays a leading role in the development of Jianyang City. As an important industrial city in Sichuan Province, Jianyang's industrial base

mainly focused on mechanical manufacturing, agricultural and sideline food processing, rubber and chemical production, textile and clothing manufacturing, pharmaceutical production, and building materials. Benefited by its good industrial base, Jianyang's GRP amounted to RMB 80.7 billion in 2023, a YoY increase of 10.4%. Jianyang City Government's general budgetary revenue was RMB5.2 billion in 2023, of which tax revenue accounted for 56.0%. However, Jianyang has moderate fiscal self-sufficiency, with an average fiscal balance ratio of 49.0% over the past three years. In addition, Jianyang has a relatively heavy debt burden. Jianyang's outstanding government debt amounted to RMB13.3 billion with an increasing trend, accounting for 27.4% of its GRP in 2022.

### Exhibit 3. Key Economic and Fiscal Indicators of Jianyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	62.0	61.0	80.7
GRP Growth (%)	8.0	1.6	10.4
General Budgetary Revenue (RMB billion)	3.4	3.0	5.2
General Budgetary Expenditure (RMB billion)	6.8	6.9	13.4
Local Government Debt (RMB billion)	12.0	13.3	13.6

Source: Statistic Bureau of Jianyang City, CCXAP research

### Government's Willingness to Provide Support

#### Strategic role as the major agricultural infrastructure constructor and service provider in Jianyang City

According to the reform and reorganization plan of state-owned enterprises in Jianyang City in 2022, there are three major local infrastructure investment and financing companies ("LIIFCs") in Jianyang City and each with different positioning, including urban development, industrial development, and agricultural development. JAID has a clear positioning of agricultural infrastructure construction and agricultural industrial park development in Jianyang City. It is also responsible for the agricultural service in Jianyang City, such as storage and sales of national grain. Considering the Company's high strategic significance to the development of Jianyang City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

#### High sustainability of infrastructure construction business

The Company has successfully delivered a series of large-scale agricultural infrastructure projects and public welfare facilities over the past few years, such as agricultural industry projects and tourism projects. The Company continues to conduct the infrastructure construction projects under agency construction model. The Company carries out project construction with government funds and self-raised funds. As of 31 December 2023, the Company had 4 infrastructure construction projects under construction or planning, with a total estimated investment amount of RMB1.3 billion and an outstanding amount of RMB1.3 billion. We expect that the considerable projects in the pipelines can ensure the sustainability of the infrastructure construction business, but exert large capital expenditure pressure on the Company.

In addition, the Company also participates the "high-standard farmland project", which is a sub-project of Chengdu Municipal Project in Jianyang City. The project involves the construction of farmland, canals, roads, and facility land, as well as land improvement projects. As of 31 December 2023, the Company has 4 major high-standard farmland projects under consolidation or planning, with a total estimated investment amount of RMB527.4 million and an outstanding amount of RMB425.7 million.

In addition, the Company has a relatively large amount of receivables in repurchase payments. As of end-2023, the Company had 8 completed infrastructure projects, with a total estimated investment amount of RMB2.0

billion and received a repayment amount of RMB290.0 million. As there were relatively large amounts of receivables in repurchase payments from the infrastructure projects, as well as the prolonged repayment period and high repayment uncertainty, which caused a certain degree of capital pressure on the Company.

### **Low exposure to commercial activities**

In addition to public activities, JAID is also involved in various commercial activities such as agricultural sales and self-operating projects. We consider JAID's commercial business exposure to be low, as its market-driven businesses account for lower than 15% of its total assets.

JAID's revenue mainly comes from the sales of agricultural products, which accounted for more than 70% of its total revenue in 2023. The agricultural sales business mainly involves the production and sales of agricultural products, such as corn, soybean meal and sorghum. In addition, the revenue of the business significantly increased from RMB420.4 million in 2022 to RMB929.8 million in 2023. However, the business is subject to certain concentration risks as the top 5 customers and suppliers both accounted for 79.3% and 85.2% of total sales and total procurement as of 31 December 2023.

JAID also engaged in the construction of self-operated projects, such as agricultural science and technology park, logistics center, and research and development center. The Company constructs these projects with self-raised funds and special funds, exerting certain capital expenditure pressure. As of 31 December 2023, it had 11 major self-operated projects under construction or planning, with a total estimated investment of RMB2.7 billion and an outstanding investment amount of RMB2.6 billion. The Company will generate rental income to achieve capital balance. Given the large amount of construction of self-operating projects, we expect the Company will increase its commercial activities exposure in the future.

### **Track record of receiving government payments**

JAID has a track record of receiving payments from the Jianyang City Government. These payments take various forms, such as government subsidies and capital injections, which effectively improved the Company's cash flow and financial leverage. In 2023, the Company continued to receive solid support from the government. The Company received government subsidies of RMB89.7 million from the local government. The Company also regularly receives repurchase payments for its public policy projects. Given JAID's important strategic role, we expect the Company will continue to receive support from the Jianyang City Government in the future.

### **Increasing debt leverage with large short-term debt maturities**

JAID's total debt had increased from RMB5.6 billion at end-2022 to RMB5.9 billion as of 31 December 2023, its total capitalization increased from 48.7% to 50.6% over the same period. The increase in debt was mainly attributable to the expansion of the construction projects. The Company had an unbalanced debt structure, its short-term debt accounted for around 56.9% of its total debt as of 31 December 2023 (2022: 48.7%). As of 31 December 2023, the Company had 19 major projects under construction or planning, with an expected investment of RMB4.6 billion and an outstanding amount of RMB4.3 billion. Given the Company's relatively large capital expenditure pressure, we expect the Company will maintain a fast debt growth and relatively high debt leverage for the next 12-18 months.

### **Moderate asset liquidity**

Furthermore, JAID has moderate asset liquidity. The Company's total asset mainly consists of inventories and non-current assets, which accounted for 77.3% of its total asset as of 31 December 2023. Inventories are mainly

investment costs for construction projects. Non-current assets are mainly fixed assets and intangible assets, mainly including sandstone mining rights and pipeline and land-use rights injected by Jianyang City Government, all of which are considered low liquidity.

Meanwhile, it had external guarantee of RMB1.4 billion as of end-2023, representing 24.9% of its net asset. As all the guarantee is provided to local state-owned enterprises, we believe the contingent risk is manageable. However, in case a credit event occurs, the Company may still face certain contingent liability risks, which could negatively impact its credit quality.

### **Funding channels need to be improved**

JAID has access to funding as mainly reflected by its good banking relationships. Around 68.2% of the Company's debt was provided by bank loan. As of 31 December 2023, it held available credit facilities of RMB2.7 billion. In 2024, the Company has further expanded its funding channel to offshore debt capital market. The Company has issued JPY9.8 billion in the offshore bond market, with an average coupon rate of 3.3%. In addition, the Company has a relatively high reliance on non-standard financing. Around 23.6% of debt financing was provided by non-standard financing, including financial leasing. The Company's overall financing cost was about 7.06%. Given the issuance of the offshore bonds and its broadening financing channel, we believe the Company will reduce its reliance on non-standard financing.

### **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. JAID 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.

JAID is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jianyang City. 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. JAID 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

	<b>Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd.</b>	<b>Sichuan Jianzhou Airport Industrial &amp; Finance Investment Development Group Co., Ltd.</b>
Long-Term Credit Rating	BBB <sub>g</sub> -	BBB <sub>g</sub> -
Shareholder	Jiayang State-owned Assets Management Committee	Jiayang State-owned Assets Management Committee
Positioning	Responsible for rural revitalization and agricultural development in Jiayang City	Responsible for industrial investment and development in Jiayang City
Total Asset (RMB billion)	14.3	65.0
Total Equity (RMB billion)	5.8	34.3
Total Revenue (RMB billion)	1.3	9.2

*Note: Financial data of Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd. are from 2023FY while Sichuan Jianzhou Airport Industrial & Finance Investment Development Group Co., Ltd. are from 2022FY.*

Source: Company data, CCXAP research

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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656