

## Credit Opinion

30 January 2023

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

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## Chengdu Longke Urban and Rural Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Chengdu Longke Urban and Rural Development Group Co., Ltd. with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Chengdu Longke Urban and Rural Development Group Co., Ltd. (“LURD” or the “Company”) reflects Chengdu Wenjiang District Government’s relatively 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) ultimate control by Chengdu Wenjiang District State-Owned Assets Supervision and Administration Bureau (“Wenjiang District SASAB”); (2) strategic position of infrastructure construction in the northern area of Wenjiang District; and (3) solid track record of receiving government payments.

However, the Company’s rating is constrained by the Company’s (1) medium exposure to commercial activities; and (2) relatively high debt growth driven by a large number of construction projects.

The stable outlook on LURD’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 important rural revitalization infrastructure construction entity in Wenjiang District.

## Rating Drivers

- Strategic position of infrastructure construction in the northern area of Wenjiang District
- Undertaking large infrastructure construction and demolition projects
- Solid track record of receiving government payments
- Relatively high debt growth driven by a large number of construction projects
- Medium exposure to commercial activities
- Access to multiple financing channels

## 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 decreasing exposure to commercial activities or improving debt management.

### 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

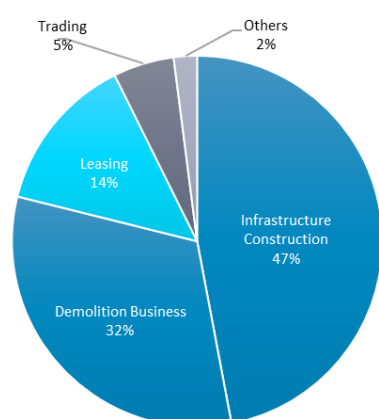
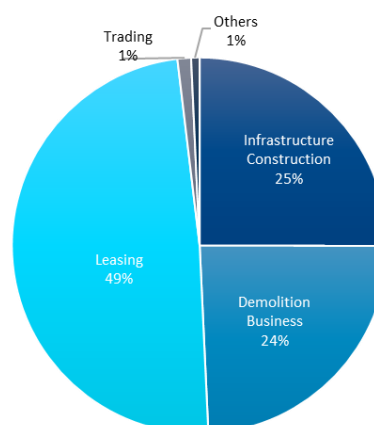
	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	26.5	57.0	61.3	64.2
Total Equity (RMB billion)	16.7	44.6	47.9	48.3
Total Revenue (RMB billion)	1.4	2.1	2.2	1.5
Total Debt/Total Capital (%)	34.4	19.5	19.1	22.2

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

Source: CCXAP research

## Corporate Profile

Founded in 2014, formerly known as Chengdu Sanlian Property Management Co., Ltd., LURD was mainly engaged in the property service business. Since 2021, Wenjiang District SASAB has successively transferred the equity shares of Chengdu Longbo Investment Co., Ltd. ("Longbo Investment") and other state-owned entities into the Company, LURD has become an important infrastructure construction entity in Wenjiang District. The Company is primarily responsible for infrastructure construction and demolition in the north of Wenjiang District. Apart from its main business, the Company is also engaged in other commercial businesses, such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. As of 30 September 2022, the Company is directly and wholly owned by the Wenjiang District SASAB.

**Exhibit 1. Revenue Structure in 2021****Exhibit 2. Gross Profit Structure in 2021**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Wenjiang District Government has a relatively 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 2021, Sichuan recorded a GRP of RMB5.4 trillion, with a GRP growth rate of 8.2% year on year ("YoY"), ranking 6<sup>th</sup> in terms of GRP among all provinces in China. In the first three quarters of 2022, Sichuan's GRP was RMB4043.3 billion, a YoY increase of 1.5%; Its general budgetary revenue increased to RMB347.0 billion, up 5.3% 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. In 2021, Chengdu achieved a GRP of RMB2.0 trillion, a YoY increase of 8.6%, ranking 7<sup>th</sup> in terms of GRP among Chinese cities. In the first three quarters of 2022, Chengdu recorded a GRP of RMB1493.0 billion, an increase of 3.4% YoY. Supported by increases in tax revenue, the Chengdu government's general budgetary revenue increased from RMB152.0 billion in 2020 to RMB169.8 billion in 2021. Its fiscal balance ratio was 75.9%, which was at a moderate level. Chengdu's debt burden is manageable. In 2021, Chengdu's outstanding debt was RMB404.3 billion, accounting for 79.3% of its total fiscal revenue and 20.3% of its GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City**

	2019FY	2020FY	2021FY
GRP (RMB billion)	1701.2	1,771.7	1,991.7
GRP Growth (%)	7.8%	4.0%	8.6%
General Budgetary Revenue (RMB billion)	148.3	152.0	169.8
General Budgetary Expenditure (RMB billion)	200.7	215.8	223.8
Local Government Debt (RMB billion)	282.3	344.0	404.3

Source: 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 2021, the GRP of Wenjiang District increased by 7.2% to RMB68.8 billion. In the first half of 2022, the GRP of Wenjiang District recorded RMB36.0 billion, with an increase of 2.8% YoY. Wenjiang District Government's general budgetary revenue increased to RMB5.0 billion in 2021. Wenjiang District had a relatively good fiscal self-sufficiency rate of 72.9% in 2021. Its tax revenue was RMB4.0 billion, accounting for 80.1% of its general budgetary revenue. However, Wenjiang District had a moderate debt profile, with a government debt to GRP ratio of 23.7% as of 31 December 2021.

Over the past few years, Wenjiang District focused on building three major industrial parks, namely Wenjiang Urban Modern Agricultural High-tech Industrial Park, Chengdu Medical City Industrial Park and Chengdu Health Service Industry Agglomeration Area. Among them, Wenjiang Urban Modern Agricultural High-tech Industrial Park is mainly constructed by LURD. The construction of the industrial park will provide opportunities for the Company's development in the future.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Wenjiang District**

	2019FY	2020FY	2021FY
GRP (RMB billion)	59.6	62.4	68.8
GRP Growth (%)	8.1%	5.1%	7.2%
General Budgetary Revenue (RMB billion)	4.5	4.6	5.0
General Budgetary Expenditure (RMB billion)	5.7	7.1	6.9
Local Government Debt (RMB billion)	11.3	14.4	16.3

Source: CCXAP research

#### **Government's Willingness to Provide Support**

##### **Strategic position of infrastructure construction in the northern area of Wenjiang District**

There are three major local infrastructure investment and financing companies ("LIIFCs") in Wenjiang District, including Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. ("WXCO") and Chengdu Jiulian Investment Co Ltd. ("Jiulian Investment") and the Company. According to the development blueprint of Wenjiang District, the southern part of the district, covering 110 km<sup>2</sup>, is set to become the downtown and a hub of modern industries. The 167 km<sup>2</sup> 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 trees nurseries. WXCO is mainly responsible for infrastructure construction and urban comprehensive operation service in the southern part of Wenjiang District, while Jiulian Investment is mainly responsible for infrastructure construction and operation in Chengdu Medical City Industrial Park.

Wenjiang District SASAB injected Longbo Investment into the Company in August 2021. As of 31 December 2021, Longbo Investment recorded a total asset of RMB48.5 billion. After the injection of Longbo Investment, the Company has a clear positioning and is committed to promoting the rural revitalization and integrated development of urban and rural areas in Wenjiang District. The Company is mainly engaged in the construction of infrastructure, seedling bases, agricultural parks and other projects in the northern area of Wenjiang District, as well as demolition in the northern and southern areas of Wenjiang District. In order to accelerate the development of the northern area of Wenjiang District, the Wenjiang government is constructing a 698 km

greenway to connect its northern and southern parts with the aim of supporting rural revitalization and boosting industrial development in fields like tourism, creativity, sports and leisure in the region. Considering the Company's strategic significance to the development of the local economy and public activities, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **Undertaking large infrastructure construction and demolition projects**

LURD is mandated by the government to undertake local public activities, such as local infrastructure construction and demolition project. The Company's infrastructure projects are mainly undertaken by its subsidiaries, Longbo Investment. LURD has successfully completed a series of large-scale infrastructure projects over the past few years, including road upgrading projects and land consolidation. The Company conducts infrastructure construction projects from repurchasing model to the agency construction model. Under the repurchasing model, the Company signs a project repurchasing agreement with Wenjiang District Finance Bureau, which would settle with the Company every year. The repurchase price is based on the construction cost plus a 10% return. Under the agency construction model, the Company signs an agency construction agreement with the entrusting party, which would settle with the Company every year. The settlement income is based on the construction cost plus a 20% return. As of 30 June 2022, the Company had 22 infrastructure construction projects under construction or planning, with a total investment amount of RMB2.7 billion and an outstanding amount of RMB557.0 million.

In addition, LURD is entrusted by the government to undertake demolition projects in the northern and southern areas of Wenjiang District since 2018. The Company's demolition projects are mainly undertaken by its subsidiaries, Chengdu Longke Heyue Enterprise Management Co., Ltd. LURD conducts demolition projects by entering an agency demolition agreement with the entrusting party. The Company is responsible for relocation and resettlement work in the corresponding area. The entrusting party would settle with the Company every year and the settlement income are based on the total demolition cost plus an agreed return. As of 30 June 2022, the Company had 10 demolition projects under construction, with a total investment amount of RMB705.0 million and an outstanding amount of RMB45 million. The scale of demolition project reserves is relatively small as it relies on the urban planning of Wenjiang District Government.

### **Medium exposure to commercial activities**

In addition to public welfare activities, LURD is also involved in other commercial activities such as self-operating projects, leasing, material and plant trading, entrusted loans and greening. We consider LURD's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

LURD engages in the construction of self-operating projects, such as the Agricultural High-tech Industrial Park project and Wenjiang District Youqing Flower Industry Base project. The self-operating projects mainly achieve income through assets operating, leasing and selling from these projects. As of 30 June 2022, the Company had 10 self-operating projects under construction or planning, with a total investment amount of RMB7.9 billion and an outstanding amount of RMB6.0 billion. As the investment scale of self-operating projects is relatively large and the payback period is long, the Company will face large capital expenditure pressure in the future.

The Company provides water infrastructure facilities leasing and other commercial assets leasing since 2017, such as residences and commercial properties. Income from water infrastructure facilities leasing is stable as the Company signed a leasing agreement with Chengdu Kerong City Investment Co., Ltd. ("CKCI"), and the Company leased out the water infrastructure facilities to CKCI until 2028, the annual rent during the lease period is RMB171.0 million; the profitability of water infrastructure facilities leasing was relatively good, with the gross

profit margin at around 66%. However, income from other commercial assets is more volatile as it is subject to market conditions and government policies.

LURD conducts plant trading business by cultivating and selling plants, as well as providing a plant trading platform. The plant trading business has a relatively low profit margin as it is affected by the market demand, transportation and labor cost. LURD also sells construction materials to construction companies, such as steel. As of 30 September 2022, there were only two customers and the top 5 suppliers accounted for 85% of the supply. A high concentration of risk can lead to lower pricing and negotiation leverage, reducing its profitability.

The Company provides entrusted loan services in order to support local enterprises, including private-owned enterprises and state-owned enterprises. As of 30 September 2022, LURD had a lending amount of RMB65.0 million with an interest earning of RMB1.0 million in 2022Q3. Given the uncertainty in recovery, LURD also recorded a provision for impairment of RMB36.0 million for private-owned enterprises, which brings certain credit contagion risks to the Company. Due to the changes in government policy, the Company will no longer operate entrusted loan business in the future.

We believe the Company will increase the exposure of its commercial business in the future given the Company's plan to develop its self-operated projects. In addition, we consider the construction of Agricultural High-tech Industrial Park projects and Wenjiang District Youqing Flower Industry Base projects are still in the early phase, and the subsequent investment amount of the projects will be large, which will exert certain investment pressure and debt repayment pressure on the Company.

### **Solid track record of receiving government payments**

LURD has a proven track record of receiving ongoing government support from Wenjiang SASAB, including government subsidies, capital injections and equity transfers. The Company also regularly receives repurchase payments for its infrastructure construction and demolition projects, and from 2019 to 2021, received repurchase payments of approximately RMB249 million from the local government. In order to support the Company's business expansion, Wenjiang District SASAB transferred 100% shares of Longbo investment to the Company in 2021 and increased its capital reserve by RMB6.7 billion.

#### **Exhibit 5. Government support from 2019 to 2021**

<b>(RMB million)</b>	<b>2019FY</b>	<b>2020FY</b>	<b>2021FY</b>
Government Subsidies	178	252	237
Capital Injections	2,621	27,601	1,686
Repurchase Payments	38	66	145
<b>Total</b>	<b>2,837</b>	<b>27,919</b>	<b>2,068</b>

Source: CCXAP research

### **Relatively high debt growth driven by a large number of construction projects**

LURD has had relatively high debt growth due to its debt-driven business expansion over the past few years. Total debt increased from RMB8.8 billion at the end of 2019 to RMB13.8 billion on 30 September 2022. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. As of 30 June 2022, the Company had 32 construction projects under construction or planning. Most of the projects were mainly self-operating projects, with an outstanding amount of RMB6.0 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt growth for the next 12-18 months.

In addition, LURD has moderate asset liquidity. As of 30 September 2022, the Company's total asset consists mainly of inventories and receivables, accounting for 82% of its total asset. Inventories are mainly land use rights, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

### **Access to multiple financing channels**

The Company's large investment needs could be partly supported by its financing channels. As of 30 September 2022, around 59% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB3.0 billion. Around 31% of debt financing was provided by the onshore debt capital market. In addition, the Company is less dependent on non-standard financing, which accounted for 10% of its total debt. The overall financing cost of the Company was about 5.5%.

### **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. LURD assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction.

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

The consolidation of state-owned assets in Wenjiang District is still in progress. Governance considerations are also important for LURD as it is subject to oversight and reporting requirements of the local government, 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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