

## Credit Opinion

9 August 2023

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

### Analyst Contacts

Olivia Feng +852-2860 7133  
Senior Credit Analyst  
[olivia\\_feng@ccxap.com](mailto:olivia_feng@ccxap.com)

Jonathan Kwong +852-2860 7132  
Credit Analyst  
[jonathan\\_kwong@ccxap.com](mailto:jonathan_kwong@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

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

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Sichuan Jianzhou Airport Agricultural Investment Development Group Co., Ltd., 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 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 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) rapid debt growth; and (2) 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.

## 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
- Rapid debt growth and 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

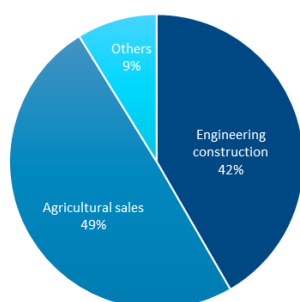
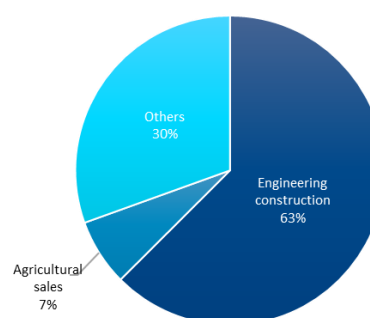
	2020FY	2021FY	2022 FY
Total Asset (RMB billion)	7.0	9.4	13.9
Total Equity (RMB billion)	3.1	3.9	5.9
Total Revenue (RMB billion)	0.3	0.6	0.8
Total Debt/Total Capital (%)	35.3	45.4	48.7

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

Source: 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 and self-operating projects. As of 31 December 2022, JAID was wholly owned and ultimately controlled by Jianyang State-owned Assets Management Committee ("Jianyang SAMC").

**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 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 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6<sup>th</sup> in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up 2.3% 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. Chengdu's GRP increased from RMB1.8 trillion in 2020 to RMB2.1 trillion in 2022. Affected by the pandemic and tax refund, the Chengdu government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. Its fiscal balance ratio was 70.7%, which was at a moderate level. Chengdu's debt burden is manageable. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increase 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)	215.9	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

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. Affected by

the pandemic, Jianyang's GRP amounted to RMB 48.6 billion in 2022, a YoY increase of 1.0%. Jianyang government's general budgetary revenue was RMB4.6 billion in 2022, of which tax revenue accounted for 67.4%. However, Jianyang has moderate fiscal self-sufficiency, with an average fiscal balance ratio of 50.2% 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 4. Key Economic and Fiscal Indicators of Jianyang City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	55.2	62.0	48.6
GRP Growth (%)	1.9	8.0	1.0
General Budgetary Revenue (RMB billion)	3.0	3.4	4.6
General Budgetary Expenditure (RMB billion)	7.1	6.8	7.8
Local Government Debt (RMB billion)	11.4	12.0	13.3

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 had 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 signs entrusting construction agreements with Jianyang SAMC, who would repurchase the construction upon project completion. The repurchase payment is calculated based on the construction cost plus a 15% return. The Company carries out project construction with government funds and self-raised funds. As of 31 December 2022, the Company had 11 infrastructure construction projects under construction or planning, with a total estimated investment amount of RMB2.3 billion and an outstanding amount of RMB1.9 billion.

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. The Company signs entrusting construction agreements with Chengdu Zhongbiao Investment Co., Ltd., who would repurchase the construction upon project completion. The repurchase payment is calculated based on the construction cost plus a 5% return. As of 31 December 2022, the Company has 4 major high-standard farmland projects under consolidation, with a total estimated investment amount of RMB2.5 billion and an outstanding amount of RMB1.1 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 has a relatively large amount of receivables in repurchase payments. As of 31

December 2022, the Company completed 12 major infrastructure construction projects, with a total expected income of RMB5.2 billion and received a repayment amount of RMB699.6 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 agricultural sales business, which accounted for 49% of its total revenue in 2022. The agricultural sales business mainly involves the production and sales of agricultural products, such as corn, soybean meal and sorghum. However, the business is subject to certain concentration risks as the top 5 customers and suppliers accounted for 100% of total sales and total procurement as of 31 December 2022. In addition, the gross profit margin for the business is low at 1.2% in 2022.

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 2022, it had 9 major self-operated projects under construction or planning, with a total estimated investment of RMB3.4 billion and an outstanding investment amount of RMB3.2 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. From 2020 to 2021 the local government injected assets and cash of about RMB1.8 billion into the Company. In 2022, Jianyang City Government injected paid-in capital of RMB600 million and state-owned assets (including pipe network, kitchen waster operation rights and sandstone) of RMB1.3 billion into the Company, significantly enhancing its capital strength and broadening its business mix. 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.

#### Exhibit 5. Track Record of Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	47	80	107
Capital Injections	1,066	737	1,926
Repurchase Payments	332	328	346
<b>Total</b>	<b>1,445</b>	<b>1,145</b>	<b>2,379</b>

Source: Company information, CCXAP research

### Rapid debt growth and moderate asset liquidity

JAID's total debt had increased from RMB1.7 billion at end-2020 to RMB5.6 billion as of 31 December 2022, its total capitalization increased from 35.3% to 48.7% 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 46.2% of its total debt as of 31 December 2022. As of 31 December 2022, the Company had 24 major projects under construction or planning, with an expected investment of RMB8.2 billion and an outstanding amount of RMB6.1 billion. Given the Company's relatively large capital expenditure pressure, we expect the Company will maintain a fast debt growth for the next 12-18 months.

#### Exhibit 6. Major Projects under Construction and Planning as of 31 December 2022

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
<b>Projects Under Construction</b>				
Infrastructure Construction	10	1,004	451	553
High-Standard Farmland Projects	4	2,512	1,386	1,126
Self-Operating Projects	5	1,255	210	1,045
<b>Projects Under Planning</b>				
Infrastructure Construction	1	1,300	-	1,300
Self-Operating Projects	4	2,124	-	2,124
<b>Total</b>	<b>24</b>	<b>8,195</b>	<b>2,047</b>	<b>6,148</b>

Source: Company information, CCXAP research

Furthermore, JAID has moderate asset liquidity. The Company's total asset mainly consists of inventories and non-current assets, which accounted for 77.6% of its total asset as of 31 December 2022. 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 properties injected by Jianyang City Government, all of which are considered low liquidity.

#### Funding channels need to be improved

JAID has access to funding as mainly reflected by its good banking relationships. Around 73% of the Company's debt was provided by bank loan. As of 31 December 2022, it held total credit facilities of RMB6.6 billion and available credit facilities of RMB2.7 billion. The Company currently has not issued any bond in the public market. In addition, the Company has a relatively high reliance on non-standard financing. Around 27% of debt financing was provided by non-standard financing, including financial leasing. The Company's overall financing cost was about 6.6%, while the non-standard financing cost of around 8.3%. The Company plans to issue offshore bonds to broaden its financing channel and 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.

### **Structural Consideration**

JAID's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its dominant position in the infrastructure construction in Jianyang City, thereby mitigating any differences in an expected loss that could result from structural subordination.

### **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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**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