

Credit Opinion

13 September 2023

Ratings

Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Olivia Feng +852-2860 7133

Senior Credit Analyst

olivia_feng@ccxap.com

Jonathan Kwong +852-2860 7132

Credit Analyst

Jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

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

Chongqing Changshou Development Investment (Group) Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Chongqing Changshou Development Investment (Group) Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Chongqing Changshou Development Investment (Group) Co., Ltd. ("CCDI" or the "Company") to BBB_g from BBB_g-. The rating upgrade is based on the Company's enhancing strategic position in Changshou District after the injection of Chongqing Yingdi Industrial (Group) Co., Ltd. ("Yingdi Industrial"), which strengthens the local government's willingness to support the Company. It also reflects the Company's further diversified funding channel to the offshore debt capital market.

The long-term credit rating of CCDI reflects Changshou District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of Changshou District Government's capacity to provide support reflects Changshou District's vital role in Chongqing City, with a good industrial foundation and economic strength.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) enhancing strategic position in Changshou District after the injection of Yingdi Industrial; (2) strong business position with sufficient project reserves in public services; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate debt growth and asset liquidity; and (3) moderate contingent risks associated with external guarantees.

The stable outlook on CCDI'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 major investment and construction entity in Changshou District.

Rating Drivers

- Enhancing strategic position in Changshou District after the injection of Yingdi Industrial
- Solid tracked record of receiving government payments
- Strong business position with sufficient project reserves in public services
- Medium exposure to commercial activities
- Moderate debt growth and asset liquidity
- Moderate contingent risks associated with external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) changes in the Company's characteristics enhance the local government's willingness to provide support, such as improved debt management or reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) changes in the Company's characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	57.3	60.6	82.5	83.8
Total Equity (RMB billion)	24.9	26.3	35.3	35.5
Total Revenue (RMB billion)	1.9	2.3	3.1	0.9
Total Debt/Total Capital (%)	52.9	53.3	53.9	55.2

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

Source: CCXAP research

Corporate Profile

Founded in 2002, formerly known as Chongqing Changshou Infrastructure Development Co., Ltd., CCDI is a key local infrastructure investment and financing company ("LIIFC") in Changshou District, Chongqing City. The Company is mainly responsible for engineering construction and land consolidation in Changshou District. Apart from its main business, the Company is also engaged in other commercial activities, such as material trading, self-operating projects, and property development. As of 31 March 2023, the State-owned Assets Supervision and Administration Commission of Changshou District ("Changshou SASAC") is the sole shareholder and ultimate controller of the Company.

In 2022, Changshou SASAC transferred a 100% share of Yingdi Industrial to the Company. Yingdi Industrial is one of the major LIIFCs in Changshou District, and is mainly responsible for engineering construction, land consolidation, and the development and operation of industrial parks.

Rating Considerations

Government's Capacity to Provide Support

We believe that the Changshou District Government has a strong capacity to provide support for the Company, given its good industrial foundation and economic strength.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing City. Thanks to the vigorous development of the industrial sector, Chongqing City's economy has demonstrated steady growth. In 2022, Chongqing recorded a gross regional product ("GRP") of RMB2.9 trillion, surpassing Guangzhou and ranking 4th among municipalities and prefecture-level cities in China, with a GRP growth rate of 2.6% year on year ("YoY"). Affected by the pandemic and tax refund, the general public budget revenue of Chongqing slightly increased from RMB209.5 billion in 2020 to RMB210.3 billion in 2022. The direct government debt balance of Chongqing amounted to RMB1,007.1 billion in 2022, accounting for 34.6% of its GRP for that year. We expect that Chongqing City will continue to serve as an important strategic city for the development of Western China, as well as a connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and will play a unique and important role in China's regional development and opening-up policy. In 2023H1, Chongqing recorded a GRP of RMB1.4 trillion, with a YoY increase of 4.6%.

Exhibit 1. Key Economic and Fiscal Indicators of Chongqing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2500.3	2789.4	2912.9
GRP Growth (%)	3.9	8.3	2.6
General Budgetary Revenue (RMB billion)	209.5	228.5	210.3
General Budgetary Expenditure (RMB billion)	489.4	483.5	489.3
Local Government Debt (RMB billion)	679.9	861.0	1,007.1

Source: Statistic Bureau of Chongqing City, CCXAP research

Changshou District is located in the northeast of central Chongqing City, with a total area of 1,424 square kilometers. It is an important water and land transportation hub in Chongqing City. Changshou District has a strategic location, being only 60 kilometers away from Chongqing Jiangbei International Airport and Chongqing North Railway Station. In 2022, Changshou District proposed the "3113" project plan, which focused on 3 major projects, including the "new material highland with global influence", the "world-class sports and health tourism destination" and the "China Changshou Life Science Park", with a total investment amount of RMB300 billion. Changshou's development strategy forms its pillar industries of iron and metallurgy, equipment manufacturing, new materials and new energy, biomedicine and electronic information. In 2022, the GRP of Changshou District has increased by 2.6% YoY to RMB91.9 billion. Affected by the tax refund, Changshou District's general budgetary revenue decreased from RMB5.4 billion in 2021 to RMB5.0 billion in 2022, with tax revenue accounting for 48.0%. Its fiscal balance ratio also decreased from 61.4% in 2021 to 55.3% in 2022, which was at a moderate level. Changshou District Government's debt has shown an increasing trend, with outstanding debts of RMB16.7 billion at end-2022, accounting for 18.2% of its GRP. In 2023H1, Changshou District's GRP amounted to RMB45.4 billion, with a YoY increase of 6.1%; while its general budgetary revenue amounted to RMB2.6 billion.

Exhibit 2. Key Economic and Fiscal Indicators of Changshou District

	2020FY	2021FY	2022FY
GRP (RMB billion)	73.3	86.6	91.9
GRP Growth (%)	4.2	9.7	2.6
General Budgetary Revenue (RMB billion)	4.2	5.4	5.0
General Budgetary Expenditure (RMB billion)	7.2	8.8	9.1
Local Government Debt (RMB billion)	12.9	14.1	16.7

Source: Statistic Bureau of Changshou District, CCXAP research\

Changshou High-tech Zone focuses on the construction of "China Changshou Life Science Park", forming its pillar industries of digital health service, generic drugs, and medical device, as well as coordinating the industries of biomedicine, modern traditional Chinese medicine, healthy food, and modern services. In 2022, Changshou High-tech Zone recorded a total industrial output value of RMB31 billion.

Government's Willingness to Provide Support**Enhancing strategic position in Changshou District after the injection of Yingdi Industrial**

After the consolidation of local state-owned enterprises, there are two major LIIFCs in Changshou District, namely CCDI and Chongqing Changshou Investment Development Group Co., Ltd. ("CCID"). The Company is mainly responsible for the engineering construction and land consolidation in Changshou High-tech Zone and Changshou core urban area, as well as the construction and sales of resettlement housing. CCID and its subsidiary, Chongqing Changshou Economic and Technological Development Zone Development and Investment Group Co., Ltd., are mainly responsible for cultural and tourism and ecological environment construction in Changshou District, as well as the development of the Changshou Economic and Technological Development Zone.

In order to further deepen the reform of state-owned enterprises and optimize the layout of state-owned capital, Changshou SASAC transferred Yingdi Industrial to the Company in 2022. Yingdi Industrial is one of the major LIIFCs in Changshou District. It undertakes major local public activities such as engineering construction and land consolidation in Changshou District, land consolidation in Changshou High-tech Zone, Changshou rural areas and agricultural plantations, as well as the development and operation of industrial parks in Changshou Industrial Park. In addition to its main business, Yingdi Industrial is also involved in material and grain trading, water supply, toll roads, leasing and pipe network installation. The injection of Yingdi Industrial has significantly broadened its geographic coverage and fully consolidated the Company's position in Changshou District. The Company has become the largest LIIFC by total assets and the major investment and construction entity in Changshou District, and we believe the Company's status is irreplaceable in the near to medium term.

Strong business position with sufficient project reserves in public services

CCDI is mandated by the government to undertake local public activities, such as local engineering construction and land consolidation. 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.

CCDI undertakes the development of land consolidation and land transfer projects in Changshou District, and mainly acquires land through government allocation. For land consolidation projects, the Company signed an agreement with Chongqing Changshou District Land Reserve Center, which would repay the Company based on the land consolidation cost after the completion of land consolidation. For land transfer projects, the Company

would sell the land through an open market and receive revenue. As of 31 December 2022, the Company had land resources of 2.6 million square meters, with a total book value of RMB6.4 billion. Given the relatively large amount of land reserves and the launch of the "China Changshou Life Science Park" project, we expect the sustainability of the land consolidation business to be strong. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty in its land transfer income.

CCDI is entrusted by the local government to undertake major engineering construction projects mainly in the core urban area, and has expanded its geographic coverage to the High-tech Zone in Changshou District after the consolidation of Yingdi industrial. As of 31 December 2022, the Company had 17 infrastructure construction projects under construction or planning, with a total investment amount of RMB13.3 billion and an outstanding amount of RMB4.1 billion. Given the relatively large number of infrastructure construction projects in the pipelines, exerting high capital expenditure pressure on the Company.

Medium exposure to commercial activities

In addition to public activities, CCDI is also involved in various commercial activities such as property development, material trading and self-operating projects. We consider CCDI's commercial business exposure to be medium, as its market-driven businesses account for around 15%-30% of its total assets.

The Company conducts property development business by constructing resettlement housing, public housing and low-rent housing, then sells or leases them to eligible persons. Since the property development business is policy-driven, the selling price is stipulated by the government. As of 31 December 2022, the Company had completed 17 property development projects, with a total salable area of approximately 2.9 million square meters ("sqm") and an unsold area of 1.8 million sqm. These property development projects are subject to changes in the real estate market. The Company had no property development projects under construction or planning. Affected by the downturn of property markets, the Company's property development business recorded a low gross margin of 5% in 2022.

CCDI is also involved in the material trading business, mainly engaging in grain, and building materials trading. The Company added refined oil trading in 2022, strengthening the diversification of the material trading business. The material trading business recorded a revenue of RMB588 million in 2022, which provides a stable supplementary income to the Company. However, most of the customers are private-owned companies, which may increase the payment recovery risk. In addition, the gross profit margin is as low as 3.4%.

The Company also engaged in self-operating projects, such as carpark, hotel, and exhibition center. These projects are self-operated, and achieve fiscal balance through property sales, leasing, and collection of property management fees. As of end-2022, the Company had 8 self-operating projects under construction, with a total investment amount of RMB4.2 billion and an outstanding amount of RMB2.6 billion, exerting a relatively large capital expenditure pressure.

Solid tracked record of receiving government payments

CCDI has a solid track record of receiving government payments from the Changshou District Government, Changshou SASAC and Changshou Finance Bureau. In 2022, the Company received government subsidies of RMB503 million, cash injection of RMB1.8 billion. The Company received a 100% share of Yingdi Industrial, and increased its capital by RMB6.7 billion. The Company also receives repurchase payments for its land consolidation projects and engineering construction projects, with repurchase amounts of RMB488 million and RMB108 million in 2022, respectively. However, the repurchase payments of engineering construction projects

are affected by the settlement progress, while the repurchase payments of land consolidation projects are mainly affected by the land market. Considering the important strategic role of CCDI, we expect the Company will continue to receive support from the local government in the future.

Exhibit 3. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	74	40	503
Capital Injections	1,265	449	1,807
Equity Transfer	99	9	6,703
Repurchase Payments			
- Engineering Construction	29	111	108
- Land Consolidation	-	448	488
Asset injection	-	2	-
Total	1,467	1,059	9,609

Source: Company information, CCXAP research

Moderate debt growth and asset liquidity

With the consolidation of Yingdi Industrial and the investment in local projects, CCDI's total debt increased from RMB29.4 billion at end-2021 to RMB43.0 billion as of 31 March 2023, while its total capitalization ratio slightly increased from 53.3% to 55.2% over the same period. In addition, the Company's short-term debt servicing pressure remains moderate. As of 31 March 2023, the Company's short-term debt accounted for 35.3% of its total debt (end-2021:41.6%). Given the Company's relatively large amount of projects in the pipeline, we expect the Company to maintain relatively high debt growth in the next 12-18 months.

In addition, CCDI has moderate asset liquidity. The Company's total asset mainly consists of inventories and investment properties, accounting for 76.3% of its total asset as of 31 March 2023. Inventories are mainly investment costs of land consolidation, engineering construction, and resettlement housing projects, with low liquidity. Moreover, as of 31 March 2023, the Company had a certain amount of restricted assets totaling RMB8.9 billion, which accounted for 10.8% of its total assets. All restricted assets were used to pledge bank loans.

Diversified funding channel

CCDI has good access to the onshore debt capital market and maintains a good relationship with large domestic banks. About 31% of the Company's debt financing was provided by domestic banks. As of 31 May 2023, it held a total bank credit facility of RMB27.0 billion, and the available credit facility was RMB6.3 billion. Around 46% of debt financing was provided by the onshore debt capital market. From 2022 to 2023Q1, CCDI raised a total of RMB11.4 billion via the issuance of various bond products, including SCPs, PPNs, and MTNs. Following the consolidation of Yingdi Industrial, the Company further diversified its funding channel to the offshore debt capital market. In July 2022, Yingdi Industrial issued an EUR bond, with a total issuance amount of EUR27 million. In addition, the Company has a relatively large reliance on non-standard financing, such as financial leasing and trust leasing, which accounted for about 23% of its total debt.

Moderate contingent risks associated with external guarantees

CCDI's credit profile is undermined by a large number of external guarantees. As of 31 December 2022, the total amount of external guarantees was RMB10.0 billion, which accounted for 28.3% of CCDI's net assets.

Most of the external guarantees are provided to local state-owned enterprises in Changshou District, while the private-owned enterprises only account for 0.1% of the total guarantees. However, relatively large guarantee exposures may increase the Company's contingent liability risks.

ESG Considerations

The Company is subject to environmental laws and regulations issued by national governmental authorities governing air pollution, noise emissions, hazardous substances, water and waste discharge, and other environmental matters. CCDI 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.

CCDI is also exposed to social risks as it implements public policy initiatives by building public infrastructure in Changshou District. Demographic changes, public awareness, and social priorities shape government development strategies, affecting 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 of the local government, reflecting its public policy role and status as a government-owned entity. CCDI believes it complies in all material respects with applicable government regulations, rules and executive orders in each jurisdiction in which it operates.

Structural Consideration

CCDI'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 strategic role as the major investment and construction entity in Changshou District, 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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656