

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.

HONG KONG, 28 February 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. (“WXCO”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that Wenjiang District People’s Government of Chengdu (“Wenjiang government”) would provide strong support to WXCO if needed, in light of its 100% ownership of WXCO, WXCO’s strategic position as the major development and operation entity of Wenjiang District in Chengdu and the strong linkage between the Wenjiang government and WXCO including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Wenjiang government may face significant negative impact on its reputation and financing activities should WXCO encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that WXCO’s strategic importance would remain intact while the Wenjiang government will continue to ensure WXCO’s stable operation.

Key Rating Rationales

Wenjiang Government’s Full Ownership: The Wenjiang government has 100% ownership of WXCO via the State-owned Assets Supervision and Administration Bureau of Wenjiang District (“Wenjiang SASAB”), which is appointed by the government to supervise state-owned entities. WXCO was established in April 2016, with an initial registered capital of RMB1 million. The registered capital of WXCO increased to RMB2 billion in 2020. The increase in registered capital will be injected in the form of cash and/or physical assets by the Wenjiang SASAB in three years. WXCO’s paid-in capital was RMB131 million at end-September 2021.

High Strategic Importance: WXCO is the largest and major LGFV responsible for infrastructure construction and operation, as well as resettlement housing construction and sales in Wenjiang. WXCO is the main urban operation comprehensive service provider in Wenjiang, and it has undertaken the construction of most infrastructure projects, such as municipal road and bridge construction, tunnel construction and relocation, and pipe network reconstruction projects in the region. Meanwhile, WXCO is also involved in building materials sales under franchise arrangement, leasing business and asset management business, with a diversified industrial structure, to support the urban development in Wenjiang.

Government Supervision and Strategic Alignment: The Wenjiang government has strong control and supervision over WXCO, including the control of the board of directors, senior

management appointments, and major strategic, investment and financing planning. WXCO's business operation and development have been aligned with the government's economic and social policies in Wenjiang. In addition, the Wenjiang government has an assessment system on WXCO. The Wenjiang SASAB and the Finance Bureau of Wenjiang District will assign auditor to audit WXCO's financial and operating data on a periodic basis.

Ongoing Government Support: WXCO has received support from the government such as subsidies, capital injections and financial support. The Wenjiang government and Finance Bureau of Wenjiang District have also repurchased a considerable amount of the completed infrastructure projects from WXCO in the past few years. WXCO is expected to continue receiving repayment from the government in the future from the projects completed and projects under development.

Moderate Financials and Liquidity Position: WXCO's earnings generation capability has been weak given its focus on contracting construction. WXCO's financial leverage (total liabilities to assets) was moderate at 43.5% at end-September 2021. Apart from the financial support from the government, WXCO has access to financing channels such as bank loans, bond issuance and other financing channels to support its debt repayment and business operation. WXCO had a total outstanding debt of RMB19.5 billion at end-2021, while the short-term debt was RMB4.7 billion, compared with its available credit lines of RMB15.7 billion at the same time.

Moderate Economy and Fiscal Strength Underpin Wenjiang: With GDP growth rate of 8.1% and 5.1% in 2019 and 2020, respectively, Wenjiang's economic growth had been mainly fueled by the secondary and tertiary industries in the past few years. The service industry had become the main GDP growth driver with the tertiary industry (the service sector) accounting for the largest, at 58.9%, of Wenjiang's GDP in 2020, followed by the secondary industry's (comprising manufacturing and construction) 34.7%.

Wenjiang's aggregate fiscal revenue was mainly derived from the stable budgetary revenue with tax revenue accounting for c. 80% in the past three years, followed by sustained growth in government-managed fund income. Wenjiang's fiscal debt ratio (total government debt outstanding/aggregate revenue) is slightly higher than the average level in Chengdu. Wenjiang's government debt increased from RMB11.3 billion at end-2019 to RMB14.4 billion at end-2020, representing an increase of c. 27%, mainly due to the new special bonds for municipal projects.

Rating Sensitivities

We would consider downgrading WXCO's rating if (1) there is perceived weakening in support from the Wenjiang government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Wenjiang government's ownership of WXCO, or (3) there is a downgrade in our internal credit assessment on the Wenjiang government.

We would consider upgrading WXCO's rating if (1) there is strengthened support from the Wenjiang government, or (2) there is an upgrade in our internal credit assessment on the Wenjiang government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this WXCO's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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