

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Dujiangyan Investment Development Group Co., Ltd.

HONG KONG, 11 April 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chengdu Dujiangyan Investment Development Group Co., Ltd. (“DIDG”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Dujiangyan City People’s Government (“Dujiangyan government”) would provide strong support to DIDG if needed, in light of its full ownership of DIDG, DIDG’s high strategic position as the only state-owned operation entity of Dujiangyan and the strong linkage between the Dujiangyan government and DIDG including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Dujiangyan government may face significant negative impact on its reputation and business and financing activities should DIDG encounter any operational or financial difficulties.

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

Key Rating Rationales

Dujiangyan Government’s Full Ownership: The Dujiangyan government has 100% ownership of DIDG via the State-owned Assets Supervision and Administration and Finance Bureau of Dujiangyan City, which is appointed by the government to supervise state-owned entities. DIDG was established with an initial registered capital of RMB5 billion in March 2020. At end-September 2021, the paid-in capital of DIDG was RMB2.3 billion.

High Strategic Importance to Dujiangyan: By consolidating 5 key functional LGFVs within Dujiangyan, DIDG has become the largest LGFV in terms of assets size and the only entity that undertakes infrastructure construction, affordable housing construction and land consolidation projects in Dujiangyan. DIDG has formulated a “1+5+N” strategy to restructure and manage regional state-owned entities, and it is responsible for various businesses including infrastructure construction, land consolidation, sand and gravel business, property sales, tourism, trade business, water and rental business etc., to support the economic and urban development in Dujiangyan. In the future planning of the Dujiangyan government, DIDG will continue to play a significant role in construction-related projects in Dujiangyan.

Government Supervision and Strategic Alignment: The Dujiangyan government has strong control and supervision over DIDG, including the control of the board of directors, senior management appointments, and major strategic, investment and financing planning. DIDG’s

business operation and development have been aligned with the government's economic and social policies in Dujiangyan.

Ongoing Government Support: DIDG has received strong support from the government such as government subsidies, capital injections and financial supports. The government has also injected capital, sand and gravel franchise and other state-owned assets since DIDG's inception. The Dujiangyan government has also purchased a considerable amount of the completed infrastructure projects from DIDG in the past three years. Thus, DIDG is expected to continue receiving repayment amount from the government in the future from the projects under development. We believe DIDG is likely going to receive timely government support in the form of operational and/or financial subsidies.

Moderately Weak Financials: DIDG's earnings generation capability has been weak given its focus on contracting construction. DIDG's financial leverage (total liabilities to assets) was c. 55% at end-September 2021. Apart from the financial support from the government, DIDG has access to financing channels such as bank loans, corporate bonds, and other financing channels to support its debt repayment and business operation. However, DIDG's total debt at end-2021 still consisted of a certain proportion of non-traditional financings. DIDG's liquidity was moderate. At end-2021, DIDG had total cash of c. RMB1.95 billion, of which c. RMB0.9 billion was unrestricted and a total credit line of RMB34.3 billion, of which approximately RMB12.5 billion was available, compared with its debt to be due within one year of c. RMB12.2 billion.

Moderate Economy and Relatively Weak Fiscal Strength of Dujiangyan: Dujiangyan realized c. RMB48.4 billion GDP with a year-over-year growth rate of 7.1% in 2021. Dujiangyan's economic growth is mainly fueled from the secondary and tertiary industries in the past few years. The service industry became the main GDP growth driver with the tertiary industry (the service sector) accounting for the largest, at 59%, of Dujiangyan's 2021 GDP, followed by the secondary industry's (comprising manufacturing and construction) 33%.

Dujiangyan's aggregate fiscal revenues are mainly derived from the relatively volatile government fund income and budgetary revenue. The tax revenue as a percentage of the budgetary revenue declined from c. 71% in 2019 to c. 57% in 2021. Dujiangyan's total debt outstanding decreased from RMB15.1 billion at end-2019 to RMB14.5 billion at end-2021. However, the fiscal debt ratio of Dujiangyan (total government debt outstanding/aggregate revenue) was moderately high within Chengdu with a relatively weak fiscal strength. Dujiangyan's financial self-sufficiency rate was low, consequently it has to rely on subsidies from higher governments.

Rating Sensitivities

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

on the Dujiangyan government, or (4) DIDG's exposure to non-traditional financings does not show a sign of reduction and/or there is a deterioration of liquidity.

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