

Chengdu Dujiangyan Investment Development Group Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	13 April 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Chengdu Dujiangyan Investment Development Group Co., Ltd. (“DIDG”). The Outlook is Stable.

Summary

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.

Rating Rationale

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 support. 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

Key Figures of Dujiangyan and DIDG (RMB billion)	2020	2021
Dujiangyan		
GDP	44.2	48.4
GDP growth rate (%)	4.1	7.1
Budgetary revenue	3.6	4.0
Government fund	4.5	4.3
Transfer payment	3.4	3.4
Budgetary expenditure	5.7	5.3
DIDG	2020	3Q2021
Assets	90.5	95.5
Equity	42.2	43.0
Revenue	4.2	2.9

Note: Transfer payment in 2021 is estimated given the lack of information
Source: Dujiangyan City People’s Government, Finance Bureau of Dujiangyan, DIDG and Lianhe Global’s calculations

Analysts

Ben Yau
+852 3462 9586
ben.yau@lhratingsglobal.com

Alex Kung
+852 3462 9577
alex.kung@lhratingsglobal.com

Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

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 was mainly fueled from the secondary and tertiary industries in the past few years. The service industry has become 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 percentage of 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.

Operating Environment

Moderate Economy with Stable Growth of Dujiangyan

Dujiangyan is a county-level city in Sichuan Province and under the administration of Chengdu, is located in the northwest of Chengdu and 48 kilometers away from the urban area. Dujiangyan is a famous historical and tourist city in China, with famous scenic spots such as Dujiangyan Dam. Dujiangyan scenic spot has been rated as one of the National 5A scenic spots in China since 2007. Dujiangyan has jurisdiction over 6 sub-districts and 5 towns with a total land area of 1,208 square kilometers, and a residential population of c. 0.7 million with an urbanization rate of 61.5%, according to the 7th National Census published in 2021.

Dujiangyan realized RMB48.4 billion GDP in 2021, representing a year-over-year growth rate of 7.1%. Dujiangyan's economic growth was mainly fueled by the secondary and tertiary industries in the past few years. Dujiangyan's whole-year GDP amount was ranked 16th in Chengdu in 2021 (out of 23 county-level cities, districts and zones). GDP per capita was c. RMB68,000 at end-2021.

Dujiangyan's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	42.5	44.2	48.4
-Primary industry (%)	8.0	8.3	7.8
-Secondary industry (%)	34.2	33.1	33.1
-Tertiary industry (%)	57.9	58.6	59.1
GDP growth rate (%)	8.0	4.1	7.1
Fixed asset investment	23.1	26.8	31.8
Fixed asset investment growth rate (%)	11.2	16.2	18.7
Population (million)	0.7	0.7	0.7

Source: Dujiangyan government's website and Lianhe Global's calculation

Relatively Weak Fiscal Condition of Dujiangyan

Dujiangyan's fiscal revenue continued to grow over the past three years. Its budgetary revenue grew by 8.4%, 18.8% and 10.5% in 2019, 2020 and 2021, respectively. However, tax revenue as a percentage of budgetary revenue decreased from c. 71% in 2019 to c. 57% in 2021, mainly due to the proportion of non-tax revenue's increase. The revenue from government-managed fund is mainly from the transfer of land use rights, but it fluctuates under the influence of government planning and market. The fiscal deficit of Dujiangyan improved in 2021, but the financial self-sufficiency rate was still low. It continued to receive substantial transfer payment or subsidies from higher government.

Dujiangyan's government debt continued to decline slightly from RMB15.1 billion at end-2019 to RMB14.5 billion at end-2021. In 2021, Dujiangyan's fiscal debt ratio (total government debt outstanding/aggregate revenue) declined, but it remained at a moderately high level.

Dujiangyan's Fiscal Condition (RMB billion)	2019	2020	2021
Budgetary revenue	3.0	3.6	4.0
Budgetary revenue growth rate (%)	8.4	18.8	10.5
Tax revenue	2.2	2.3	2.3
Tax revenue (% of budgetary revenue)	70.8	62.8	56.6
Government fund income	7.0	4.5	4.3
Transfer payment	2.2	3.4	3.4 ²
Aggregate revenue	12.3	11.5	11.8
Budgetary expenditure	4.7	5.7	5.3
Budget deficit ¹ (%)	-55.8	-57.9	-32.2

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

² Transfer payment in 2021 is estimated given the lack of information

Source: Finance Bureau of Dujiangyan and Lianhe Global's calculations

Ownership Structure and Profile

Full State Ownership with Strong Government Supervision

DIDG was established under the approval of Document No. 42 [2020] issued by the Dujiangyan government with an initial registered capital of RMB5 billion on 13th March 2020. At end-September 2021, DIDG's paid-in capital was RMB2,305 million. At end-2021, State-owned Assets Supervision, Administration and Finance Bureau of Dujiangyan City ("Dujiangyan SASAB") is the only and controlling shareholder with 100% ownership of DIDG.

As the only state-owned comprehensive operation entity in Dujiangyan, DIDG has formulated a "1+5+N" strategy to restructure regional state-owned entities. In 2020, the Dujiangyan SASAB transferred 100% equity of 成都市都江堰文旅集团有限责任公司 ("文旅集团"), 都江堰新城建设投资有限责任公司 ("新城建设") and 都江堰智慧城市运营建设发展集团有限公司 ("新城集团") to DIDG free of charge in June; transferred 100% equity of 都江堰兴市集团有限责任公司 ("兴市集团") to DIDG free of charge in July; and transferred 100% equity of 都江堰工业集中发展建设投资有限责任公司 ("工投公司") to DIDG free of charge in December, respectively. All 83 state-owned enterprises in Dujiangyan are under the overall management of DIDG after the reformation.

Strategic Importance and Government Linkage

Strategic Importance of DIDG to Dujiangyan

DIDG is the only LGFV platform for urban development and supporting the economic development of Dujiangyan. By consolidating 5 primary LGFV subsidiaries, DIDG plays an important role in regional businesses including but not limited to infrastructure construction, land consolidation, property sales, trade business, water business, rental business, tourism, sand and gravel business, and asset management, etc. We believe that the Dujiangyan government is willing to extend support to DIDG in view of its strategic important role as the only and major developer of Dujiangyan to support the local economic and industrial development, as well as urban services in Dujiangyan.

Strong Linkage with the Dujiangyan Government

DIDG's linkage with the local government is strong as it is wholly owned by the Dujiangyan government through Dujiangyan SASAB. The Dujiangyan government holds 100% stake in DIDG and it is the ultimate shareholder.

The Dujiangyan government has strong control and supervision over DIDG, including control of the board of directors, senior management appointments and major strategic, investing and financing plans. DIDG's strategic planning and development have been aligned with the local government's economic and social policies, aiming to develop Dujiangyan.

Ongoing Government Support

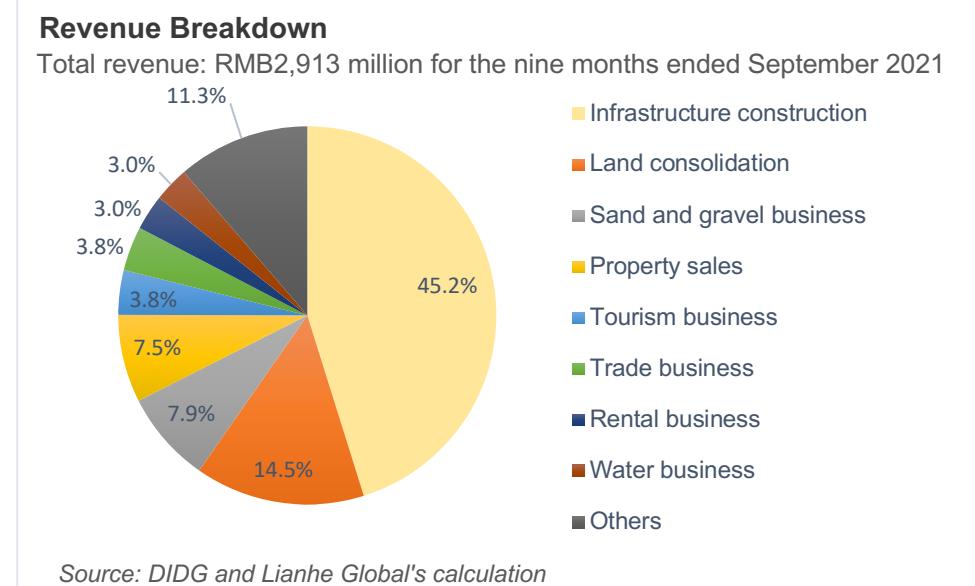
DIDG has received supports from the local government for its business operation, which are not limited to capital injections, government subsidies, allocation of land resources or assets and guidance from the government in its daily management. DIDG had received government support in 2020, mainly including capital injection, equity transfer and intangible assets. In 2021, DIDG received paid-in capital of RMB875 million. The rest of registered capital will be paid in the next 2-3 years by the Dujiangyan government.

DIDG has received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. We believe DIDG is likely going to receive timely government support in the form of operational and/or financial subsidies. DIDG also benefits from preferential tax and tax exemption policies in encouraged industries.

Business Profile

The Only LGFV Responsible for Infrastructure Construction, Land Consolidation and Other Regional Businesses in Dujiangyan

DIDG is the only LGFV in Dujiangyan, with total assets of RMB90.5 billion at end-2020 and increased to RMB95.5 billion at end-September 2021. By consolidating 5 primary LGFV subsidiaries, namely 文旅集团, 新城建设, 新城集团, 兴市集团 and 工投公司, DIDG plays an important role in regional businesses including infrastructure construction, land consolidation, property sales, trade business, water business, rental business, tourism, sand and gravel business, car park business, cemetery business, etc. DIDG's total revenue was RMB3.8 billion, RMB4.2 billion, RMB4.2 billion and RMB2.9 billion in 2018, 2019, 2020 and nine months ended September 2021, respectively. The main revenue resources are from infrastructure construction and land consolidation. Due to the market-oriented transformation strategy of DIDG, contribution from other businesses has gradually increased. DIDG's gross margin has been at the level of c. 21% - 24%, which is mainly affected by the low gross margin of infrastructure construction and land consolidation, although the gross margin of other businesses is relatively high.



Infrastructure Construction

As the only entity responsible for infrastructure construction in Dujiangyan, DIDG has a regional monopoly position. The infrastructure construction and resettlement housing construction segments are mainly operated through an agent construction business model. The entrusting parties are mainly government departments such as Finance Bureau of Dujiangyan and other state-owned enterprises in the region. After the construction is completed, the entrusting party will buy back the project in three years, according to the provisions, which usually include the total investment amount plus a profit margin. As a result, most of the account receivables of DIDG are from government departments. DIDG undertakes key development projects in Dujiangyan, including but not limited to urban renewal projects, municipal roads construction, bridge construction and other scenic spot greening projects. Due to the number of projects under development, there will be a consistent need for capital expenditure in the future.

As the major business of DIDG, revenue from infrastructure construction was RMB1.9 billion, RMB1.7 billion, RMB1.8 billion and RMB1.3 billion, accounting for c. 49%, 42%, 42% and 45% of total revenue in 2018, 2019, 2020 and nine months ended September 2021, respectively. The gross margin of this business has been steady at around 13.5%, which has acted as a drag on DIDG's gross margin.

Land Consolidation

DIDG also has a regional monopoly position for implementing land consolidation projects. This business is mainly operated by its subsidiaries. The entrusting party is Land Reserve Center of Dujiangyan. It adopts the business model of entrusted construction or government repurchase, and the repurchase period normally takes more than three years.

As the second largest business of DIDG, the revenue from land consolidation was RMB697.7 million, RMB1,016.4 million, RMB944.6 million and RMB423.1 million, accounting for c. 18%, 24%, 23% and 15% in 2018, 2019, 2020 and nine months ended September 2021, respectively.

Property Sales

This business segment including sales of resettlement houses, commercial housing and shops, is mainly operated by its subsidiaries. As DIDG's third largest business, revenue from property sales was RMB496.4 million, RMB616.4 million, RMB492.3 million and RMB218.5 million, accounting for c. 13%, 15%, 12% and 8% of DIDG's total revenue in 2018, 2019, 2020 and nine months ended September 2021, respectively. The main revenue resource of this business segment was from the sales of existing resettlement houses.

Gravel Business and Trade Business

DIDG is the only enterprise in Dujiangyan that conducts river dredging. It sells sand and gravel raw materials produced by river dredging, with strong regional franchise. The revenue from gravel business was RMB125.2 million, RMB94.5 million, RMB105.0 million and RMB228.8 million in 2018, 2019, 2020 and nine months ended September 2021, respectively. The other trade business includes electrolytic copper, food and building materials etc., which DIDG has entered this new business segment since 2020. Revenue from the trade business was RMB267.0 million and RMB110.5 million in 2020 and nine months ended September 2021, respectively.

Other Businesses

Other businesses include water business (installation of water meter, tap water supply and sewage disposal), tourism, rental business, property management and car park business, etc. The water business is regionally monopolized and has a stable and high gross margin of c. 51% in 2020 and nine months ended September 2021. Another core profitable business is tourism. DIDG has the exclusive right to manage the famous National 5A scenic spots in Dujiangyan, namely Dujiangyan Dam and Mount Qingcheng. DIDG had a high gross margin of c. 70% in 2020 and nine months ended September 2021 for this business. Other businesses are small in scale and do not have significant impacts on DIDG.

Financial Profile

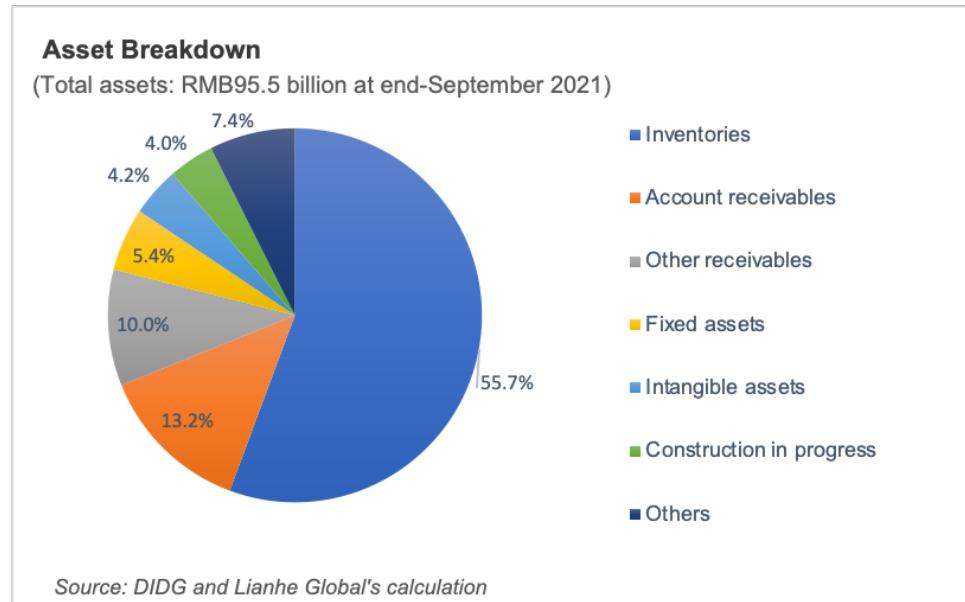
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2018	2019	2020	Sep2021
Total Asset	80,511	83,629	90,523	95,514
Equity	34,568	35,353	42,216	43,005
Debt	28,777	27,097	30,051	35,857
Debt / (Debt + Equity) (%)	45.4	43.4	41.6	45.5
LT Debt	20,263	16,291	19,076	26,882
LT Debt / (LT Debt + Equity) (%)	37.0	31.5	31.1	38.5

Source: DIDG's financial reports, DIDG and Lianhe Global's calculations

Due to the limited operating history of DIDG, the pro forma financial statements are consolidated with assumptions. It is assumed to hold 100% equity of 新城建设, 新城集团, 兴市集团 and 工投公司 from 1st January 2018, and 100% equity of 文旅集团 (established on 22nd June 2018) from June 2018.

DIDG's total assets increased from RMB90.5 billion at end-2020 to RMB95.5 billion at end-September 2021. In terms of asset structure, current assets accounted for the majority, which including c. 56% of inventories, 13% of account receivables and 10% of other receivables at end-September 2021. Inventories mainly included land use right, development cost, construction inventory and developed products. Account receivables and other receivables had relatively high concentration. Nevertheless, the receivables were mainly from the government entities, namely the Finance Bureau of Dujiangyan and the Land Reserve Center of Dujiangyan. Therefore, we expect a relatively low collection or counterparty risk.



DIDG's financial leverage (liabilities/assets) and total debt capitalization ratio were 55.0% and 45.5% at end-September 2021, respectively. The total debt of DIDG increased by 19.3% from RMB30.1 billion at end-2020 to RMB35.9 billion at end-September 2021, mainly due to the increase in long-term borrowings and bonds. The short-term debt decreased from RMB11.0 billion at end-2020 to RMB9.0 billion at end-September 2021, while the long-term debt increased from RMB19.1 billion to RMB26.9 billion at the same time. The debt pressure of DIDG is relatively high.

DIDG's equity was increased by 19.4% and 1.9% at end-2020 and end-September 2021, respectively. The significant increase in equity in 2020 was mainly due to the increase of RMB4.9 billion in capital surplus (mainly due to the intangibles such as sand and gravel franchise injected by the government) and RMB1.4 billion of capital injection by the Dujiangyan government in 2020.

Cash Flow

Cash Flow (RMB million)	2018	2019	2020	9M2021
Cash Inflows from Operation	4,070	5,007	5,897	3,406
Cash Outflows from Operation	3,121	4,049	4,539	3,211
Net CF from Operation	949	958	1,358	194
Cash Inflows from Investment	175	546	641	43
Cash Outflows from Investment	735	628	1,250	319
Net CF from Investment	-561	-83	-609	-275
Cash Inflows from Financing	12,588	7,965	14,380	14,327

Capital Contribution	194	70	1,431	875
Borrowings	10,184	5,076	11,561	12,965
Others	2,210	2,819	1,388	487
Cash Outflows from Financing	13,145	8,924	15,231	13,303
Net CF from Financing	-557	-959	-851	1,024
Net Increase in Cash and cash equivalent	-168	-84	-102	943

Source: DIDG's financial reports

Debt Servicing Capability

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. DIDG has access to financing channels including bank borrowings, corporate bonds and other financing channels. However, DIDG's total debt at end-2021 still consisted of a certain proportion of non-traditional financings. The average financing cost of DIDG was c. 7% at end-2021.

Debt Maturity Profile at end-2021

(RMB million)	Amount	Percentage
1Q2022	2,472	6.6%
2Q2022	1,896	5.0%
3Q2022	3,072	8.1%
4Q2022	4,750	12.6%
2023	7,285	19.3%
2024	7,952	21.1%
2025	2,676	7.1%
2026 and thereafter	7,590	20.1%
Total	37,693	100.0%

Source: DIDG and Lianhe Global's calculations

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