

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

HONG KONG, 27 September 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Chengdu Chenghua Development Group Co., Ltd. (“CCD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that The People’s Government of Chenghua District (“Chenghua Government”) would provide strong support to CCD if needed. This mainly considers Chenghua Government’s 90% ownership of CCD (with the other 10% owned by the Sichuan Provincial Department of Finance to subsidize the provincial Social Security Fund), CCD’s strategic position as the flagship LGFV consolidating major development and investment entities within Chenghua District in Chengdu City, as well as the strong linkage between Chenghua Government and CCD, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, Chenghua Government may face significant negative impact on its reputation and financing activities should CCD encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that CCD’s strategic importance would remain intact while Chenghua Government will continue to ensure CCD’s stable operation.

**Key Rating Rationales**

**Strong Linkage and Strategic Alignment with the Government:** Chenghua Government has 90% ownership of CCD, while the remaining 10% was owned by the Sichuan Provincial Department of Finance to subsidize the provincial Social Security Fund. It also has strong control and supervision over CCD, including control of the board of directors, senior management appointments, as well as major strategic, investment and financing planning. In addition, Chenghua Government has comprehensive performance assessment policies for CCD. The company’s strategic planning and development have been aligned with the local government’s economic and social policies. It carries out the directions and policies of urban development and industry investment designated by Chenghua Government to support the local economic growth.

**High Strategic Importance:** As Chenghua Stated-owned Assets Supervision, Administration and Finance Bureau (“Chenghua SASAFB”) transferred 100% ownership of five major LGFVs to CCD, it has become the flagship LGFV in Chenghua District. We believe that Chenghua Government is willing to extend support to CCD in view of its strategic important role in Chenghua District’s urban development, including primary land development, infrastructures and public facilities construction, resettlement housings development, shantytown renovations and comprehensive development for transit-oriented-development projects.

**Ongoing Government Support:** CCD's five subsidiaries received continuous support from the local government, including capital injection, financial subsidies, allocation of land resources or assets, etc. Chenghua Government plans to inject RMB500 million to RMB1 billion to CCD per year in the coming five years to support its future development, and CCD is responsible for allocating all financial subsidies from the government to its subsidiaries. The company received capital injection of RMB140 million in the first half of 2022.

**Moderate Economic and Fiscal Conditions of Chenghua District:** Chenghua District's GDP scale (RMB127.3 billion) and growth rate (9.9%) were ranked 6<sup>th</sup> and 4<sup>th</sup> among 23 jurisdictions of Chengdu in 2021, respectively. As the city's central area, Chenghua District's GDP was mostly fueled by secondary and tertiary industries, accounting for 30.1% and 69.9% of its total GDP. Chenghua District experienced relatively high GDP growth in the past few years (except 2020), supported by its urban development and industry upgrade plans.

Chenghua Government's fiscal revenue growth rates in the past three years were uneven due to the high fluctuation of its non-tax revenue. Its budgetary revenue decreased by 0.6% and 3.6%, in 2019 and 2020, respectively, but grew by 8% in 2021. Over the same period, incomes from government-managed fund and transfer payments accounted for 9.4%, 2.7% and 15.7%, and 12.8%, 35% and 27.4% of CCD's aggregate revenue, respectively. Nevertheless, Chenghua Government maintained its fiscal balance. The budget surplus was 6.7%, 4.9% and 7.7% in 2019, 2020 and 2021, respectively, while the fiscal debt ratio (total government debt outstanding /aggregate revenue) stayed at a manageable level during the same period.

**Moderate Financials of CCD:** CCD has experienced a rapid debt-funded expansion. The company's total asset reached RMB166.5 billion at end-June 2022, up from RMB109.7 billion at end-2019, while its debt surged to RMB74.8 billion from RMB34 billion during the same period. As a result, CCD's financial leverage as measured by total liability/total asset increased to 59.9% at end-June 2022, from 49.1% at end-2019.

Nevertheless, CCD's short-term debt was manageable. At end-June 2022, CCD had short-term debt of RMB18.8 billion, accounting for 25.2% of the company's total borrowings. At the same time, CCD had cash of RMB10.6 billion, covering 56.3% of its short-term maturities. In addition, CCD has access to multiple financing channels, including bank loans and bond issuances, etc., to support its debt repayment and business operation.

**Limited Operating History:** CCD was established in 2021 through the consolidation of five previously independently operating LGFVs in Chenghua District. They still enjoy a considerable degree of autonomy in terms of debt raising and business operation. We believe an effective consolidation, including centralized strategic and financial planning, risk management as well as resource allocation to support its subsidiaries' development, is vital for CCD to maintain its strategic importance.

## Rating Sensitivities

We would consider downgrading CCD's rating if (1) there is perceived weakening in support from Chenghua Government, particularly due to its reduced strategic importance with

diminished government functions, or (2) there is a significant reduction of Chenghua Government's ownership of CCD, or (3) there is a downgrade in our internal credit assessment on Chenghua Government.

We would consider upgrading CCD's rating if (1) there is strengthened support from Chenghua Government, or (2) there is an upgrade in our internal credit assessment on Chenghua 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 CCD'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](http://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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