

Chengdu Jinniu Guotou Urban Operation and Management Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	29 November 2022

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Jinniu Guotou Urban Operation and Management Co., Ltd. ("JGUO" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Jinniu District ("Jinniu government") would provide moderately strong support to JGUO if needed, in light of its indirect wholly ownership of JGUO, the strategic importance of JGUO to Jinniu District ("Jinniu") in infrastructure construction, as well as industrial investment and state-owned assets operation, and the linkage between the Jinniu government and JGUO, including supervision over JGUO through its shareholder, strategic alignment and ongoing operational and financial support. In addition, the Jinniu government may face negative impact on its reputation, business and financing activities if JGUO encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that JGUO's strategic importance would remain intact while the Jinniu government will continue to ensure JGUO's stable operation.

Rating Rationale

Full Government's Ownership: The Jinniu government has 100% indirect ownership of JGUO through Chengdu Jinniu State-owned Assets Investment Operation Group Co., Ltd. ("JSAI"), which is fully owned by the State-owned Assets Supervision, Administration and Finance Bureau of Jinniu ("Jinniu SASAFB").

Strategic Importance to Jinniu and Strategic Alignment: JGUO is one of the important state-owned entities responsible for infrastructure construction, industrial investment and state-owned assets operation in Jinniu. The company undertakes some important infrastructure construction projects in the region, and investment under the government's plan in cultural tourism, cross-border electricity, intelligent parking, supply chain finance and industry such as digital economy under the coordination of the Jinniu government. With the developed engineering construction business set up in 2021, JGUO's business operations and development have been further aligned with the government's urban development plan.

Ongoing Government Support: JGUO has received supports from JSAI and the Jinniu government, including capital and assets injection, operational subsidies and projects transfer, etc. At end-June 2022, the paid-in capital increased to RMB1 billion from the initial of RMB0.5 million, mainly through the capital injection from JSAI. Apart from the capital injection, JGUO also increased its capital surplus by obtaining state-owned assets and projects transfers under the local government's approval or announcement. In addition, JGUO received financial subsidies of RMB70 million from the local government to support its business operation during the past two years.

JGUO's Financial Matrix and Liquidity Position: JGUO's total assets showed a significant growth trend in the past three years to RMB15.2 billion at end-June 2022, mainly due to the capital and assets injection from JSAI and the Jinniu government. JGUO's

Key Figures of Jinniu and JGUO (RMB billion)

	2020	2021
Jinniu		
GDP	133.0	147.3
GDP growth rate (%)	2.8	7.2
Budgetary revenue	8.5	9.3
Government fund	0.4	1.6
Transfer payment	4.6	4.0
Budgetary expenditure	7.1	8.7
JGUO		
Assets	2.5	11.5
Equity	0.6	10.2
Revenue	0.0	0.7

Source: Public information, JGUO and Lianhe Global's calculations

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Applicable Criteria

China Local Government Financing
 Vehicle Criteria (31 December 2021)

financial leverage (total liabilities to assets) experienced a sharp decline to 11.7% at end-2021 from 100% at end-2019. This leverage ratio increased to 32.6% at end-June 2022, mainly because of the increase in long-term borrowings. JGUO's total debt increased to approximately RMB4.75 billion at end-June 2022 from RMB980 million at end-2021, of which the short-term debt accounted for 10.9% of the total debt at end-June 2022. JGUO had a cash balance of c. RMB1.08 billion and unused credit facilities of RMB1.14 billion at the same time, indicating a sufficient liquidity but limited financing channel.

Economy and Fiscal Strength of Jinniu: Jinniu belongs to Chengdu, Sichuan Province, located in the north of the central city of Chengdu. Jinniu's economic maintained stable growth and its GDP reached RMB147.3 billion, representing a year-over-year growth rate of 7.2% in 2021. Jinniu's economic growth was entirely fueled by the secondary and tertiary industries in the past few years, which accounted for 19.0% and 81.0% in 2021, respectively.

The Jinniu government's aggregate fiscal revenues are mainly derived from budgetary revenue and transfer payment. The tax revenue accounted for 73%-81% of its budgetary revenue between 2019 and 2021. The fiscal self-sufficiency rate of the Jinniu government was sufficient. The government fund income was fluctuant during the past three years. The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jinniu government was relatively low. At end-2021, the total outstanding amount of government debt increased to RMB4.2 billion from RMB3.7 billion at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Jinniu

Jinniu belongs to Chengdu, Sichuan Province, located in the north of the central city of Chengdu. By the end of 2021, Jinniu had a total area of 108 square kilometers, jurisdiction over 13 streets, and a residential population of 1.26 million, with an urbanization rate of 100%. The economy of Jinniu maintained steady growth. Jinniu's GDP reached c. RMB147.3 billion, representing a year-over-year growth rate of 7.2% in 2021, and its GDP ranked the 3rd among all districts and counties under the administration of Chengdu. Jinniu's economic growth was entirely fueled by the secondary and tertiary industries in the past few years, which accounted for 19.0% and 81.0% in 2021, respectively.

Jinniu's GDP and Fixed Asset Investment			
(RMB billion)	2019	2020	2021
GDP	129.0	133.0	147.3
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	18.2	18.9	19.0
-Tertiary industry (%)	81.8	81.1	81.0
GDP growth rate (%)	7.4	2.8	7.2
Fixed asset investment	59.4	64.9	75.4
Fixed asset investment growth rate (%)	10.9	9.4	16.1
Population (million)	1.2	1.3	1.3

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jinniu

The Jinniu government's aggregate fiscal revenues are mainly derived from budgetary revenue and transfer payment. The tax revenue accounted for 73-81% of its budgetary revenue between 2019 and 2021. The fiscal self-sufficiency rate of the Jinniu government was sufficient during the past three years. Moreover, the government fund income was fluctuant, of which the growth rate was 181.1%, -79.4% and 311.0% in 2019, 2020 and 2021, respectively. The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jinniu government was relatively low. By the end of 2021, the total outstanding amount of government debt increased to approximately RMB4.2 billion from RMB3.7 billion at end-2020, mainly due to the increase in special debt.

Jinniu's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	8.8	8.5	9.3
Budgetary revenue growth rate (%)	2.9	-3.4	9.9
Tax revenue	6.4	6.7	7.5
Tax revenue (% of budgetary revenue)	73.3	79.3	80.9
Government fund income	1.9	0.4	1.6
Transfer payment	1.3	4.6	4.0
Aggregate revenue	11.9	13.5	14.9
Budgetary expenditure	6.9	7.1	8.7
Budget deficit ¹ (%)	21.4	15.7	6.3

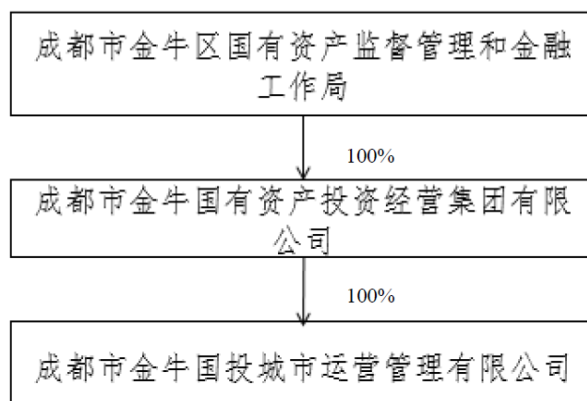
¹ Budget deficit = (1 - budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure and Profile

Government's Ownership

JGUO was established in August 2010. At end-June 2022, the shareholder of JGUO was JSAI, the largest state-owned entity in terms of asset size in the region that wholly owned by the Jinniu SASAFB. The shareholding structure of JGUO at end-June 2022:



Source: The company

Strategic Importance and Government Linkage

Strategic Importance of JGUO to Jinniu

JGUO is one of the important state-owned entities under JSAI that is responsible for infrastructure construction, industrial investment and state-owned assets operation in the region. The company is also responsible for urban construction and operation in the main urban area of Jinniu. JGUO undertakes some important infrastructure construction projects in the region, and investment under the government's plan in cultural tourism, cross-border electricity, intelligent parking, supply chain finance and industry such as digital economy. With the developed engineering construction business set up in 2021, JGUO's business operations and development have been further aligned with the government's urban development plan. JGUO currently focuses on engineering construction (i.e., infrastructure construction and leasing housing construction) and asset leasing business and it will carry out functions such as urban renewal and affordable housing construction in the future.

Linkage with the Local Government

JGUO's linkage with the local government is moderately strong as the Jinniu government indirectly holds 100% stake of JGUO through JSAI. The Jinniu government has supervision over JGUO through JSAI, including management appointment, decision on its strategic development and investment plan, supervision of its major funding decision and daily operation. In addition, the local government has assessment mechanism over the company (via its assessment on JSAI) and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

Government Support

JGUO has received supports from JSAI and the Jinniu government, including capital and assets injection, operational subsidies and projects transfer, etc. At end-June 2022, the paid-in capital of the company increased to RMB1 billion from the initial of RMB0.5 million, mainly through the capital injection from JSAI. Apart from the capital injection, JGUO also increased

its capital surplus by obtaining state-owned assets and projects transfers under the local government's approval or announcement. In addition, the company received total financial subsidies of RMB70 million from the local government to support its business operation (i.e., engineering construction business) during the past two years.

Business Profile

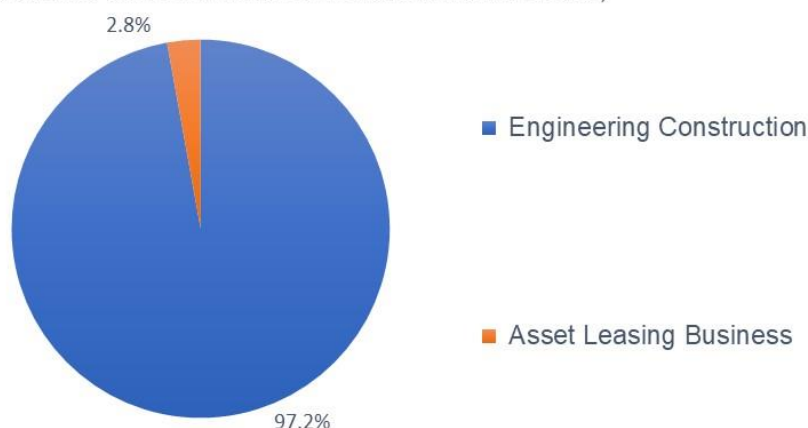
One of the State-Owned Entities Responsible for Infrastructure Construction and State-owned Assets Operation in Jinniu

JGUO is an important subsidiary of JSAI, positioning as a main entity for infrastructure construction, industrial investment, as well as state-owned assets operation in the region. JGUO undertakes some important infrastructure construction projects in the region, and investment under the government's plan in cultural tourism, cross-border electricity, intelligent parking, supply chain finance and industry such as digital economy. In addition, JSAI has endowed the company with functions such as urban renewal and affordable rental housing construction, while the implementation of related projects is still in the early stage.

The total revenue of JGUO was approximately RMB0.2 million, RMB1.1 million, RMB708.0 million and RMB234.0 million in 2019, 2020, 2021 and the first six months of 2022, respectively. From 2019 to 2020, the company's operating income only comes from asset leasing business, which was small in scale. In 2021, JGUO's new business, engineering construction, was the main driving force for a significant increase in the total revenue compared with the previous year. In the same period, the asset leasing income also increased significantly due to the increase in operating assets.

Revenue Breakdown

(Total revenue: RMB234.0 million for the first six months of 2022)



Source: JGUO and Lianhe Global's calculations

Engineering Construction

The engineering construction business is a new business segment of JGUO in 2021. In terms of business model, the entrusting party, Chengdu Jinniu Guotou Industry Investment Development Co., Ltd. ("JGID"), signs the Entrusted Agent Construction Agreement with JGUO. JGID will take over the project after completion and pay construction funds (i.e., total investment amount plus 15% of management fee) according to the project progress. In addition, the Jinniu government transferred the renovation project in Renbei Area of

Chengdu Railway Bureau and the projects on the south square of North Railway Station from JGID to JSAI free of charge, with a total book value of approximately RMB7.3 billion in 2020. In 2021, JSAI entered into an agreement with Jinniu District Urban Redevelopment Center ("the Center") for which the two projects mentioned will be transferred to the Centre upon completion. In the same year, JSAI transferred the two projects to JGUO free of charge. JGUO currently has projects under construction including renovation project in Renbei Area of Chengdu Railway Bureau, the projects on the south square of North Railway Station, Guobin Area supporting rental housing construction project and other projects. Considering the investment amount of projects under construction and planning projects, we expect that the capital expenditure requirements of JGUO to continue in the future.

As the main entity for urban renewal and affordable rental housing construction positioned by JSAI, JGUO is responsible for the urban renewal projects within three areas of Jinniu, as well as affordable rental housing construction projects according to the announcement of its shareholder and Housing Construction and Transportation Bureau of Jinniu. However, all these projects are in the early stage.

Asset Leasing

JGUO's leased assets are mainly injected by the shareholder, including office buildings (i.e., Longhu Shangcheng, New Economy Building) and shops in Jinniu. Tenants of office buildings include companies such as investment company and insurance company, banks, community service station and administration units of the Jinniu government, etc. The leasing objects of shops are supermarkets, pharmacies and individual objects. By the end of March 2022, the leased asset area of the company was about 79,500 square meters, and the lease unit price fluctuated according to the nature and location of the asset, ranging from RMB30 to RMB300/square meter/month. The lease rate of JGUO was close to 50%, while the lease rate of Longhu Shangcheng was only 29% because of the high investment promotion threshold required by the Jinniu government. With the continuous increase of operating assets injected by shareholders, the scale of this business segment is gradually increasing, which can contribute a certain amount of cash inflow for the company.

Other Businesses

Other businesses such as industrial investment and human resources service. JGUO participates in investment in cultural tourism, cultural innovation, intelligent parking, digital economy and other fields. The company shall not participate in the actual operation and management of the investment enterprise, and shall obtain investment gains or bear investment losses in accordance with the proportion of shares held. In addition, JGUO has set up a new business segment, human resources service, in May 2022, mainly responsible for the labor dispatch work of Jinniu government departments and institutions, and expand vocational skills training, file management, bookkeeping agency and other human resources related services.

Financial Profile

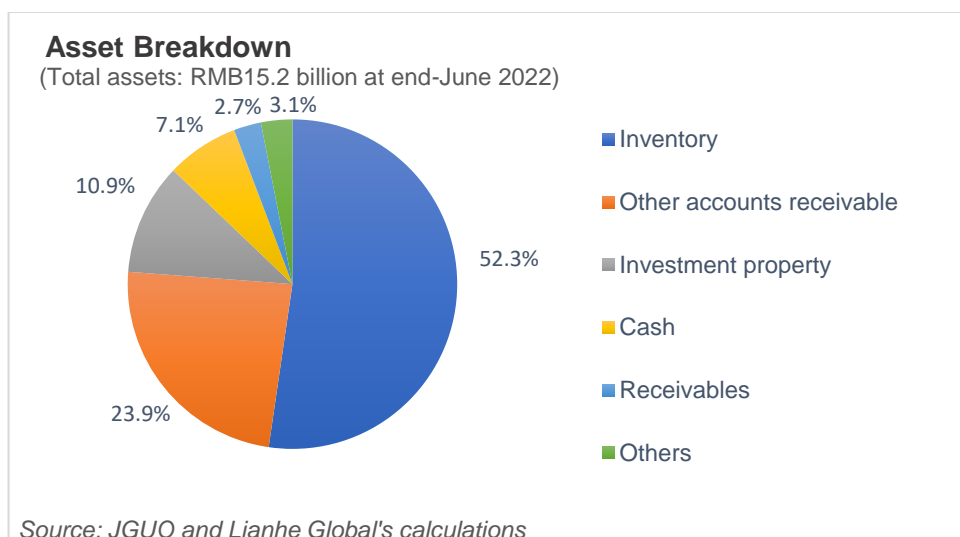
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	June 2022
Total Asset	1,509	2,477	11,504	15,249
Equity	-0.4	632	10,164	10,273

Debt	-	480	980	4,748
Debt / (Debt + Equity) (%)	-	43.2	8.8	31.6
LT Debt	-	470	900	4,228
LT Debt / (LT Debt + Equity) (%)	-	42.7	8.1	29.2

Source: Company Information and Lianhe Global's calculations

JGUO's total assets showed a significant growth trend in the past three years. Benefiting from the assets and capital injections from the government and shareholder in recent years, the YOY growth rate of the company's total assets was 64.1%, 364.4% and 32.6% in 2020, 2021 and the first half of 2022, respectively. At end-June 2022, JGUO's asset structure was mainly current assets, accounted for 86.0% of its total asset, which mainly included inventory, other accounts receivable, cash and receivables. Due to the project transfer from the shareholder, the inventory increased significantly to c. RMB7.5 billion at end-2021, and further increased to c. RMB8.0 billion at end-June 2022. The other accounts receivable mainly consist of settlement of engineering construction projects and transaction accounts with other state-owned companies in the region and the main object of receivables was JGID. Despite the large proportion of current assets, the liquidity of JGUO's assets was moderately weak, mainly because the construction costs and receivables of the projects with relatively weak liquidity account for a large proportion.



Due to the increase of asset side, JGUO's financial leverage (total liabilities to assets) experienced a sharp decline from 100.0% and 74.5% at end-2019 and end-2020, respectively, to 11.7% at end-2021. This leverage ratio increased to 32.6% at end-June 2022, mainly because of the increase in long-term borrowings. JGUO'S total debt increased rapidly from c. RMB980 million at end-2021 to c. RMB4.75 billion at end-June 2022, of which the short-term debt accounted for 10.9% of its total debt. In terms of equity, the paid-in capital of JGUO increased from RMB0.5 million at end-2019 to RMB50 million at end-2020, and further increased to RMB1 billion at end-2021. Benefiting from the asset injection, the company's capital reserve also increased significantly to c. RMB9.0 billion at end-2021.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	6M2022
Cash Inflows from Operation	359	3	222	205
Cash Outflows from Operation	2	155	216	33
Net CF from Operation	357	-152	6	173



Cash Inflows from Investment	-	-	-	-
Cash Outflows from Investment	357	373	1,405	2,785
Net CF from Investment	-357	-373	-1,405	-2,785
Cash Inflows from Financing	-	530	1,460	4,561
Cash Outflows from Financing	-	-	1,160	922
Net CF from Financing	-	530	300	3,639
Net Increase in Cash and cash equivalent	0	5	-1,099	1,027

Source: JGUO

Debt Servicing Capability

JGUO's total debt only included bank borrowings, which increased to c. RMB4.75 billion at end-June 2022 from c. RMB980 million at end-2021, mainly due to the increase in long-term borrowings. The short-term debt was c. RMB520 million, only accounted for 10.9% of the total debt at end-June 2022. At the same time, the company had a cash balance of c. RMB1.08 billion and unused credit facilities of RMB1.14 billion, indicating a sufficient liquidity but limited financing channel.

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