

Chengdu Sino French Ecological Park Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	3 January 2023

Key Figures of Longquanyi and CSID (RMB billion)	2020	2021
Longquanyi		
GDP	135.5	150.4
GDP growth rate (%)	3.9	7.2
Budgetary revenue	7.5	8.0
Government fund	8.3	9.8
Transfer payment	3.6	3.2
Budgetary expenditure	11.1	11.1
CSID		
Assets	5.6	9.6
Equity	1.2	2.5
Revenue	1.2	2.8

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

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Sino French Ecological Park Investment Development Co., Ltd. (“CSID” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Longquanyi District, Chengdu City (“Longquanyi government”) would provide strong support to CSID if needed, in light of its majority ownership of CSID, CSID’s strategic importance as the sole state-owned entity for infrastructure investment, construction and operation in Chengdu Sino French Ecological Park (“Ecological Park”), and the linkage between the Longquanyi government and CSID, including control and supervision over the management, strategic alignment and ongoing operational and financial support. In addition, the Longquanyi government may face significant negative impact on its reputation, business and financing activities if CSID encounters any operational and financial difficulties.

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

Rating Rationale

Longquanyi Government’s Ownership and Supervision: The Longquanyi government indirectly holds the majority ownership of CSID through Chengdu Economic Development Industrial Investment Group Co., Ltd. (“CEDI”), via the Chengdu Economic and Technological Development Zone Management Committee (“ETDZMC”). The Longquanyi government, as the ultimate controller, supervises the company, including control and supervision over the management, decisions on strategic development and investment and financing plans etc. In addition, the Longquanyi government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Longquanyi and Strategic Alignment: As an important state-owned entity in Longquanyi District, Chengdu City (“Longquanyi”), CSID is the sole infrastructure investment, construction and operation entity in Ecological Park, mainly responsible for the construction of municipal projects, public service projects, as well as industry-city integration projects in the Ecological Park and surrounding areas with franchise advantages. CSID is also responsible for soil disposal business in the region, so as to promote the economic and social development and regional industrial upgrading, and enhance the comprehensive service capability of Longquanyi, especially the Ecological Park and the surrounding areas. CSID’s business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: CSID received support from the Longquanyi government, including capital injection, operation subsidy, special debt and policy support. Meanwhile, as the sole state-owned entity for infrastructure investment, construction and operation in Ecological Park, CSID has certain advantages in project and resource acquisition. The Longquanyi government also continued to inject capital, as well as special debt as project

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

funds, to the company, while CSID also enjoyed a variety of policy support. CSID had received a total subsidy amount of c. RMB22.6 million from 2020 to the first nine months of 2022. We believe CSID is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure investment and construction.

CSID's Financial Matrix and Liquidity Position: CSID's total assets showed a significant growth trend in the past years and reached RMB19.9 billion at end-September 2022, mainly due to the increase of other receivables with related parties. CSID's financial leverage (total liabilities to assets) was 74.7% and its adjusted debt increased to c. RMB14.1 billion at end-September 2022. The liquidity of CSID was moderately tight. CSID had a cash balance and unused credit facilities of c. RMB2.5 billion and RMB2.1 billion at end-September 2022, compared with its debt due within one year of c. RMB4.9 billion. Besides, CSID has access to various financing channels, including bank loans, bond issuance and non-traditional financing (e.g. trust loans), to support its debt repayment and business operations.

Economy and Fiscal Strength of Longquanyi: Longquanyi, as one of municipal districts under the jurisdiction of Chengdu City, is located in the eastern part of the central area. Longquanyi's economy maintained steady growth, with GDP reaching RMB150.4 billion in 2021, up 7.2% year-on-year. The GDP was mainly fueled by the secondary and tertiary industries, which accounted for 63.1% and 34.9% of total GDP in 2021. The aggregate fiscal revenue of the Longquanyi government was mainly derived from the budgetary revenue and government fund. The Longquanyi government's budgetary revenue grew steadily and increased to RMB8 billion in 2021, where its tax revenue accounted for more than 83% of its budgetary revenue in the past three years. Besides, Longquanyi's government fund income also grew steadily due to the increase in revenue from the transfer of state-owned land use rights and recognized RMB9.8 billion in 2021. The fiscal self-sufficiency rate of the Longquanyi government was insufficient, thus it continued to receive subsidies from higher governments. At end-2021, the total outstanding amount of government debt increased to c. RMB25.6 billion from c. RMB17.9 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Longquanyi government was c. 121% at end-2021, up considerably from c. 79.4% at end-2019.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Longquanyi

Longquanyi, as one of municipal district under the jurisdiction of Chengdu City, is located in the eastern part of the central city of Chengdu. Longquanyi has jurisdiction over 3 towns and 4 streets with a total land area of c. 557 square kilometers. The Chengdu Economic Development Zone (“Chengdu EDZ”), Longquan High-end Manufacturing Industry Functional Zone and Ecological Park are located in Longquanyi, helping the district to form an industrial system led by the automobile industry and promoted the economic development of the region. In 2021, Longquanyi achieved a GDP of RMB150.4 billion, up 7.2% year-on-year. The GDP growth was mainly fueled by the secondary and tertiary industries, which accounted for 63.1% and 34.9% of total GDP in 2021, respectively. The district's residential population reached c. 1.4 million with an urbanization rate of c. 94.2% at end-2021.

Chengdu EDZ, which was established in 2000, is a national comprehensive economic development zone with a planning area of c. 133 square kilometers. It was approved as a national demonstration base for new industrialization of automobile industry in 2010, forming a modern manufacturing industry platform led by automobile vehicles and automotive parts. Chengdu EDZ had more than 12,000 market entities and achieved a GDP of RMB21.5 billion in 2021.

Longquanyi's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	131.9	135.5	150.4
-Primary industry (%)	2.6	2.6	2.0
-Secondary industry (%)	62.0	62.3	63.1
-Tertiary industry (%)	35.4	35.1	34.9
GDP growth rate (%)	4.0	3.9	7.2
Fixed asset investment	62.8	65.2	65.3
Fixed asset investment growth rate (%)	12.4	3.8	0.1
Population (million)	0.9	1.3	1.4

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Longquanyi

The aggregate fiscal revenue of the Longquanyi government was mainly derived from the budgetary revenue and government fund income. The Longquanyi government's budgetary revenue grew steadily with a growth rate of 5.2% and 6.7% in 2020 and 2021, respectively, and recognized a revenue of RMB8 billion in 2021, where its tax revenue accounted for c. 85% in the past two years. Moreover, Longquanyi's government fund income also grew steadily due to the increase in revenue from the transfer of state-owned land use rights and recognized RMB9.8 billion in 2021. The fiscal self-sufficiency rate of the Longquanyi government was insufficient, thus it continued to receive subsidies from higher governments. At end-2021, the total outstanding amount of government debt increased to c. RMB25.6 billion from c. RMB17.9 billion at end-2019, mainly due to the increase in special purpose bonds. The debt ratio (i.e. total government debt divided by aggregate revenue) of the Longquanyi government was c. 121% at end-2021, up considerably from c. 79.4% at end-2019.

Longquanyi's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	7.1	7.5	8.0
Budgetary revenue growth rate (%)	-17.0	5.2	6.7
Tax revenue	5.9	6.4	6.9
Tax revenue (% of budgetary revenue)	82.9	84.9	85.7
Government fund income	7.1	8.3	9.8
Transfer payment	8.2	3.6	3.2
Aggregate revenue	22.6	19.5	21.2
Budgetary expenditure	11.1	11.1	11.1
Budget deficit ¹ (%)	56.0	48.5	38.4

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CSID (formerly known as Chengdu Eiffel Construction and Development Co., Ltd.) was designated by the Longquanyi government in 2018 and established as a wholly-owned subsidiary of Chengdu Economic Development Industrial Investment Group Co., Ltd. ("CEDI") with full capital contribution. Chengdu Economic and Technological Development Zone Management Committee ("ETDZMC") indirectly held c. 91.8% of CSID's shares through CEDI at end-September 2022, and is the ultimate controller of the company. Chengdu Advanced Manufacturing Industry Investment Co., Ltd ("CAMII") and Chengdu Chantou Advanced Manufacturing Industry Equity Investment Fund Limited Liability Partnership ("CCAMIEI") each held a 4.08% stake of CSID at end-September 2022. Chengdu State-owned Assets Supervision and Administration Commission ("Chengdu SASAC") and the Sichuan Provincial Department of Finance hold 90% and 10% stakes in both CAMII and CCAMIEI, respectively, and thus they indirectly held c. 7.3% and 0.8% equity interests of CSID at end-September 2022, respectively.

The initial registered capital of CSID was RMB1 billion and was enlarged to RMB3 billion in 2020. Its paid-in capital was also enlarged from RMB1 billion to RMB4.5 billion in 2022, all of which was contributed by CEDI. The ETDZMC was the actual controller of CSID, and the registered capital and paid-in capital of the company was RMB3 billion and RMB4.5 billion, respectively, at end-September 2022.

Strategic Importance and Government Linkage

Strategic Importance of CSID to Longquanyi

CSID, as an important LIDC in Longquanyi, is the sole infrastructure investment, construction and operation entity in Ecological Park, mainly responsible for the construction of municipal projects, public service projects, as well as construction plan formulation and other related development and service business in the Ecological Park and surrounding areas with franchise advantages. CSID is also responsible for soil disposal business in the region, so as to promote the economic and social development and regional industrial upgrading, and enhance the comprehensive service capability of Longquanyi, especially the Ecological Park and the surrounding areas. CSID's business operation and development have been aligned with the government's development plans.

Linkage with the Local Government

The Longquanyi government indirectly holds the majority ownership of CSID through CEDI, via the ETDZMC. It is the ultimate controller of the company. The Longquanyi government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Longquanyi government has assessment mechanism over the company and it will appoint auditor to supervise the operating performance and financial position on a periodic basis.

Government Support

CSID received support from the local government, including asset injection, operation subsidy, special debt and policy support from the Longquanyi government. Meanwhile, as the sole state-owned entity for infrastructure investment, construction and operation in Ecological Park, CSID has certain advantages in project and resource acquisition. The Longquanyi government continued to inject capital to the company via CEDI, increasing its paid-in capital from RMB1 billion to RMB4.5 billion at end-September 2022. CSID also received special debt from the Longquanyi government as its project capital funds, totaling to RMB540 million at end-September 2022. In addition, CSID received a total subsidy amount of c. RMB22.6 million from 2020 to the first nine months of 2022. We believe CSID is likely going to receive government support in the form of operational and/or financial subsidies, to support its daily business operation and related infrastructure investment and construction.

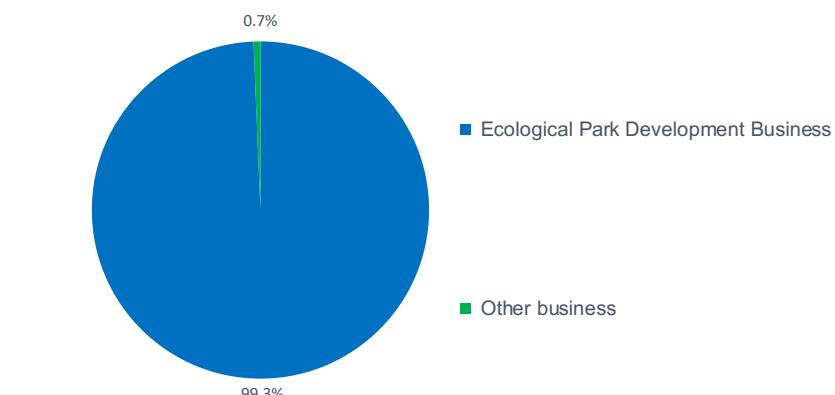
Business Profile

The Sole State-owned Entities Responsible for Infrastructure Investment, Construction and Operation in Ecological Park

CSID is mainly responsible for the infrastructure investment, construction and subsequent operation in Longquanyi, especially in Ecological Park with franchised advantages, mainly including a series of strategically important projects, such as the investment and construction of Longquanyi District Health Center and Telematics Pioneer Area, etc. It plays an important role in promoting the economic and industrial development of Longquanyi. In addition, CSID is also responsible for the soil disposal projects in the region.

Revenue Breakdown

(Total revenue: c. RMB 913.4 million for the first nine months of 2022)



Source: The company and Lianhe Global's calculation

CSID's revenue showed an upward trend in the past two years, which reached c. RMB1.2 billion, RMB2.8 billion in 2020 and 2021, respectively, while it recognized a revenue of c. RMB913 million in the first nine months of 2022. The substantial revenue increase in 2021 was mainly due to the increase in revenue from land concessions in the Ecological Park. The revenue of CSID was mainly derived from its main business, i.e., the ecological park development business, which accounted for 100%, 99.6% and 99.3% of the company's total revenue in 2020, 2021 and the first nine months of 2022, respectively, representing a concentrated income source. CSID expanded the soil disposal business in 2021 to supplement its main operating activities, but the scale of the segment is relatively small. CSID's overall gross profit margin stabilized at c. 20% in 2020, 2021 and the first nine months of 2022. Per management, CSID's gross profit margin would remain stable at c. 20% for the full year 2022. Overall, CSID has a high concentration of revenue with a strong profitability benefiting from the company's franchise status in the Ecological Park.

Ecological Park Development Business

CSID is responsible for the investment, planning and construction of municipal infrastructure projects such as roads and pipeline networks and public service projects such as transportation hubs, hospitals and schools in and around the Ecological Park. In addition, CSID is also responsible for the investment and construction of projects related to the integration of industry and city in the region, such as the Central Business District. In December 2020, CSID signed the Chengdu Sino French Ecological Park Investment and Operation Cooperation Agreement ("Cooperation Agreement") with the ETDZMC, which illustrated CSID's responsibility for the development of the Ecological Park and other related businesses. In addition, according to the Plans Concerning the Investment Development and Closed Operation of Sino-French Ecological Park (Revised Draft) (Longfu Banfa [2019] No. 25) issued by the Longquanyi government, the development of Ecological Park by CSID adopts the management mode of long-term closed operation, overall development and unified operation.

According to the nature of business, CSID's investment and development in the Ecological Park can be divided into public business, which mainly includes infrastructure construction and public construction projects such as the Chengdu-Luojian Expressway Project, and self-operated business, which mainly includes market-oriented projects such as the Longquanyi District Agricultural Industrialization Operation Center.

As an important component of CSID's revenue, the revenue from ecological park development business reached RMB1.2 billion, RMB2.8 billion and RMB907.3 million in 2020, 2021 and the first nine months of 2022, respectively, representing a high concentration risk. During the construction process, the initial funding of the projects is mainly generated from the company's own funds, special funds and local government special debt funds, while the subsequent operating income is mainly recognized through the land concession proceeds, incremental tax proceeds and relevant tax rebates in the Ecological Park. For self-operated projects, CSID may also supplement its cash flow and recognize related income through franchise such as toll collection rights. CSID had 17 projects under construction for ecological park development at end-September 2022. Due to the large investment needs and long cash recovery cycle in the early and subsequent construction stages, CSID is under a high pressure on its capital expenditure. Nevertheless, according to the Longquanyi government's plan and CSID's exclusive position as the sole infrastructure investment and construction entity in the Ecological Park, CSID has an advantage in obtaining projects and will continue to maintain its important strategic position in the region.

Soil Disposal Business

CSID expanded the soil disposal business in 2021 to supplement its main operating activities and daily operations. The revenue generated from soil disposal business reached RMB11 million and RMB6 million in 2021 and the first nine months of 2022, respectively, representing a relatively small portion of the total revenue. CSID is responsible for the development and preparation of land in the Ecological Park, which the projects currently under construction are mainly demolition projects. CSID still has a large scale of land to be developed, bringing certain pressure on its capital expenditure.

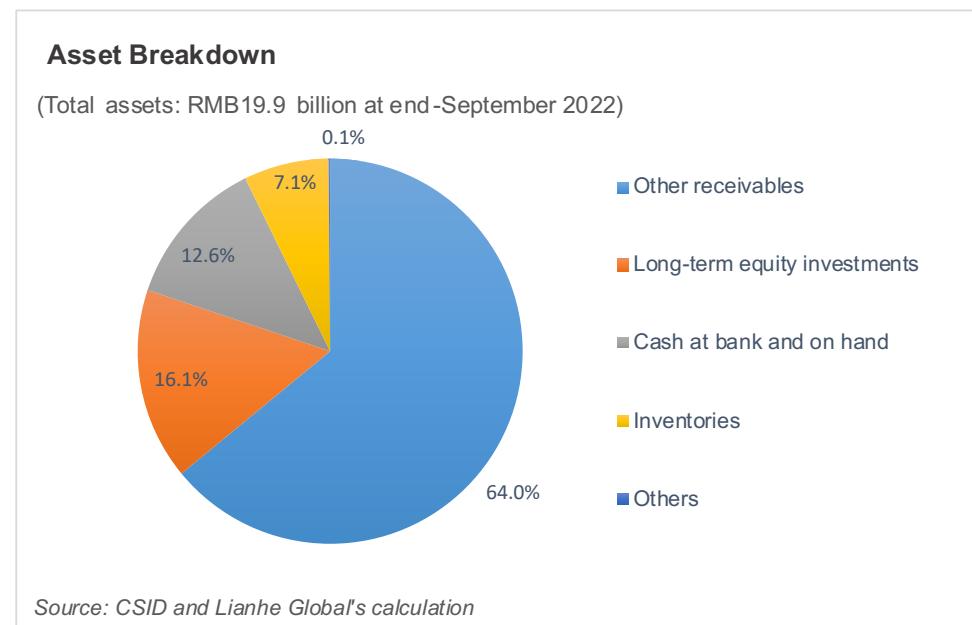
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	2019	2020	2021	Sep 2022
Total Asset	524	5,613	9,603	19,894
Equity	99	1,151	2,480	5,039
Debt	0	1,486	5,593	14,111
Debt / (Debt + Equity) (%)	-	56.3	69.3	73.7
LT Debt	0	1,413	4,493	7,944
LT Debt / (LT Debt + Equity) (%)	-	55.1	64.4	61.2

Source: Company Information and Lianhe Global's calculations

CSID's total assets showed a significant growth in the past few years, with a growth rate of 971.7%, 71.1% and 107.2% at end-2020, end-2021 and end-September 2022, respectively, and reached RMB19.9 billion at end-September 2022. The significant increase in total assets in 2020 was mainly caused by the increase of long-term equity investment in Chengdu Longquanyi Longquan Industrial Investment Operation Co., Ltd ("CLII"), which was transferred from CEDI. The asset increase at end-September 2022 was mainly due to the increase in other receivables with related parties. The current assets of CSID accounted for a relatively large portion of 83.9% of the total assets at end-September 2022. The asset structure of CSID has not changed significantly in recent years and was mainly composed of other receivables, long-term equity investments, cash at bank and on hand and inventories. A large portion of other receivables was related transactions with the CEDI, which was mostly aged within 1 year and had low bad debt provision and recovery risk, while other counterparties were mostly state-owned enterprises in Longquanyi, representing a controllable counterparty risk. The long-term equity investments included the shares of CLII, which were transferred by CEDI in 2020. The inventories included the development costs of the construction cost of infrastructure projects in the Ecological Park. Although CSID has a large proportion of current assets, its assets quality was less liquid given the relatively large proportion of receivables and development costs.



CSID's financial leverage (total liabilities to assets) was 79.5%, 74.2% and 74.7% at end-2020, end-2021 and end-September 2022, respectively, representing a downward trend. Given the relevant guidelines of the Longquanyi government, we expect the leverage of CSID to maintain a decreasing trend in the future. CSID's adjusted total debt increased significantly from c. RMB1.5 billion at end-2019 to c. RMB14.1 billion at end-September 2022 due to the increase in short-term and long-term borrowings and other non-current liabilities (mainly non-traditional financings such as trust loans etc.), with long-term debt accounting for c. 56.3% of its total debt at end-September 2022. There was no significant change in the ownership equity structure of CSID at end-September 2022 compared with that at end-2021. CSID mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its infrastructure projects under construction and to be constructed in the future.

Cash Flow

Cash Flow				
(RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	0	1,191	877	2,858
Cash Outflows from Operation	5	2,769	5,870	11,076
Net CF from Operation	-5	-1,578	-4,993	-8,218
Cash Inflows from Investment	0	0	11	16
Cash Outflows from Investment	0	0	421	223
Net CF from Investment	0	0	-409	-206
Cash Inflows from Financing	100	1,907	5,792	12,166
Cash Outflows from Financing	0	58	464	1,521
Net CF from Financing	100	1,849	5,328	10,645
Net Increase in Cash and cash equivalent	95	271	-74	2,220

Source: The Company

Debt Servicing Capability

The liquidity of CSID was moderate. At end-September 2022, CSID had a cash balance and unused credit facilities of c. RMB2.5 billion and RMB2.1 billion, respectively, compared with its debt due within one year of c. RMB4.9 billion at the same time. Having said that, CSID

has access to various financing channels, including bank loans, bond issuance and non-traditional financing (such as trust loans and financial leasing), to support its debt repayment and business operations.

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