

Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	24 March 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Chengdu Wenjiang Xingrongxi City Operation Group Co., Ltd. (“WXCO”); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the Wenjiang District People’s Government of Chengdu (“Wenjiang government”) would provide strong support to WXCO if needed, in light of its 100% ownership of WXCO, WXCO’s strategic position as the major development and operation entity of the Wenjiang District in Chengdu City and the strong linkage between the Wenjiang government and WXCO, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Wenjiang government may face significant negative impact on its reputation and business and financing activities should WXCO encounter any operational or financial difficulties.

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

Key Figures of Wenjiang and WXCO

(RMB billion)	2020	2021
Wenjiang		
GDP	62.4	68.8
GDP growth rate (%)	5.1	7.2
Budgetary revenue	4.6	5.0
Government fund	7.4	8.0
Transfer payment	2.1	1.7
Budgetary expenditure	7.1	6.9
WXCO		
Assets	75.6	75.5
Equity	45.6	46.2
Revenue	2.8	2.2

Source: Public information, WXCO and Lianhe Global’s calculations

Rating Rationale

Wenjiang Government’s Ownership and Supervision: WXCO’s linkage with the local government is strong as it is wholly owned by the Wenjiang government through the State-owned Assets Supervision and Administration Bureau of Wenjiang District (“Wenjiang SASAB”). The Wenjiang government has strong control and supervision over WXCO, including control of the board of directors, senior management appointments, and major strategic, investment and financing planning. In addition, the Wenjiang government has an assessment system on WXCO. The Wenjiang SASAB and the Finance Bureau of Wenjiang District will assign auditor to audit WXCO’s financial and operating data on a periodic basis.

Strategic Importance and Strategic Alignment: WXCO undertakes various businesses including agent construction, building materials sales under franchise arrangement, leasing business and asset management business. WXCO is still the largest and one of the most important operators of Wenjiang District to support the local economic and urban development. WXCO’s strategic planning and development have been aligned with the local government’s economic and social policies, aiming to develop Wenjiang District.

Ongoing Government Support: WXCO has received support in the form of asset and capital injections as well as financial subsidies from the Wenjiang government and other government departments in Wenjiang. The injections include capital, cash, equity transfer, land and other fixed assets and intangible assets such as sand mining rights and land use rights. WXCO has received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects, although the amount is minimal. WXCO received a total of c. RMB15.6 million of government subsidies between 2018 and 2021. For the nine months ended September 2022, WXCO also received special rewards and subsidies of RMB32.9 million.

Moderate Financials and Liquidity Position: WXCO’s total assets increased from RMB66.6 billion at end-2020 to RMB75.6 billion at end-2021 and remained stable at RMB75.5 billion at end-

Analysts

Ben Yau
 (852) 3462 9586
ben.yau@lhratingsglobal.com

Toni Ho
 +852 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

September 2022. At end-September 2022, the asset structure of WXCO was largely unchanged compared with that at end-2021. WXCO's financial leverage (total liabilities to assets) is improving, which decreased from 42.2% at end-2020 to 39.7% at end-2021 and further decreased to 38.8% at end-September 2022. WXCO has access to financing channels such as bank loans, bond issuance and other financing channels to support its debt repayment and business operation. WXCO had a total outstanding debt of RMB24.2 billion at end-September 2022. WXCO has a cash balance of RMB3.7 billion (unrestricted cash of RMB3.3 billion) and unused credit facilities of RMB18.0 billion, compared with its short-term debt of c. RMB7.0 billion at end-September 2022.

Economy and Fiscal Strength Underpin Wenjiang: Wenjiang's GDP increased to RMB68.8 billion, representing a year-over-year growth rate of 7.2% in 2021. Wenjiang's whole-year GDP amount was ranked 11th in Chengdu in 2021 (out of 23 county-level cities and districts). The industrial structure remained unchanged in 2021. GDP per capita and disposal income per capita were c. RMB70,275 and RMB49,752, respectively.

The aggregate fiscal revenue of the Wenjiang government was mainly derived from the budgetary revenue and government fund income. Wenjiang government's budgetary revenue grew steadily with a growth rate of 2.4% and 8.9% in 2020 and 2021, respectively, and recognized a revenue of RMB5.0 billion in 2021, where its tax revenue accounted for c. 80% in the past two years. The revenue from government-managed fund increased from c. RMB7.4 billion in 2020 to c. RMB8.0 billion in 2021. Wenjiang's financial self-sufficiency rate is insufficient, and it continues to receive subsidies from higher government. Wenjiang's fiscal debt ratio (total government debt outstanding / aggregate revenue) increased to 110.3% at end-2021 from 101.9% at end-2020. Wenjiang's government debt increased from RMB14.4 billion at end-2020 to RMB16.3 billion at end-2021, representing an increase of c. 14%, mainly due to the new special bonds for municipal projects.

Rating Sensitivities

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

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

Company Profile

WXCO was established under the approval of Chengdu Wenjiang State-owned Assets and Finance Office in April 2016. In May 2016, 100% equity of three state-owned entities, 成都温江区国投兴城投资有限公司, 成都新城西城市投资经营中心 and 成都铸康实业有限公司 were transferred to WXCO free of charge under the Document No.10 [2016] issued by the Wenjiang government. In 2019, the ultimate controller of WXCO was changed to the Wenjiang SASAB and the registered capital increased to RMB2 billion from the initial capital of RMB1 million. In 2020, the paid-in capital of WXCO increased to RMB131 million after capital injections from the Wenjiang SASAB. The Wenjiang SASAB is the only shareholder with 100% ownership of WXCO and the Wenjiang government is its ultimate controller at end-September 2022. At end-2021 and at end-September 2022, 成都新合城产商业管理有限公司 and 成都市温江锦城鱼凫房地产开发有限公司 were respectively included in the consolidated financial statements of WXCO, both of which are 100% owned by WXCO.



WXCO is responsible for infrastructure construction and operation, as well as resettlement housing construction and sales in Wenjiang that undertakes various businesses including agent construction, building materials sales under franchise arrangement, leasing business and asset management business, with a diversified industrial structure, to support the urban development in Wenjiang.

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