

Chengdu Dujiangyan Investment Development Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	6 April 2023

Key Figures of Dujiangyan and DIDG

(RMB billion)	2021	2022
Dujiangyan		
GDP	48.4	48.4
GDP growth rate (%)	7.1	1.0
Budgetary revenue	4.0	3.4
Government fund	4.3	4.3
Budgetary expenditure	5.3	5.2
DIDG		
Assets	96.4	102.1
Equity	43.6	45.8
Revenue	4.8	3.7

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

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB-' global scale Long-term Issuer Credit Rating of Chengdu Dujiangyan Investment Development Group Co., Ltd. ("DIDG"); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Dujiangyan City ("Dujiangyan government") would provide strong support to DIDG if needed, in light of its full ownership of DIDG, the high strategic importance of DIDG to Dujiangyan, and the strong linkage between the Dujiangyan government and DIDG, including control of the board of directors, appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Dujiangyan government may face significant negative impact on its reputation 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

Government's Ownership and Supervision: DIDG is wholly owned by the Dujiangyan government through the State-owned Assets Supervision and Administration and Finance Bureau of Dujiangyan City ("Dujiangyan SASAFB"). The Dujiangyan government has strong control and supervision over DIDG, including control of the board of directors, appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions. In addition, the Dujiangyan government has formulated a performance appraisal policy for DIDG, and regularly appoints auditors to review the company's operating performance and financial position.

Strategic Importance and Strategic Alignment: DIDG is the only state-owned entity that is responsible for infrastructure construction and urban operation in Dujiangyan, and it has a franchise right in sand business in the region. Besides, it also carries out other business related to people's livelihood such as water business, sewage treatment, property management and other state-owned assets operation. DIDG plays an important role in the urban development and operation in Dujiangyan. DIDG's strategic planning and development have been aligned with the local government's development plans and policies, aiming to strengthen urban and rural construction, as well as to support the economic and industrial development of Dujiangyan.

Ongoing Government Support: DIDG continuously received support from the government such as capital injection, financial support and government subsidies. DIDG's paid-in capital increased by the government, to RMB3.1 billion at end-September 2022. DIDG has received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. DIDG received a total of c. RMB1.8 billion of government subsidies between 2018 and 2021. We believe DIDG is likely going to receive government support in time of operational and/or financial subsidies. DIDG also benefits from preferential tax and tax exemption policies in encouraged industries.

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Applicable Criteria

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

DIDG's Financials and Liquidity Position: The total assets of DIDG continued to grow and gradually increased to RMB102.1 billion at end-September 2022. DIDG's financial leverage (total liabilities to assets) and total debt capitalization were 55.13% and 43.27% at end-September 2022, respectively. DIDG mainly relies on external financing for capital expenditure and debt repayment, and its total liabilities were dominated by long-term borrowings and bonds payable. The total adjusted debt of DIDG increased to c. RMB39.8 billion at end-September 2022 from c. RMB35.5 billion at end-2021, of which the short-term and long-term debt accounted for 31.6% and 68.4% of its total debt, respectively, at end-September 2022. DIDG had a total cash balance of c. RMB2.9 billion, an unused credit line of c. RMB20.0 billion and an available bond issuance quota c. RMB7.0 billion at end-September 2022, compared with its debt to be due within one year of c. RMB12.6 billion.

Dujiangyan's Economy and Fiscal Condition: In 2022, Dujiangyan's economic development and fiscal revenue were affected by the pandemic and power rationing in Sichuan Province that resulting in a shutdown of production. It realized a GDP amount of c. RMB48.4 billion in 2022, representing a year-over-year growth rate of 1.0%. The economic development of Dujiangyan was mainly fueled from the secondary and tertiary industries, which accounting for 30.9% and 61.3% of its total GDP, respectively, in 2022. Dujiangyan's budgetary revenue declined to c. RMB3.4 billion in 2022, representing a year-on-year decrease of 18.1%. And thus, the fiscal deficit of Dujiangyan and its fiscal debt ratio (total government debt outstanding/aggregate revenue) were deteriorated in 2022. The revenue from government-managed fund was more volatile under the influence of government planning and market. Dujiangyan's government fund income showed a down trend during the past few years. Dujiangyan's government debt was c. RMB14.4 billion at end-2022, including RMB5.2 billion of general obligations and RMB9.2 billion of special debt.

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.

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.

Company Profile

DIDG was established as the sole LIDC in Dujiangyan under the approval of the Dujiangyan government in March 2020, and the Dujiangyan government is the ultimate and actual controller of DIDG. Through its subsidiaries, DIDG undertakes the infrastructure construction and land consolidation in Dujiangyan, and it also carries out various businesses, such as water business, sewage treatment, property management and urban maintenance, urban and rural construction, tourism business, etc., to support the urban operation and economic development in the region.

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