Chengdu Jiaozi Modern Urban Industrial Development Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	15 June 2023

Key Figures of Jinniu and CJMU (RMB billion)	2021	2022
Jinniu		
GDP	147.3	149.9
GDP growth rate (%)	7.2	0.6
Budgetary revenue	9.3	9.5
Government fund	1.6	2.8
Transfer payment	4.0	3.1
Budgetary expenditure	8.7	8.8
CJMU		
Asset	11.9	38.1
Equity	4.5	24.5
Revenue	1.1	1.8

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

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

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB' global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Jiaozi Modern Urban Industrial Development Co., Ltd. ("CJMU" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Jinniu District ("Jinniu government") would provide strong support to CJMU if needed, in light of its indirect wholly ownership of CJMU, the strategic importance of CJMU as a major urban development and operation entity in Jinniu District ("Jinniu"), and the linkage between the Jinniu government and CJMU, including management appointment, supervision over CJMU's strategic development, major investment and financing plans through its shareholder, strategic alignment and ongoing operational and financial support. In addition, the Jinniu government may face significant negative impact on its reputation and financing activities if CJMU encounters any operational and financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: The Jinniu government indirectly holds 100% ownership of CJMU through Chengdu Jinniu Urban Construction Investment and Operation Group Co., Ltd. ("JUCI"), one of the largest local investment and development companies in terms of asset size in Jinniu, which is fully owned by State-owned Assets Supervision, Administration and Finance Bureau of Jinniu ("Jinniu SASAFB"). The Jinniu government has strong supervision over CJMU, including management appointment and supervision of the strategic development, major investment and financing plans through JUCI. In addition, the local government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company's financial position.

Strategic Importance to Jinniu and Strategic Alignment: CJMU is the most important subsidiary of JUCI and a major development and operation entity responsible for project construction, including infrastructure, public facilities, resettlement houses, as well as bridges and roads in Jinniu. CJMU also develops and operates industrial parks in Jinniu to facilitate industry development in Jinniu, which is a key initiative of the Jinniu government. Its business operation has been aligned with the local government's development plans.

Ongoing Government Support: CJMU has received ongoing support from JUCI and the Jinniu government, including capital and assets injection, operational subsidies, etc. In 2022, CJMU received a capital injection of RMB300 million in 2022, enlarging its paid-in capital to RMB500 million from RMB200 million. The company also received asset injections of RMB23.9 billion between 2020 and 2022 from the local government. Injected assets mainly included state-owned enterprises' equity, state-owned properties, sand and gravel resources and construction projects, yet some were non-profit public assets. In addition, the Jinniu government provides subsidies of RMB116 million in 2021 and 2022, respectively, through JUCI to support CJMU's operations. We expect CJMU to receive strong support from the JUCI and the local government in light of its strategic importance.

Economy and Fiscal Strength of Jinniu: Jinniu's leading industry included rail transit equipment, electronic information, medicine and health. Its GDP reached RMB149.9 billion in 2022, ranking 3rd among 20 districts and counties under the administration of Chengdu. However, its GDP growth rate slowed significantly from 7.2% in 2021 to 0.6% in 2022 due to Covid's disruption. Jinniu's budgetary revenue growth also slowed to 1.6% in 2022, compared with 9.9% in the previous year. The fiscal self-sufficiency rate of the Jinniu government remained stable, with a fiscal surplus of 6.7% in 2022.

The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jinniu government increased slightly in 2022 but remained at a manageable level of 30.6%. By end-2022, the outstanding amount of government debt rose to RMB4.7 billion from RMB4.2 billion at end-2021, mainly due to the new issuance of special debts to support project development in Jinniu.

CJMU's Financial Matrix and Liquidity Position: CJMU's total asset showed a strong growth trend in the past three years. With the multiple asset injections, CJMU's equity base was enlarged to RMB24.5 billion at end-2022 from RMB1.1 billion at end-2020. Nevertheless, CJMU's total debt increased rapidly to RMB11.3 from RMB4.5 billion over the same period, representing a compound annual growth rate of 58.3%. Despite the decreasing financial leverage, as measured by total debt/capitalization, which was 31.5% at end-2022, down from 79.7% at end-2020, the company's debt burden remained high, given that injected assets could lack liquidity and face a long monetization period, especially for construction projects.

CJMU's liquidity was moderately tight. At end-2022, the company had a cash balance of RMB523 million, compared with its short-term debt of RMB1.7 billion. Its financing channel was limited, merely relying on bank borrowings and non-traditional financings, with unused credit lines of RMB1.4 billion at end-2022.

Rating Sensitivities

We would consider downgrading CJMU'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 CJMU, or (3) there is a downgrade in our internal credit assessment on the Jinniu government.

We would consider upgrading CJMU'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's GDP reached RMB149.9 billion in 2022, ranking 3rd among 20 districts and counties under the administration of Chengdu. However, its GDP growth rate slowed significantly from 7.2% in 2021 to 0.6% in 2022 due to Covid's disruption.

Jinniu's leading industry included rail transit equipment, electronic information, medicine and health. Its economic growth was entirely fueled by the secondary and tertiary sectors in the past three years, which accounted for 18.0% and 82.0% of its GDP in 2022, respectively.

Jinniu's GDP and Fixed Asset Investment (RMB billion)	**2020**	**2021**	**2022**
GDP	133.0	147.3	149.9
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	18.9	19.0	18.0
-Tertiary industry (%)	81.1	81.0	82.0
GDP growth rate (%)	2.8	7.2	0.6
Fixed asset investment	64.9	75.4	81.1
Fixed asset investment growth rate (%)	9.4	16.1	7.6
Population (million)	1.3	1.3	1.3

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Jinniu

Jinniu's budgetary revenue growth bounced back in 2021 but slowed in 2022, with a growth rate of 9.9% and 1.6%, respectively. The fiscal self-sufficiency rate of the Jinniu government remained stable, with a fiscal surplus of 6.7% in 2022. The government fund income increased significantly to RMB2.8 billion in 2022 from RMB1.6 billion in 2021, while the transfer payment was further reduced to RMB3.1 billion from RMB4.0 billion. As a result, the Jinniu government's aggregate revenue only increased slightly to RMB15.3 billion from RMB14.9 billion over the same period.

The debt ratio (i.e., total government debt divided by aggregate revenue) of the Jinniu government increased slightly in 2022 but remained at a manageable level of 30.6%. By end-2022, the outstanding amount of government debt rose to RMB4.7 billion from RMB4.2 billion at end-2021, mainly due to the new issuance of special debts to support project development in Jinniu.

Jinniu's Fiscal Condition (RMB billion)	**2020**	**2021**	**2022**
Budgetary revenue	8.5	9.3	9.5
Budgetary revenue growth rate (%)	-3.4	9.9	1.6
Tax revenue	6.7	7.5	7.6
Tax revenue (% of budgetary revenue)	79.3	80.9	80.2
Government fund income	0.4	1.6	2.8
Transfer payment	4.6	4.0	3.1
Aggregate revenue	**13.5**	**14.9**	**15.4**
Budgetary expenditure	7.1	8.7	8.8
Budget deficit[1] (%)	15.7	6.3	6.8

*[1] Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%*
Source: Public information and Lianhe Global's calculations

Ownership Structure and Profile

Government's Full Ownership

CJMU was established in 2019 with an initial registered capital of RMB200 million, aiming to promote Jinniu's industrial development. The Jinniu government indirectly holds 100% ownership of CJMU through JUCI, which is fully owned by the Jinniu SASAFB. CJMU's registered capital increased to RMB2 billion in 2022, while the paid-in capital of CJMU increased to RMB500 million from RMB200 million. The remaining RMB1.5 billion is expected to be injected within five years.

Strategic Importance and Government Linkage

Strategic Importance of CJMU to Jinniu

CJMU is a major development and operation entity responsible for project construction, including infrastructure, public facilities, resettlement houses, as well as bridges and roads. It is the most important subsidiary of JUCI, one of the largest LIDCs in terms of asset size in Jinniu. CJMU also develops and operates industrial parks in Jinniu to facilitate industry development in Jinniu, which is a key initiative of the Jinniu government. Its business operation has been aligned with the local government's development plans.

Linkage with the Local Government

CJMU's linkage with the local government is strong as the Jinniu government indirectly holds 100% stake in CJMU through JUCI. The Jinniu government has strong supervision over CJMU, including management appointment and supervision of the strategic development, major investment and financing plans through JUCI. In addition, the local government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company's financial position.

Government Support

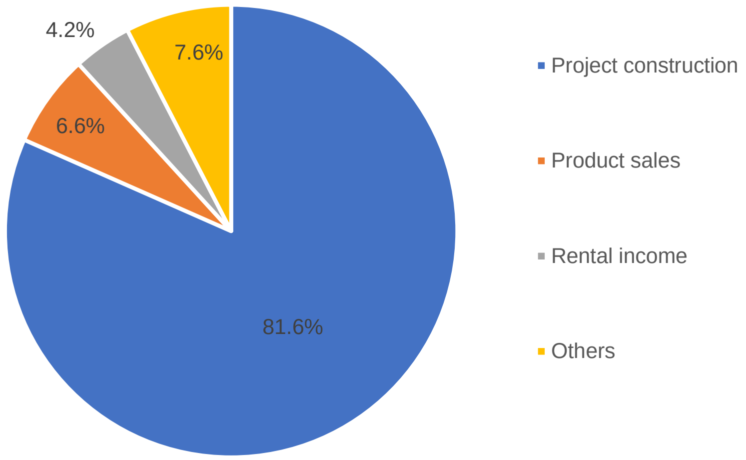
CJMU has received ongoing support from JUCI and the Jinniu government, including capital and assets injection, operational subsidies, etc. In 2022, CJMU received a capital injection of RMB300 million in 2022, enlarging its paid-in capital to RMB500 million from RMB200 million. The company also received asset injections of RMB928 million, RMB3.2 billion and RMB19.8 billion in 2020, 2021 and 2022, respectively, local government. Injected assets mainly included state-owned enterprises' equity, state-owned properties, sand and gravel resources and construction projects. The Jinniu government also provides subsidies of RMB116 million in 2021 and 2022, respectively, through JUCI to support CJMU's operations.

Business Profile

A Major Urban Development and Operation Entity in Jinniu

CJMU is an important LIDC responsible for urban development and operation in Jinniu. The company undertakes construction projects, including city infrastructures, public facilities, resettle houses, as well as roads and bridges in Jinniu. The Jinniu government also designates CJMU to build and operate industrial parks to promote the development of urban industries in Jinniu. In addition, CJMU participates in product sales, information technology services, property management and other businesses. The company recorded revenue of RMB1.2 billion, 1.0 billion and 1.7 billion in 2020, 2021 and 2022, respectively.

Revenue Breakdown
Total revenue: RMB1.8 billion in 2022



Source: The company and Lianhe Global's Calculation

Project Construction

CJMU is mainly responsible for project construction outside the third ring road's area of Jinniu, including an array of city infrastructures, public facilities, resettle houses, as well as roads and bridges projects. The company usually signs agreement with other LIDCs. According to the agreements, other LIDCs will pay construction costs plus a certain margin of the management fee to CJMU upon project completion. However, the payment schedule could be subject to the local government's fiscal conditions.

According to the JUCI's planning, CJMU will undertake most of the agent construction projects for the group in the future. Moreover, the local government is promoting urban and industrial development, launching a series of urban renewals and industrial park projects in the region, which could support the segment's growth in the next two to three years.

Rental Income

CJMU develops and operates several industrial parks, which aim to attract companies from rail traffic equipment manufacturing, information technology, biological medicine and other industries to facilitate the development of the urban industry in Jinniu. As the leasable area increased, CJMU's rental income increased to RMB77 million in 2022 from RMB22 million in 2021. We expect the company's rental income to grow in the next two to three years as more projects will be put into use. In addition, the segment enhances CJMU's strategic importance in the region, considering that promoting the urban industry's development is a key initiative of the Jinniu government.

Product Sales and Others

CJMU also engages in the sales of building materials such as steel and cement. Yet it only contributed a small fraction (6.6%) of the company's total revenue, and the gross margin was as low as 0.4% in 2022. The company's other businesses mainly include providing information technology services for Jinniu's smart city projects, property management and parking lot operation.

Financial Profile

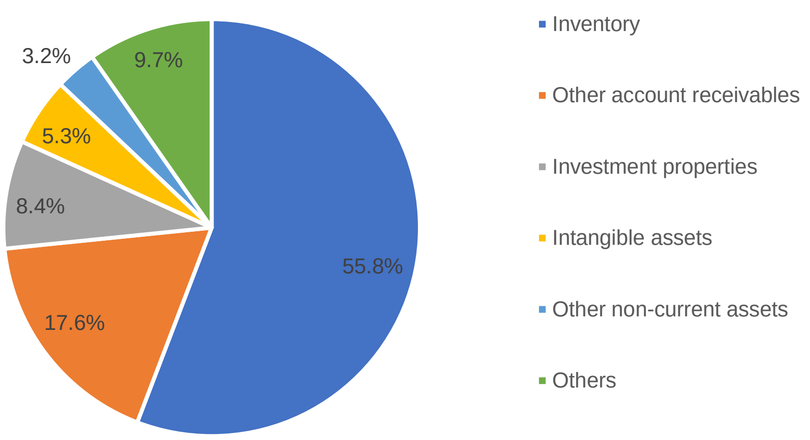
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	2020	2021	2022
Total Asset	4,180	11,870	38,109
Equity	1,147	4,508	24,540
Debt	4,507	5,306	11,299
Debt / (Debt + Equity) (%)	79.7	54.1	31.5
LT Debt	3,633	4,634	9,637
LT Debt / (LT Debt + Equity) (%)	76.0	50.7	28.2

Source: Company Information and Lianhe Global's calculations

CJMU's total asset showed a strong growth trend in the past three years. The increase in assets in 2021 was mainly due to the injection of sand and gravel resources and state-owned properties, and in 2022 was mainly due to the allocation of the construction projects (c. RMB17.5 billion), and some were non-profit public assets. With the multiple asset injections, CJMU's equity base was enlarged to RMB24.5 billion at end-2022 from RMB1.1 billion at end-2020. Nevertheless, CJMU's total debt increased rapidly to RMB11.3 from RMB4.5 billion over the same period, representing a compound annual growth rate of 58.3%. Despite the decreasing financial leverage, as measured by total debt/capitalization, which was 79.7%, 54.1% and 31.5% in 2020, 2021 and 2022, respectively, the company's debt burden remained high, given that injected could lack liquidity and face a long cash collection period, especially for construction projects.

Asset Breakdown
(Total assets: RMB38.1 billion at end-2022)



Source: The company and Lianhe Global's calculation

At end-2022, current assets accounted for 77.8% of CJMU's total asset, mainly including inventory, other accounts receivable, account receivables and cash. Due to the large amount of construction projects injected by the government, the inventory (primarily consisting of construction costs) increased significantly from RMB1.4 billion at end-2020 to RMB21.3 billion at end-2022, accounting for 55.8% of CJMU's total asset. As the second largest asset of CJMU, the other accounts receivable accounted for 17.6% of CJMU's total asset. The total amount of other receivables due from the top five debtors, all related entities, including JUCI and JUCI's subsidiaries, accounted for 98.0% of CJMU's other receivables at end-2022.

Despite the large proportion of current assets, the liquidity of CJMU's assets was moderately weak, as the construction costs usually take a long time to monetize due to the protracted construction and payment period, while the other receivables usually have no specified repayment schedule.

Debt Servicing Capability

CJMU's liquidity was moderately tight. At end-2022, the company had a cash balance of RMB523 million, compared with its short-term debt of RMB1.7 billion. Its financing channel was limited, relying on bank borrowings and non-traditional financings, with unused credit lines of RMB1.4 billion at end-2022.

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