Mianyang Science and Technology City New Area Investment Holdings (Group) Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	29 August 2023

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Mianyang Science and Technology City New Area Investment Holdings (Group) Co., Ltd. ("MNIG" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the de facto local government of Mianyang Science and technology City New District ("MST New District"), Mianyang Science and Technology City New District Management Committee ("MST MC"), would provide very strong support to MNIG if needed, in light of its majority ownership of MNIG, MNIG's strategic importance as the solo local investment and development company ("LIDC") that is responsible for infrastructure construction in MST New District, and the linkage between the local government and MNIG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if MNIG encounters any operational and financial difficulties.

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

Key Figures of MST New District and MNIG

(RMB billion)	2021	2022
MST New District		
GDP	10.0	11.0
GDP growth rate (%)	9.6	6.9
Budgetary revenue	0.6	0.7
Government fund	0.3	0.1
Transfer payment	1.1	1.0
Budgetary expenditure	0.9	1.3
MNIG	**2021**	**2022**
Assets	6.4	15.2
Equity	3.7	8.6
Revenue	0.8	1.2

Source: MNIG and Lianhe Global's calculations

Rating Rationale

Government's Ownership and Supervision: MST MC holds 81.6% shares of MNIG. The local government has the final decision-making authority and supervises the company, including senior management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has formulated a performance assessment policy for the company and conducts regular and special audits to review the company's operating performance and financial position.

Strategic Importance and Strategic Alignment: MNIG, as the solo LIDC in MST New District, is mainly responsible for infrastructure construction within the region with strong franchise advantage. The company also undertakes construction and sales of resettlement housing within the region, as well as trading business, property management, leasing and parking lot management business. MNIG plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: MNIG continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. MNIG received a total of RMB218.7 million in subsidies between 2020 and 1H2023. In addition, MNIG received asset injections in the forms of cash, rights of management, agent construction projects, and other assets, reaching a total of RMB14.1 billion between 2020 and 1H2023, from the local government, for asset expansions and business diversification. We expect MNIG to receive ongoing support from the local government in the coming years considering its strategic importance in MST New District.

Analysts
Karis Fan
(852) 3462 9579
karis.fan@lhratingsglobal.com

Joyce Huang, CFA
(852) 3462 9586
joyce.huang@lhratingsglobal.com

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

MNIG's Financial Matrix and Liquidity Position: Ongoing asset injections from the local government led to strong growth in MNIG's total assets to RMB25.8 billion at end-June 2023 (end-2020: RMB3.3 billion), although liquidity was moderately weak with non-current assets accounting for 64% of the total assets. At end-June 2023, MNIG had unrestricted cash balance and unused credit facilities of RMB1.3 billion and RMB2.8 billion, respectively, compared with its debt due within one year of RMB1.9 billion.

MNIG's financial leverage (total liabilities to assets) decreased to 37.5% at end-June 2023, from 43.8% at end-2022, due to the increased asset size. However, MNIG's total adjusted debt increased to RMB5.1 billion at end-June 2023 (end-2022: RMB3.3 billion). In addition, MNIG's financing channel has concentrated in bank loans. Obtaining additional financing channels or government support would be important to maintain its liquidity.

Economy and Fiscal Condition of MST New District: MST New District, formerly known as Mianyang Science and Technology City Science and Education Venture Park ("MSTCSEVP"), is a county-level development zone established in 2001, with the approval of the Mianyang government. In December 2020, MSTCSEVP was integrated with 9 townships to form the fourth provincial-level new zone in Sichuan Province, MST New District. MST New District's GDP reached RMB11.0 billion in 2022, representing a year-over-year ("y-o-y") growth of 6.9%.

The budgetary revenue of MST New District maintained growth over the past two years, and reached RMB0.7 billion in 2022 (a y-o-y increase of 10.0%), with the tax revenue accounting for 84.6% of the revenue. On the other hand, MST New District highly relied on transfer payments from the higher government, which reached RMB1.0 billion in 2022, (56.9% of aggregate fiscal revenue). Its fiscal debt ratio (total outstanding debt/aggregate fiscal revenue) surged to 116.6% in 2022 from 67.3% in 2020, mainly due to the increase in special debt.

Rating Sensitivities

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

We would consider upgrading MNIG's rating if there is an upgrade in our internal credit assessment on the local government.

Operating Environment

Economic Condition of MST New District

MST New District, formerly known as MSTCSEVP, is a county-level development zone established in 2001, with the approval of the Mianyang government. In December 2020, MSTCSEVP was integrated with 9 townships to form the fourth provincial-level new zone in Sichuan Province, MST New District. At end-2022, the resident population of MST New District was 0.1 million, with an urbanization rate of 95.8%.

MST New District integrates several state-level and provincial-level development zones, including Mianyang National High-tech Industrial Development Zone, Comprehensive Free Trade Zone and Sichuan Anzhou High-tech Industrial Development Zone, Youxian High-tech Industrial Development Zone (North). It has formed a development model featured with IT industry as well as national defense science and technology industry, indicating a strong economic strength. MST New District's GDP reached RMB11.0 billion in 2022, representing a y-o-y growth of 6.9%. MST New District's economic growth was wholly fueled by the secondary and tertiary industries in the past few years, which accounted for 34.7% and 65.3% of GDP in 2022, respectively.

MST New District's GDP and Fixed Asset Investment (RMB billion)	**2021**	**2022**
GDP	10.0	11.0
-Primary industry (%)	0.0	0.0
-Secondary industry (%)	31.2	34.7
-Tertiary industry (%)	68.8	65.3
GDP growth rate (%)	9.6	6.9
Fixed asset investment	3.5	7.1
Fixed asset investment growth rate (%)	9.5	100.2
Population (million)	0.1	0.1

Source: The company and Lianhe Global's calculations

Fiscal Condition of MST New District

The budgetary revenue of MST New District maintained growth over the past two years, and reached RMB0.7 billion in 2022, representing a y-o-y increase of 10.0%, with the tax revenue accounting for 84.6% of the revenue. The fiscal self-sufficiency of MST New District was weak and the budget deficit widened to 81.8% in 2022 from 46.7% in 2021. As a result, MST New District highly relied on transfer payments from the higher government, which reached RMB1.0 billion in 2022 (56.9% of aggregate fiscal revenue).

The outstanding government debt of MST New District showed a rapid growth to RMB2.1 billion in 2022 (from RMB1.3 billion in 2021), including RMB0.9 billion of general obligations and RMB1.2 billion of special debt. Its fiscal debt ratio (total outstanding debt/aggregate fiscal revenue) surged from 67.3% in 2020 to 116.6% in 2022, mainly due to the increase in special debt.

MST New District's Fiscal Condition (RMB billion)	**2021**	**2022**
Budgetary revenue	0.6	0.7
Budgetary revenue growth rate (%)	14.8	10.0
Tax revenue	0.6	0.6
Tax revenue (% of budgetary revenue)	94.1	84.6
Government fund income	0.3	0.1
Transfer payment	1.1	1.0
Aggregate revenue	**2.0**	**1.8**
Budgetary expenditure	0.9	1.3
Budget deficit[1] (%)	-46.7	-81.8

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

Ownership Structure

Government's Ownership

MNIG was established in October 2010, with an initial registered capital of RMB20.0 million, funded by the Science and Education Venture Park Management Committee ("SEVP MC") of Mianyang Science and Technology City. In September 2021, the SEVP MC of Mianyang Science and Technology City transferred 81.6% shares of the company to the MST MC without compensation.

At end-June 2023, MNIG's registered and paid-in capital were both RMB0.8 billion. MNIG had a shareholding structure in which the MST MC, as the controlling shareholder, held 81.6% shares of the company, while the China Agricultural Development Key Construction Fund Co., Ltd. and the Sichuan Provincial Finance Department held 9.3% and 9.1% shares, respectively.

Strategic Importance and Government Linkage

Strategic Importance of MNIG to MST New District

MNIG, as the solo LIDC in MST New District, is mainly responsible for infrastructure construction within the region with strong franchise advantage. The company also undertakes construction and sales of resettlement housing within the region, as well as trading business, property management, leasing and parking lot management business. MNIG plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

Strong Linkage with the Local Government

MST MC holds 81.6% shares of MNIG. The local government has the final decision-making authority and supervises the company, including senior management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has formulated a performance assessment policy for the company and conducts regular and special audits to review the company's operating performance and financial position.

Government Support

MNIG continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. MNIG received subsidies of RMB6.6 million, RMB57.7 million, RMB139.4 million and RMB15.0 million in 2020, 2021, 2022 and the first six months of 2023, respectively.

In addition, MNIG received asset injections in the form of cash, rights of management, agent construction projects, and other assets, which reached RMB0.6 billion, RMB1.5 billion, RMB4.5 billion and RMB7.5 billion in 2020, 2021, 2022 and the first six months of 2023, respectively, from the local government, to expand its asset size and diversify its business. We expect MNIG to receive ongoing support from the local government in the coming years considering its strategic importance in MST New District.

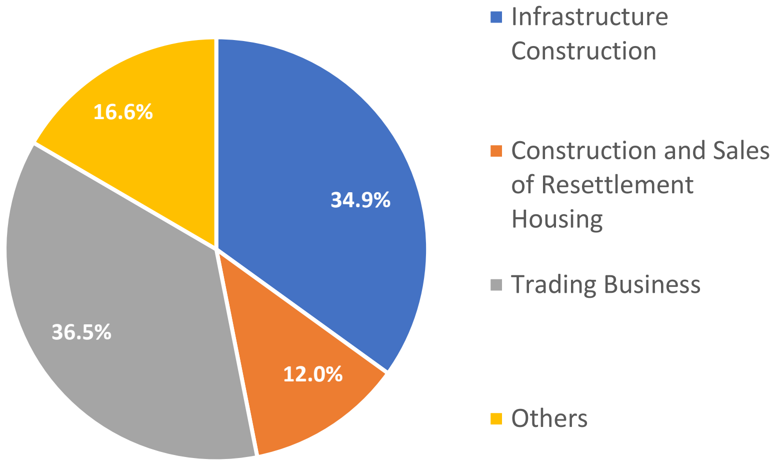
Business Profile

The Solo Entity Responsible for Infrastructure Construction in MST New District

MNIG, as the solo LIDC in MST New District, is mainly responsible for infrastructure construction within the region. The primary sources of operating revenue for MNIG are infrastructure construction, construction and sales of resettlement housing, as well as trading business, while it also engages in property management, leasing and parking lot management business. The company's total revenue reached RMB0.6 billion, RMB0.8 billion and RMB1.2 billion in 2020, 2021 and 2022, respectively, representing an upward trend. The overall gross profit margin of MNIG remained stable at 15%-20% from 2020 to 2022. As of end-June 2023, its total revenue was RMB 0.8 billion and its gross profit margin was 14.0 %. In general, MNIG has regional advantages in its major businesses.

Revenue Breakdown

(Total revenue: c. RMB1.2 billion in 2022)



Source: The company and Lianhe Global's Calculation

Infrastructure Construction

MNIG is designated by the MST MC and other entrusting parties to undertake the infrastructure construction, road construction and industrial park construction, etc. within the region, with strong franchise advantage. The projects in this segment are mainly conducted under the agent construction model, and the company carries out the project construction through self-financing in accordance with the deployment of the relevant regional plan of MST MC, with the sources of funds mainly being its own funds and financial transfers. Revenue recognition of agent construction projects includes construction costs incurred plus a certain percentage of profit. The revenue of infrastructure construction increased significantly in the past two years, mainly due to the establishment of MST New District. The revenue in this segment was RMB38 million, RMB0.2 billion and RMB0.4 billion in 2020, 2021 and 2022, respectively. As of end-June 2023, the company had 15 projects under construction and 9 projects to be constructed, with a total planned investment of RMB13.5 billion, posing high capital expenditure pressure to MNIG.

Construction and Sales of Resettlement Housing

MNIG mainly engages in the construction and sales of resettlement housing under the agent construction model, and realizes revenue through MST MC's buy-backs and marketoriented sales. The revenue generated from this segment reached RMB0.45 billion, RMB0.40 billion and RMB0.15 billion in 2020, 2021, 2022, respectively. The gross profit margin of the segment kept stable at 10% between 2020 and 2022. As of end-June 2023, projects under construction and to be constructed required investment of RMB4.2 billion.

Trading Business

As an important source of revenue for MNIG, the trading segment makes the company's business more diversified and plays a complementary role to its main business. MNIG mainly engages in the sales of construction materials (such as steel, concrete and cement), and seedlings, electrical components, lithium carbonate, etc. The revenue generated from this segment reached RMB37 million, RMB75 million, RMB0.5 billion and RMB0.5 billion in 2020, 2021, 2022 and 1H2023, respectively, representing an upward trend. The gross profit margin of the segment decreased from 7.2% to 3.0% between 2020 and 1H2023. Most of its customers are state-owned enterprises.

Other Businesses

MNIG's other businesses include property management, leasing and parking lot management, with each segment accounted for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality (RMB million)	**2020**	**2021**	**2022**	**June 2023**
Total Asset	3,319	6,420	15,235	25,769
Equity	1,881	3,747	8,559	16,096
Debt	517	1,486	3,278	5,053
Debt / (Debt + Equity) (%)	21.5	28.4	27.7	23.9
LT Debts	228	766	2,185	3,170
LT Debt / (LT Debt + Equity) (%)	10.8	17.0	20.3	16.5

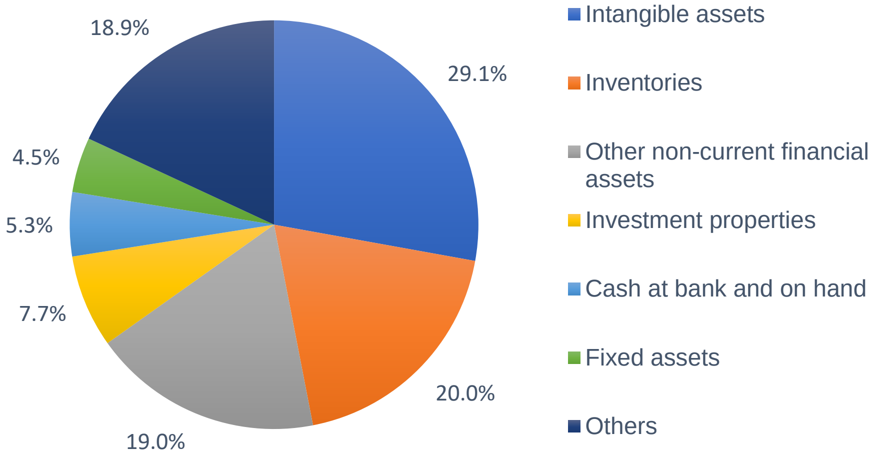
Source: The company's financial reports and Lianhe Global's calculations

MNIG's total assets showed a rapid growth in the past few years, with a growth rate of 93.5% 137.3% and 69.1% in 2021, 2022 and 1H2023, respectively, and reached RMB25.8 billion at end-June 2023. The increase of MNIG's total assets in 1H2023 was largely from intangible assets and inventories. MNIG had large proportion of non-current assets (64% at end-June 2023) and the overall asset liquidity was weak.

MNIG's assets mainly consisted of intangible assets, inventories, other non-current financial assets, investment properties, cash at bank and on hand and other fixed assets. Intangible assets primarily comprised of management rights of sand and stone in MST New District, which was asset injections from the local government. The scale of inventories was large that mainly included development cost and construction cost, which increased in parallel with the growth of the relevant projects. Other non-current financial assets mainly included equity participation and fund investments, which increased significantly in 2022 as MNIG injected franchise rights into its joint venture and created three new fund partnerships. Investment properties mainly included the innovation base of Science and Technology City, unified construction house projects and industrial parks, etc. Other fixed assets primarily comprised of houses and buildings.

Asset Breakdown

(Total assets: RMB25.8 billion at end-June 2023)



Source: The company and Lianhe Global's calculation

MNIG's financial leverage (total liabilities to assets) was 43.3%, 41.6% and 43.8% at end-2020, end-2021 and end-2022, respectively, and decreased to 37.5% at end-June 2023 due to the increased asset size. With the asset injections from the local government, MNIG's capital surplus also increased from RMB1.0 billion at end-2020 to RMB15.0 billion at end-June 2023.

On the other hand, MNIG has mainly relied on external financing to support its investments and business expansion. Its total adjusted debt increased to RMB5.1 billion at end-June 2023 from RMB0.5 billion at end-2020; the short-term debt and long-term debt accounted for 37.3% and 62.7% of total debt, respectively, at end-June 2023. We expect MNIG's debt level to increase on large investment needs for its infrastructure construction and resettlement housing projects. MNIG's management aims to maintain its financial leverage at below 60%.

Debt Servicing Capability

The liquidity of MNIG was moderately weak. At end-June 2023, MNIG had unrestricted cash balance and unused credit facilities of RMB1.3 billion and RMB2.8 billion, respectively, compared with its debt due within one year of RMB1.9 billion. In addition, MNIG's financing channel has concentrated in bank loans. Obtaining additional funding channels or government support would be needed for maintaining its liquidity.

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