

# Chengdu Chenghua Development Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	28 September 2023

### Key Figures of Chenghua District and CCD

(RMB billion)			
Chenghua District	2021	2022	
GDP	127.3	136.1	
GDP growth rate (%)	9.9	5.0	
Budgetary revenue	8.7	9.0	
Government fund	3.5	2.9	
Transfer payment	4.7	6.2	
Budgetary expenditure	7.7	8.9	
CCD	2022	2023.6	
Asset	178.2	198.3	
Equity	72.7	79.5	
Revenue	12.2	7.8	

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

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Chengdu Chenghua Development Group Co., Ltd. (“CCD”) to ‘A-’ from ‘BBB+’; Issuer Rating Outlook is Stable.

### Summary

The Issuer Credit Rating reflects the increased strategic importance of CCD to Chengdu's Chenghua District. Since 2021, CCD has consolidated all major local investment and development companies (“LIDC”) in Chenghua District and constantly increased the supervision over its subsidiaries. The company also undertakes most major urban development projects in Chenghua District.

We believe there is a high possibility that the People's government of Chenghua District (“the Chenghua government”) would provide very strong support to CCD if needed. This mainly considers the Chenghua government's 90% ownership of CCD, CCD's strategic position as the flagship platform of Chenghua District, as well as the strong linkage between the Chenghua government and CCD, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Chenghua government may face significant negative impact on its reputation and financing activities should CCD encounter any operational or financial difficulties.

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

### Rating Rationale

**Government's Ownership and Supervision:** The Chenghua government holds 90% ownership of CCD through the State-owned Assets Supervision, Administration and Financial Bureau of Chenghua (“Chenghua SASAFB”), while the remaining 10% was owned by the Sichuan Provincial Department of Finance to subsidize the provincial Social Security Fund. The Chenghua government also has strong control over CCD, including senior management appointments, supervision of CCD's major strategic, investment and financing plans. In addition, the Chenghua government has formulated comprehensive performance assessment policies for CCD.

**Strategic Importance and Strategic Alignment:** CCD is the flagship platform of Chenghua District consolidating all major LIDCs in the region. CCD has constantly increased the supervision over its subsidiaries since the consolidation in 2021, such as centralizing the financial management, reviewing and approving their major investment and financing decisions. The company also supplies liquidity support to its subsidiaries if needed, and assists the Chenghua government in senior management appointment, resource allocation, and performance review for them.

CCD's strategic planning and development have been aligned with the local government's economic and social policies. It carries out the urban development projects, including primary land development, infrastructures and public facilities construction, resettlement housings

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### Applicable Criteria

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

development, shantytown renovations and comprehensive transit-oriented-development projects designated by the Chenghua government to support the local economic growth.

**Ongoing Government Support:** The Chenghua government provided ongoing support to CCD. The local government injected capital and assets, including lands, projects, properties and equities, enhancing its injected capital and capital reserves to RMB3,250 million and 67,078 million at end-June 2023 from RMB1,900 million and RMB50,248 million at end-2020, respectively. The company also received financial subsidies amounting to RMB2,552 million from the local government over the same period. We expect CCD to receive ongoing support from the local government in the coming years given its strategic importance in Chenghua District.

**Chenghua District's Economic and Fiscal Conditions:** Chenghua District's GDP reached RMB136.1 billion in 2022, representing a year-on-year growth rate of 5.0%, slowing down from 9.9% in 2021 due to the Covid's impact. Fixed asset investment growth rate of Chenghua District also slowed to 0.9% in 2022 from 19.0% in 2021, mainly due to the significant drop in infrastructure investment. Nevertheless, as the central area of Chengdu city, Chenghua District has a well-developed economic structure, with secondary and tertiary industry accounting for 38.4% and 61.6% of its total GDP in 2022. At the same time, its GDP scale and growth rate was ranked 6th and 5th among 23 jurisdictions of Chengdu, respectively.

The Chenghua government's aggregate revenue increased steadily to RMB18.4 billion in 2022 from 17.1 billion in 2021. Its budgetary revenue increased by 3.7% to RMB9.0 billion in 2022, and kept a budget surplus of 1.0% in 2022, despite the narrowing trend compared with the previous year. At the same time, the Chenghua government received substantial transfer payments from the higher-level government, increasing to RMB6.2 billion in 2022 from c. RMB4.6 billion in 2020. However, the revenue from the government-managed fund, which was mainly generated by land use rights transfer, decreased to RMB2.9 billion in 2022 from RMB3.5 billion in 2021, owing to weak property market.

The Chenghua government's debt was manageable. At end-2022, the Chenghua government's outstanding debt was c. RMB6.1 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, stayed at manageable level of c. 34% in the past three years.

**CCD's Financials and Liquidity Position:** CCD's total asset reached RMB178,211 million at end-2022, increased by 18.6% compared to that at end-2021, and further climbed to RMB198,308 million at end-June 2023. The rapid growth of the company's assets was mainly due to deeper involvement in the project construction business. CCD relied heavily on borrowings to finance its businesses. The total debts of the company rushed to RMB94,311 million at end-June 2023 from RMB 65,618 million at end 2021. Nevertheless, the company received ongoing asset and capital injections into CCD over the same period. As a result, its financial leverage, as measured by total debt/capitalization only rose slightly to 54.3% from 51.4% over the same period.

CCD's liquidity was moderate. At end-June 2023, CCD had cash of RMB short-term debt of RMB20,639 million, accounting for 25.2% of the company's total borrowing. At the same time, CCD had cash of RMB10,583 million, covering 51.3% of its short-term maturities. Yet CCD has access to multiple financing channels, including bank borrowings and bond issuances, etc., to support its debt repayment and business operation. The company had a total credit line of c. RMB94,482 million, of which RMB38,481 million was unused, and available bond issuance quotas of RMB3,360 million at end-June 2023.



### Rating Sensitivities

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

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

### Company Profile

CCD was established in 2021 and is wholly owned by the Chenghua government through the Chenghua SASAFB. After its establishment, the Chenghua SASAFB transferred ownership of all major LIDCs to CCD under the Chenghua government's instruction to build a flagship platform in Chenghua District.

In August 2022, Chenghua SASAFB transferred 10% of CCD's shares to the Sichuan Provincial Department of Finance to subsidize the provincial Social Security Fund. Despite the transfer, the Chenghua government maintains in direct control over CCD.

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