

# Chongqing Tongda Investment Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	30 November 2023

### Key Figures of Zhongxian and CTI

(RMB billion)	2021	2022
<b>Zhongxian</b>		
GDP	48.9	50.8
GDP growth rate (%)	10.0	4.1
Budgetary revenue	2.0	2.3
Government fund	1.1	0.9
Transfer payment	3.9	5.3
Budgetary expenditure	6.4	7.1
<b>CTI</b>		
Assets	18.0	20.2
Equity	7.5	7.9
Revenue	0.6	0.6

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

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chongqing Tongda Investment Co., Ltd. (“CTI” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Zhong County, Chongqing Municipality (“Zhongxian government”) would provide strong support to CTI if needed, in light of its indirect full ownership of CTI, CTI’s strategic importance as the most important local investment and development company (“LIDC”) responsible for infrastructure construction in Zhong County (“Zhongxian”), Chongqing Municipality (“Chongqing”), and the linkage between the Zhongxian government and CTI, 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 Zhongxian government may face significant negative impact on its reputation and financing activities if CTI encounters any operational and financial difficulties.

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

### Rating Rationale

**Zhongxian Government’s Ownership and Supervision:** The Zhongxian government holds 100% ownership of CTI through the State-owned Assets Affairs Management Centre of Zhong County (“Zhongxian SAAMC”), and it is the ultimate controller of the company. The Zhongxian government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Zhongxian government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

**Strategic Importance to Zhongxian and Strategic Alignment:** CTI, as the most important LIDC in Zhongxian, is mainly responsible for the infrastructure construction in Zhongxian, such as road, bridge and municipal facilities. The company is engaged in project construction, resettlement housing construction, sewage treatment, etc. CTI plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

**Ongoing Government Support:** CTI continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in the economic development of Zhongxian. In 2020-2022, CTI received subsidies totaling around RMB280.0 million. Meanwhile, CTI received asset and capital injections in the form of cash, buildings, equity transfers and other assets, totaling around RMB1.1 billion.

**CTI’s Financial and Liquidity Position:** CTI’s asset size grew moderately to RMB20.2 billion at end-2022 from RMB15.8 billion at end-2020, largely attributed to the increase of inventories. The company’s financial leverage, as measured by debt/capitalization increased steadily from 48.2% to 54.3% over the same period. CTI’s asset liquidity was

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### Applicable Criteria

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

weak, as it has large part of inventories and other account receivables. At end-2022, CTI had cash balance of RMB0.6 billion (including restricted cash of RMB0.3 billion), compared with its debt due within one year of about RMB3.0 billion. Nevertheless, the company has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financing to support its debt repayments and business operations. At end-2022, the company had unused bank facilities of RMB1.3 billion.

**Economy and Fiscal Condition of Zhongxian:** Zhongxian is a county directly under the jurisdiction of Chongqing, and located in the center of Chongqing. Zhongxian's economy has maintained medium to high growth in recent years, and its GDP reached RMB50.8 billion in 2022, representing a year-over-year (y-o-y) growth rate of 4.1%.

The Zhongxian government's budgetary revenue increased steadily in the past three years with growth rates of 3.0%, 5.8% and 14.2% in 2020, 2021 and 2022, respectively. The tax revenue accounted for 47.4% of the budgetary revenue in 2022, downed from 70.5% in 2021 and 67.3% in 2020 as a result of the tax-advantaged policies. The fiscal self-sufficiency rate of the Zhongxian government was low (31.6% in 2022), hence it continuously received a certain number of subsidies from higher government authorities. Given the Zhongxian government borrowed heavily in special purpose debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 144.1% at end-2022 from 94.0% at end-2020.

### Rating Sensitivities

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

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

### Operating Environment

#### Economic Condition of Zhongxian

Zhongxian is a county directly under the jurisdiction of Chongqing, and located in the center of Chongqing. Zhongxian is a time-honored county with abundant natural resources and cultural sites. Zhongxian has jurisdiction over 4 streets and 19 towns, with a total land area of 2,187 square kilometers. At end-2022, Zhongxian had a resident population of 0.7 million, with an urbanization rate of 50.7%.

Zhongxian's economy has maintained medium to high growth in recent years, and its GDP reached RMB50.8 billion in 2022, representing a y-o-y growth rate of 4.1%. Zhongxian's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 44.7% and 43.5% in 2022, respectively. Its economic development focused on modern logistics, cultural tourism, intelligent manufacturing, new energy and biomedicine industry in recent years. The fixed asset investment growth rate of Zhongxian fluctuated in the past three years, which was 3.5%, 2.2% and 11.5% in 2020, 2021 and 2022, respectively.

**Zhongxian's GDP and Fixed Asset Investment**

(RMB billion)	2020	2021	2022
GDP	42.8	48.9	50.8
-Primary industry (%)	13.0	12.0	11.8
-Secondary industry (%)	44.4	44.7	44.7
-Tertiary industry (%)	42.6	43.3	43.5
GDP growth rate (%)	4.1	10.0	4.1
Fixed asset investment	20.5	21.0	23.4
Fixed asset investment growth rate (%)	3.5	2.2	11.5
Population (million)	0.7	0.7	0.7

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Zhongxian

The Zhongxian government's budgetary revenue increased steadily in the past three years with growth rates of 3.0%, 5.8% and 14.2% in 2020, 2021 and 2022, respectively. The tax revenue accounted for 47.4% of the budgetary revenue in 2022, downed from 70.5% in 2021 and 67.3% in 2020, as a result of the tax-advantaged policies. Although the improvement of budgetary revenue helped to mitigate the budget deficit, its budget deficit remained high at 255.6%, 212.1% and 216.5% in 2020, 2021 and 2022, respectively. The fiscal self-sufficiency rate of the Zhongxian government was low (31.6% in 2022), hence it continuously received a certain number of subsidies from higher government authorities. As another substantial component of the local fiscal revenue, the transfer payment increased to RMB5.3 billion in 2022 from RMB3.9 billion in 2021.

The outstanding debt of the Zhongxian government continued to grow. At end-2022, the Zhongxian government's outstanding debt was RMB12.2 billion, including RMB4.8 billion of general obligations and RMB7.4 billion of special purpose debt. Given the Zhongxian government borrowed heavily in special purpose debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 144.1% at end-2022 from 94.0% at end-2020.

**Zhongxian's Fiscal Condition**

(RMB billion)	2020	2021	2022
Budgetary revenue	1.9	2.0	2.3
Budgetary revenue growth rate (%)	3.0	5.8	14.2
Tax revenue	1.3	1.4	1.1
Tax revenue (% of budgetary revenue)	67.3	70.5	47.4
Government fund income	1.0	1.1	0.9
Transfer payment	5.3	3.9	5.3
<b>Aggregate revenue</b>	<b>8.2</b>	<b>7.1</b>	<b>8.5</b>
Budgetary expenditure	6.8	6.4	7.1
Budget balance <sup>1</sup> (%)	-255.6	-212.1	-216.5

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

CTI was established in December 2005 with an initial registered capital of RMB354 million, funded by the Zhongxian government. In July 2018, CTI's 100% equity interest was transferred from the Zhongxian government to the Zhongxian SAAMC without any compensation. At end-2022, the Zhongxian SAAMC, as the sole controlling shareholders

and actual controller, held 100% of the company's equity. At the same time, the registered and paid-in capital were RMB354.0 million and RMB319.0 million, respectively.

## Strategic Importance and Government Linkage

### Strategic Importance of CTI to Zhongxian

CTI, as the most important LIDC in Zhongxian, is mainly responsible for the infrastructure construction in Zhongxian, such as road, bridge and municipal facilities. The company is engaged in project construction, resettlement housing construction, sewage treatment, etc. CTI plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

### Strong Linkage with the Local Government

CTI's linkage with the local government is strong as the Zhongxian government holds 100% ownership of CTI through the Zhongxian SAAMC, and it is the ultimate controller of the company. The Zhongxian government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Zhongxian government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

### Government Support

CTI continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of Zhongxian. In 2020-2022, CTI received subsidies totaling around RMB280.0 million. Meanwhile, CTI received asset and capital injections in the form of cash, buildings, equity transfers and other assets, which reached about RMB542.9 million, RMB174.0 million and RMB350.0 million in 2020, 2021 and 2022, respectively.

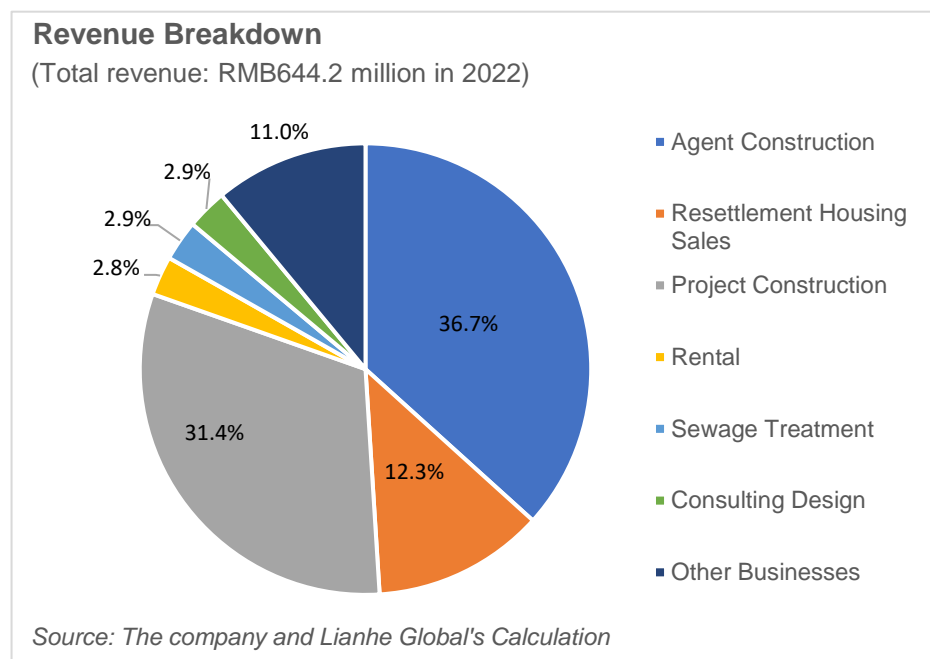
## Business Profile

### The Most Important Entity Responsible for Infrastructure Construction in Zhongxian

CTI, as the most important LIDC in Zhongxian, is mainly responsible for the infrastructure construction in Zhongxian, such as road, bridge and municipal facilities. The company is engaged in project construction, resettlement housing construction, sewage treatment, etc. As the major platform designated by the Zhongxian government to undertake infrastructure construction projects, the company has received strong support from the government in terms of capital injection and fiscal subsidies.

The primary sources of operating revenue for CTI are agent construction, resettlement housing sales and project construction. The company also generates revenue from rental, sewage treatment, consulting design, etc. The company's total revenue kept stable at c. RMB0.6 billion in the past three years. The overall gross profit margin of CTI raised to 18.0%

from 14.6% over the same period. In general, CTI's business was well diversified, and it has regional advantages in its major businesses.



### Infrastructure Construction

CTI, as the important infrastructure construction body within the region, is designated by the Zhongxian government to undertake the infrastructure construction, including agent construction, resettlement housing construction and project construction. The company adopts both agent construction and self-operated models. Under the agent construction model, the company signs the agent construction agreements with the entrusting party. The company settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress. Major projects include road, bridge, municipal facilities and tourism projects. Under the self-operated model, the company is responsible for both the construction and operation of the projects, which generate rental income upon completion.

The revenue of agent construction remained stable, recording at c. RMB0.3 billion, RMB0.2 billion and RMB0.2 billion in 2020, 2021 and 2022, respectively. The revenue of project construction reached at c. RMB201 million, RMB219 million and RMB203 million in 2020, 2021 and 2022, respectively. Its gross profit margin in this segment was fluctuated, with a segment gross margin of c. 14%-30%. Currently, the company's projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

### Rental

The rentable properties of the company mainly consist of relatively residential properties, stores and parking spaces, etc. The rental segment makes the company's business more diversified and plays a complementary role to its main business. The revenue generated from this segment recorded at c. RMB18 million, RMB20 million and RMB18 million in 2020, 2021 and 2022, respectively. Its gross profit margin in this segment was fluctuated, which reached 13.9%, 19.4% and -12.1% in 2020, 2021 and 2022, respectively.

## Other Businesses

Other businesses of CTI include sewage treatment, consulting design, parking service, etc., 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

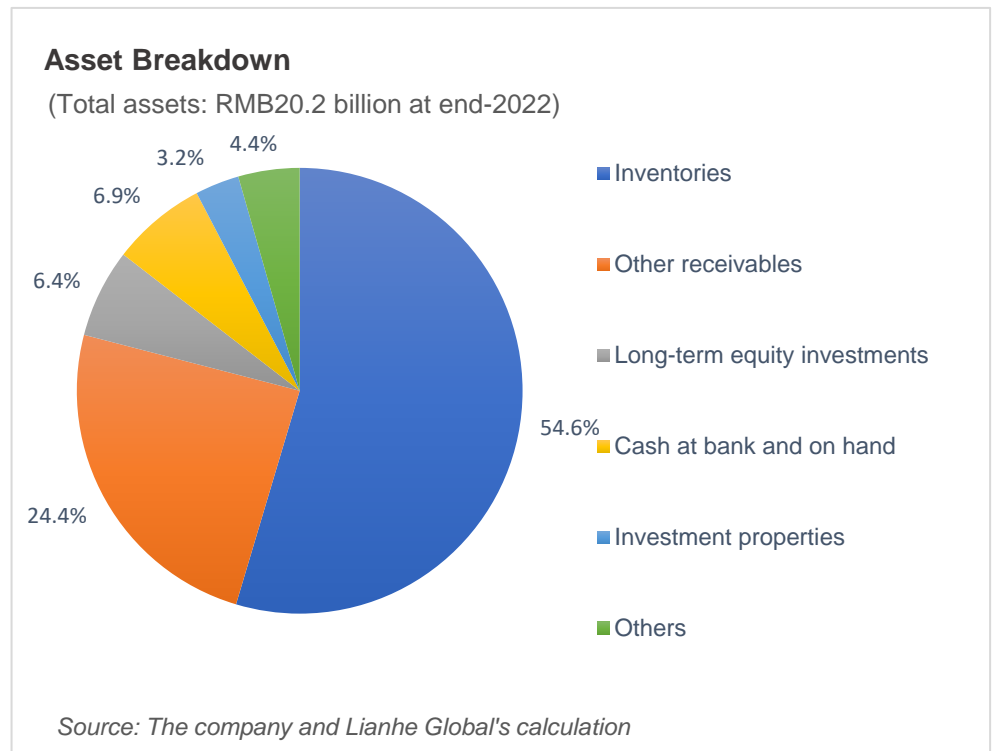
### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>			
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Total Asset	15,763	18,003	20,158
Equity	7,228	7,512	7,876
Debt	6,716	7,979	9,369
Debt / (Debt + Equity) (%)	48.2	51.5	54.3
LT Debts	5,158	5,491	6,366
LT Debt / (LT Debt + Equity) (%)	41.6	42.2	44.7

*Source: Company information and Lianhe Global's calculations*

CTI's asset size grew moderately to RMB20.2 billion at end-2022 from RMB15.8 billion at end-2020, largely attributed to the increase of inventories. The company's financial leverage, as measured by debt/capitalization increased steadily from 48.2% to 54.3% over the same period.

CTI's asset liquidity was weak, as it has large part of inventories and other account receivables. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs), amounting to RMB11.0 billion, and representing 54.6% of total asset at end-2022. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large amount of other account receivables, primarily due from government agencies. Their repayment schedules are highly subject to the fiscal conditions of the local government.



### Debt Servicing Capability

The liquidity of CTI was weak. At end-2022, CTI had had cash balance of RMB0.6 billion (including restricted cash of RMB0.3 billion), compared with its debt due within one year of about RMB3.0 billion. Nevertheless, the company has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financing to support its debt repayments and business operations. At end-2022, the company had unused bank facilities of RMB1.3 billion.

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