

# Chengdu Jinniu Guotou Urban Operation and Management Co., Ltd.

## Surveillance Report

### Summary

|               |  |
|---------------|--|
| Issuer Rating | BBB-                                       |
| Outlook       | Stable                                     |
| Location      | China                                      |
| Industry      | Local Investment and Development Companies |
| Date          | 24 November 2023                           |

**Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Chengdu Jinniu Guotou Urban Operation and Management Co., Ltd. (“JGUO”); Issuer Rating Outlook is Stable.**

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Jinniu District (“Jinniu government”) would provide moderately strong support to JGUO if needed, in light of its indirect wholly ownership of JGUO, the strategic importance of JGUO to Jinniu District (“Jinniu”) in infrastructure construction, as well as industrial investment and state-owned assets operation, and the linkage between the Jinniu government and JGUO, including supervision over JGUO through its shareholder, strategic alignment and ongoing operational and financial support. In addition, the Jinniu government may face negative impact on its reputation, business and financing activities if JGUO encounters any operational and financial difficulties.

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

### Rating Rationale

**Jinniu Government’s Ownership and Supervision:** The Jinniu government has 100% indirect ownership of JGUO through Chengdu Jinniu State-owned Assets Investment Operation Group Co., Ltd. (“JSAI”), which is fully owned by the State-owned Assets Supervision, Administration and Finance Bureau of Jinniu (“Jinniu SASAFB”).

**Strategic Importance and Strategic Alignment:** JGUO is one of the important state-owned entities responsible for infrastructure construction, industrial investment and state-owned assets operation in Jinniu. The company undertakes some important infrastructure construction projects in the region, and investment under the government’s plan in cultural tourism, cross-border electricity, intelligent parking, supply chain finance and industry such as digital economy under the coordination of the Jinniu government. JGUO currently focuses on engineering construction, asset leasing business and it is diversifying into human resource and other businesses in the future.

**Ongoing Government Support:** JGUO has received supports from JSAI and the Jinniu government, including capital and assets injection, operational subsidies and projects transfer, etc. In addition, the company also received financial subsidies from the local government to support its business operation every year.

In 2022, JGUO received RMB17.06 million of tax credit refunded from IRD. The company received capital injection of RMB1 billion from the parent company in the third quarter of 2022. As a result, the paid-in capital increased to RMB2 billion accordingly.

**JGUO’s Financial Matrix and Liquidity Position:** JGUO’s asset size surged to RMB24.4 billion at end-September 2023, mainly due to the expanding debts for financing its self-constructed and self-operated projects.

### Key Figures of Jinniu and JGUO

| (RMB billion)         | 2021        | 2022          |
|-----------------------|-------------|---------------|
| <b>Jinniu</b>         |             |               |
| 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           |
| <b>JGUO</b>           |             |               |
|                       | <b>2022</b> | <b>2023.9</b> |
| Assets                | 19.9        | 24.4          |
| Equity                | 12.4        | 12.4          |
| Revenue               | 0.6         | 0.2           |

Source: Public information, JGUO and Lianhe Global’s calculations

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### Applicable Criteria

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

The liquidity of JGUO was tight. JGUO had a total cash balance of RMB471 million and unused credit line of RMB1.08 billion at end-September 2023, compared with its debt to be due within one year of RMB1.8 billion. Nevertheless, JGUO has access to multiple financing channels including bank borrowings and other financing channels.

**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 3<sup>rd</sup> 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.

### Rating Sensitivities

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

We would consider upgrading JGUO'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.

### Company Profile

JGUO is an important subsidiary of Chengdu Jinniu State-owned Assets Investment Operation Group Co., Ltd., which is fully owned by the State-owned Assets Supervision, Administration and Finance Bureau of Jinniu. JGUO is positioned as a main entity for infrastructure construction, industrial investment, as well as state-owned assets operation in the Jinniu District.

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