

# Mianyang Emerging Investment Holdings Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 January 2024

### Key Figures of Mianyang and MYEI

(RMB billion)

Mianyang	2021	2022
GDP	33.5	36.3
GDP growth rate (%)	8.7	5.0
Budgetary revenue	15.9	16.0
Government fund	25.9	19.3
Transfer payment	26.2	30.5
Budgetary expenditure	46.7	49.1
MYEI	2022	2022.9
Total Asset	18.7	20.7
Equity	7.8	7.8
Revenue	1.1	1.1

Source: Public information, MYEI 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 Mianyang Emerging Investment Holdings Co., Ltd.

### Summary

The Issuer Credit Rating reflects a high possibility that the Mianyang Municipal People's government ("Mianyang government") would provide strong support to Mianyang Emerging Investment Holdings Co., Ltd. ("MYEI" or the company) if needed. This mainly considers the Management Committee of Mianyang Science and Technology City ("the management committee"), the de facto local government of Mianyang High-tech Industrial Development Zone ("Mianyang High-tech Zone")'s 90% ownership of MYEI, MYEI's strategic position as an important local investment and development company ("LIDC") responsible for project construction in Mianyang High-tech Zone, and the strong linkage between the local government and MYEI, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the local government may face negative impact on its reputation and financing activities should MYEI encounter any operational or financial difficulties.

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

### Key Rating Rationales

**Government's Ownership and Supervision:** The management committee holds 90% ownership of MYEI, while the remaining 10% of MYEI's shares is owned by Sichuan Provincial Department of Finance to subsidize the provincial social security fund. The management committee was set up in 2021 with the approval of Sichuan Provincial Government and entrusted to the Mianyang government for management.

The local government has strong control and supervision over MYEI including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

**Strategic Alignment and Importance:** MYEI is an important LIDC responsible for the project development in Mianyang. It mainly develops industrial parks, municipal infrastructure and affordable within Mianyang High-tech Zone, a national high-tech zone under the direct management of the management committee. MYEI's business operation and strategic planning have been aligned with the local government's economic and social policies, playing an important role in urban development, attracting investment and promoting industrial development.

**Ongoing Government Support:** MYEI receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The local government injected an array of assets including sand and stone mining rights,

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### Applicable Criteria

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

tree farms and buildings, etc. valued at RMB3.6 billion between 2020 and 2023. Over the same period, the local government also provided operational subsidies with a total amount of RMB345 million to MYEI. We expect MYEI to receive ongoing support from the local government in the coming years considering its strategic importance in Mianyang.

**Economic and Fiscal Conditions of Mianyang:** Mianyang is a prefecture-level city under the jurisdiction of Sichuan Province. Renowned as the “City of Science and Technology”, Mianyang is the home to many research institutions, universities and high-tech companies. In addition, Mianyang enjoys abundant mineral resources and tourism resources. Its GDP reached RMB362.7 billion in 2022, representing a year-over-year growth rate of 5.0%, down from 8.7% in 2021 owing to Covid’s disruption.

Mianyang High-tech Zone was the first batch national high-tech zone established in 1992 with the approval of State Council. It focuses on the development three pillar industries, namely information technology, automobile and parts and new materials.

The Mianyang government’s budgetary revenue increased to RMB15.9 billion in 2022 from RMB14.1 billion in 2020. However, its fiscal self-sufficiency capacity is weak. Therefore, the Mianyang government highly relies on the government fund income and transfer payments from higher governments, which contributed to 45.3% of aggregate revenue in 2022. The government fund income of Mianyang decreased to RMB20.5 billion in 2022 from RMB28.8 billion in 2020, owing to the weak property market.

The outstanding debt of the Mianyang government continued to grow as the Mianyang government borrowed heavily in special debts to support its public projects. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 126.4% at end-2022 from 78.5% at end-2020.

**MYEI’s Financial and Liquidity Position:** MYEI’s asset size grew significantly to RMB20.7 billion at end-September 2023 from RMB11.3 billion at end-2020, as the company actively participated in project development in Mianyang High-tech Zone. MYEI relied on both capital injections and borrowings to fund its asset expansion. Therefore, the company’s financial leverage, as measured by debt/capitalization, stayed at the manageable level of c. 50%-55% between 2020 and the first nine-months of 2022.

MYEI’s asset liquidity was weak, as it the company’s project development activities accumulated sizeable inventories (mainly lands and construction costs), construction in progress and investment properties, which added up to RMB11.1 billion at end-September 2023, representing 53.5% of total asset. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

MYEI’ short-term debt serving pressure is high. At end-September 2023, the company had cash of RMB695 million, including restricted cash of RMB276 million, compared to debt due within one year of RMB3.1 billion. Yet we expect the company to roll over majority of its short-term bank borrowings (end-September 2023: RMB2.0 billion). The company also has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing channel to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB1.1 billion and available bond issuances quota of RMB550 million.

## Rating Sensitivities

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

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

## Operating Environment

### Economy and Fiscal Condition of Mianyang

Mianyang is a prefecture-level city under the jurisdiction of Sichuan Province and located in the northwest part of Sichuan. Mianyang has jurisdiction over three districts, five counties and one county-level city, with a total land area of 20,200 square kilometers. At end-2022, Mianyang had a residential population of 4.9 million, with an urbanization rate of 54.3%. Renowned as the "City of Science and Technology", Mianyang is the home to many research institutions, universities and high-tech companies. In addition, Mianyang enjoys abundant mineral resources and tourism resources.

Mianyang's GDP reached RMB362.7 billion in 2022, representing a year-over-year growth rate of 5.0%, down from 8.7% in 2021 owing to Covid's disruption. The economic growth was mainly fueled by the secondary and tertiary industries, accounting for 41.8% and 47.7% of Mianyang's aggregate GDP, respectively, in 2022. Its fixed asset investment maintained double-digit growth in the past few years, with growth rates recording at 10.0%, 11.0% and 11.3% in 2020, 2021 and 2022, respectively.

Mianyang High-tech Zone was the first batch national high-tech zone established in 1992 with the approval of State Council. Currently, Mianyang High-tech Zone is in the core area of Mianyang Science and Technology City and under the direct management of the management committee. Mianyang High-tech Zone focuses on the development three pillar industries, namely information technology, automobile and parts and new materials.

#### Mianyang's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	302.0	335.0	362.7
-Primary industry (%)	12.3	11.3	10.5
-Secondary industry (%)	39.0	40.4	41.8
-Tertiary industry (%)	48.7	48.3	47.7
GDP growth rate (%)	4.4	8.7	5.0
Fixed asset investment growth rate (%)	10.0	11.0	11.3
Residential population (million)	4.9	4.9	4.9

Source: Public information and Lianhe Global's calculations

The Mianyang government's budgetary revenue increased to RMB15.9 billion in 2022 from RMB14.1 billion in 2020, while the contribution of the tax revenue decreased to 52.4% in 2022 from 61.5% in 2020, mainly due to the large-scale value-added tax credit refund policies to support the economy.

The Mianyang government's fiscal self-sufficiency capacity is weak. It recorded budget deficits of -215.5%, -193.1% and -208.2% in 2020, 2021 and 2022, respectively. Therefore, the Mianyang government highly relies on the government fund income and transfer payments from higher governments, which was largely stable and reached RMB30.5 billion in 2022, contributing to 45.3% of aggregate revenue. However, the government fund income of Mianyang decreased to RMB20.5 billion in 2022 from RMB28.8 billion in 2020, owing to the weak property market.

The outstanding debt of the Mianyang government continued to grow. At end-2022, the Mianyang government's outstanding debt was RMB85.0 billion, including RMB29.3 billion of general obligations and RMB55.7 billion of special debt. Given the Mianyang government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 126.4% at end-2022 from 78.5% at end-2020.

<b>Mianyang's Fiscal Conditions</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	14.1	15.9	16.0
Budgetary revenue growth rate (%)	7.5	12.9	14.0*
-Tax revenue	8.7	10.1	8.4
-Tax revenue (% of budgetary revenue)	61.5	63.4	52.4
Government fund income	28.8	25.9	20.5
Transfer payment	29.8	26.2	30.5
<b>Aggregate revenue</b>	<b>73.1</b>	<b>68.6</b>	<b>67.3</b>
Budgetary expenditure	44.5	46.7	49.1
Budget balance <sup>1</sup> (%)	-215.5	-193.1	-208.2

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

Source: Public information and Lianhe Global's calculations

## Ownership Structure and Profile

### Full Government Ownership

MYEI was established in January 2010 with an initial registered capital of RMB150 million, funded by the Mianyang High-tech Industrial Development Zone Management Committee ("Mianyang High-tech Zone MC"). In January 2021, the Mianyang High-tech Zone MC transferred its 10% equity interest of the company to the Sichuan Provincial Department of Finance without compensation to subsidize the provincial social security fund. In April 2023, the Mianyang High-tech Zone MC transferred its remaining 90% equity interest of the company to the management committee without compensation. The management committee was set up in 2021 with the approval of Sichuan Provincial Government and entrusted to the Mianyang government for management.

At end-September 2023, MYEI's registered and paid-in capital were both enlarged to RMB192 million. The management committee, as the controlling shareholders and actual controller of MYEI, held 90% of the company's equity, and the remaining 10% equity of MYEI was held by the Sichuan Provincial Department of Finance.

## Strategic Importance and Government Linkage

### The Strategic Importance and Alignment of MYEI to the local government

MYEI is an important LIDC responsible for the project development in Mianyang. It mainly develops industrial parks, municipal infrastructure and affordable within Mianyang High-tech Zone. MYEI's business operation and strategic planning have been aligned with the local government's economic and social policies, playing an important role in urban development, attracting investment and promoting industrial development. However, MYEI's business operation only focuses on Mianyang High-tech Zone, which could constrain its strategic positioning in Mianyang as a whole.

### Strong Linkage with local government

MYEI's linkage with the local government is strong as the management committee directly owns 90% shares of MYEI and is the company's ultimate controller. The local government has strong control and supervision over MYEI including the appointment of senior management and supervision of development strategy, major financing plan and investment decision. In addition, the local government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

### Ongoing Government Support

MYEI receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its operations. The local government injected an array of assets including sand and stone mining rights, tree farms and buildings, etc. valued at RMB419 million, RMB621 million and RMB2,550 million in 2020, 2021 and 2022, respectively. Between 2020 and 2023, the local government also provided operational subsidies with a total amount of RMB345 million to MYEI. We expect MYEI to receive ongoing support from the local government in the coming years considering its strategic importance in Mianyang.

## Business Profile

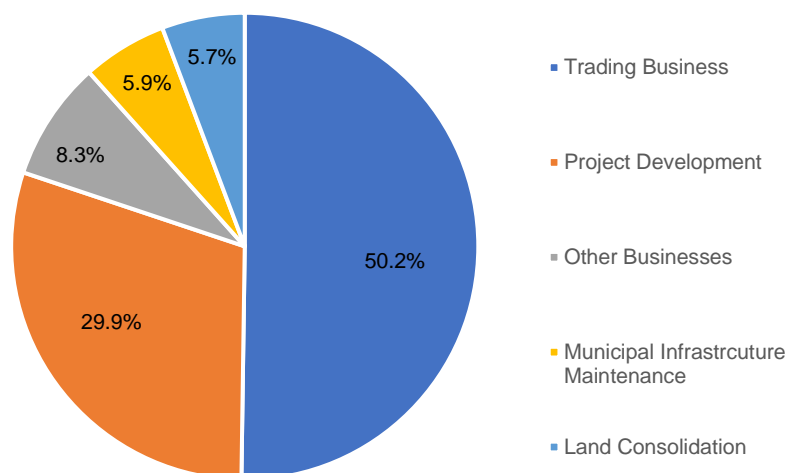
### An important LIDC Responsible for Project Construction in Mianyang High-tech Zone

MYEI, as an important LIDC in Mianyang, is mainly responsible for projects such as affordable housing construction, municipal infrastructure construction and maintenance, as well as land consolidation within Mianyang High-tech Zone. The company has a strong franchised advantage in its major businesses.

The primary sources of operating revenue for MYEI are infrastructure construction, trading, municipal maintenance and land consolidation, while it also engaged in leasing, advertising, digital cloud services, etc. The company's total revenue was on an upward trend in the past few years, recording at RMB0.7 billion, RMB0.7 billion, RMB1.1 billion and RMB1.1 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin of MYEI fluctuated between 8.9% and 12.1% over the same period. In general, MYEI's business was well diversified, but it has regional advantages in its major businesses.

### Revenue Breakdown

(Total revenue: RMB1,113 million in the first nine months of 2023)



Source: The company and Lianhe Global's Calculations

### Project Development

MYEI undertakes development projects including industrial parks, municipal infrastructure, affordable housing as well as roads and bridges, etc. in Mianyang High-tech Zone. This segment is mainly operated under the agent construction mode by signing agreements with the entrusting parties, mainly government agencies of Mianyang High-tech Zone. The company is responsible for fundraising and construction of entrusted projects, then settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress. In addition, MYEI also develops self-operated projects aiming to generate operational and rental incomes upon completion.

MYEI has a strong project pipeline with total planned investment amounting to RMB9.1 billion at end-2022, of which RMB6.0 billion is scheduled to be invested in the coming years. However, these projects may also bring a high capital expenditure pressure on MYEI.

### Land Consolidation and Municipal Infrastructure Maintenance

MYEI also participates in land consolidation and development projects within Mianyang High-tech Zone. The company signs the land development agreements with the Mianyang High-tech Zone Urban and Rural Coordination and Development Bureau. According to signed agreements, MYEI carries out demolition and infrastructure construction works for designated land parcels. The company is also responsible for compensation and resettlement of affected residents. The entrusting party pays construction costs plus agreed margin to MYEI after land concessions. However, the revenue and cash collection of land consolidation projects are vulnerable to local government's policy and planning, as well as property market conditions.

In addition, MYEI undertakes municipal maintenance works within region, including sanitation, landscaping, garbage removal, road maintenance and parking management, etc.

## Trading Business and Others

The company mainly engages in the trading of building materials, such as steel, concrete, etc. Trading segment is the largest revenue source for MYEI. However, its gross remained low (1% in the first nine months of 2023).

Other businesses of MYEI include leasing, advertising, digital cloud services, etc., with each segment accounting for a relatively small proportion of the company's total revenue. These businesses mainly play the role of supplementing the revenue of the main business and diversifying the revenue structure.

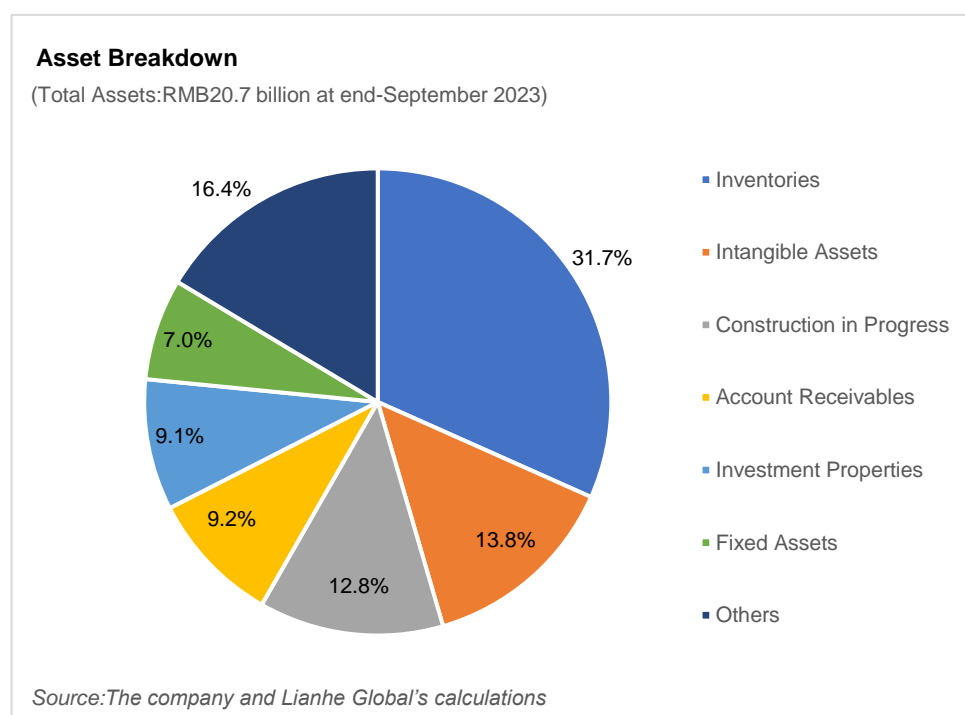
## Financial Profile

### Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	Sept. 2023
Total Asset	11,267	14,465	18,696	20,701
Equity	3,949	5,090	7,800	7,843
Debt	5,194	6,709	7,504	8,070
Debt/(Debt+Equity) (%)	56.8	56.9	49.0	50.7
LT Debt	3,027	4,050	3,364	4,935
LT Debt/(LT Debt+Equity) (%)	43.4	44.3	30.1	38.6

Source: The company and Lianhe Global's calculations

MYEI's asset size grew significantly to RMB20.7 billion at end-September 2023 from RMB11.3 billion at end-2020, as the company actively participated in project development in Mianyang High-tech Zone. MYEI relied on both capital injections and borrowings to fund its asset expansion. Therefore, the company's financial leverage, as measured by debt/capitalization, stayed at the manageable level of c. 50%-55% between 2020 and the first nine-months of 2022.



MYEI's asset liquidity was weak, as it has large part of inventories, intangible asset, construction in progress, account receivables and investment properties. The company's project development activities accumulated sizeable inventories (mainly lands and construction costs), construction in progress and investment properties, which added up to RMB11.1 billion at end-September 2023, representing 53.5% of total asset. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

The company also had a large number of intangible assets, amounting to RMB2.9 billion at end-September 2023, representing 13.8% of total asset. At the same time, account receivables amounted to RMB1.9 billion, representing 9.2% of total asset. They were primarily due from government agencies and their repayment schedules are highly subject to the fiscal conditions of the local government.

### Debt Servicing Capability

MYEI' short-term debt serving pressure is high. At end-September 2023, the company had cash of RMB695 million, including restricted cash of RMB276 million, compared to debt due within one year of RMB3.1 billion. Yet we expect the company to roll over majority of its short-term bank borrowings (end-September 2023: RMB2.0 billion). The company also has access to various financing channels, including bank borrowings, bond issuances and non-traditional financing channel to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB1.1 billion and available bond issuances quota of RMB550 million.



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