

# Emeishan Modern Agricultural Development Group Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	21 February 2024

### Key Figures of Emeishan and EMADG (RMB billion)

	2021	2022
<b>Emeishan</b>		
GDP	38.6	37.4
GDP growth rate (%)	8.0	-3.9
Budgetary revenue	2.1	2.2
Government fund	2.6	3.6
Transfer payment	1.0	1.0
Budgetary expenditure	3.2	3.2
<b>EMADG</b>	<b>2022</b>	<b>2023.9</b>
Assets	11.7	12.5
Equity	7.5	7.6
Revenue	0.4	0.7

Source: Public information, EMADG 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 Emeishan Modern Agricultural Development Group Co., Ltd (“EMADG” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Emeishan City, Leshan City (“Emeishan government”) would provide strong support to EMADG if needed, in light of its full ownership of EMADG, EMADG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction, rural revitalization and affordable housing construction in Emeishan City, Leshan City (“Emeishan”), and the linkage between the Emeishan government and EMADG, 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 Emeishan government may face significant negative impact on its reputation and financing activities if EMADG encounters any operational and financial difficulties.

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

### Rating Rationale

**Emeishan Government’s Ownership and Supervision:** The Emeishan government holds the full ownership of EMADG through the State-owned Assets Supervision and Administration Commission of Emeishan City (“Emeishan SASAC”). The Emeishan government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Emeishan government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Emeishan and Strategic Alignment:** EMADG, as the key LIDC in Emeishan, is primarily responsible for the investment, development and operation of rural revitalization related infrastructure projects and affordable housing projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, EMADG is mainly engaged in urbanization construction, sewage pipe and drainage system renovation, road and bridge construction, healthcare and education, Emeishan tourism projects and other infrastructure related projects with strong regional advantages. EMADG 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:** EMADG received operational and financial support from the Emeishan government. EMADG received a total subsidy amount of RMB272.4 million from 2020 to the first nine months of 2023. The Emeishan government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into

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### Applicable Criteria

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

EMADG to expand its asset size and diversify its business. Besides, the Emeishan government will repurchase some infrastructure projects and provide policy supports to EMADG to ensure its business operation. Given that it is the key entity for infrastructure construction and affordable housing construction in Emeishan, EMADG has an advantage in acquiring related resources and major projects. We believe EMADG is likely going to receive government support to support its daily business operation.

**EMADG's Financial Matrix and Liquidity Position:** EMADG's total assets showed a continuous growth trend in the past few years and reached RMB12.5 billion at end-September 2023, largely attributed to the increase of receivables from the local government. The current assets of EMADG accounted for 51.9% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventories and receivables. EMADG's financial leverage (total liabilities to total assets) declined to 39.2% and its adjusted debt decreased to RMB4.0 billion at end-September 2023 from RMB4.6 billion at end-2020. EMADG's liquidity was sufficient. At end-September 2023, EMADG had a cash balance and unused credit facilities of RMB212.4 million and RMB961.9 million, respectively, compared with its debt due within one year of RMB588.0 million. Besides, EMADG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Strength of Emeishan:** Emeishan is a county-level city of Leshan City, Sichuan Province ("Leshan"), and is located in the southern part of Sichuan. Emeishan's economic growth fluctuated in the past three years due to the COVID-19 pandemic, with a year-over-year growth rate of 4.2%, 8.0% and -3.9% in 2020, 2021 and 2022, respectively. Emeishan's GDP reached RMB37.4 billion in 2022, and ranked the 2<sup>nd</sup> among all districts and county-level cities under the administration of Leshan.

Emeishan's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2022, the budgetary revenue of the Emeishan government increased to RMB 2.2 billion, up from RMB 2.1 billion in 2021, while maintaining a consistent budgetary expenditure of RMB 3.2 billion. Consequently, the Emeishan government saw an improvement in its budget deficit, reducing to 45.9% during the same period. Simultaneously, government fund income exhibited robust growth, experiencing a year-on-year increase of 41.6% and reaching RMB 3.6 billion in 2022. The debt ratio, measured by the total outstanding government debt relative to aggregate revenue, decreased from 136.9% at the end of 2021 to 118.0% at the end of 2022.

### Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Emeishan

Emeishan is a county-level city of Leshan City, Sichuan Province, and is located in the northwest of Leshan. Emeishan has jurisdiction over 13 towns and streets, with a land area of 1,183 square kilometers. At end-2022, Emeishan had a resident population of 0.4 million, with an urbanization rate of 50.4%.

Emeishan's economic growth fluctuated in the past three years due to the COVID-19 pandemic, with a year-over-year growth rate of 4.2%, 8.0% and -3.9% in 2020, 2021 and 2022, respectively. Emeishan's GDP reached RMB37.4 billion in 2022, and ranked the 2nd among all districts and county-level cities under the administration of Leshan. Emeishan's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 29.7% and 60.9% in 2022, respectively. Emeishan's industries, including food and beverage, green materials, and tourism, show continuous growth in the past three years.

<b>Emeishan's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	35.2	38.6	37.4
-Primary industry (%)	8.7	8.3	9.4
-Secondary industry (%)	43.7	34.5	29.7
-Tertiary industry (%)	47.6	57.2	60.9
GDP growth rate (%)	4.2	8.0	(3.9)
Fixed asset investment	20.0	22.7	25.3
Fixed asset investment growth rate (%)	11.3	13.3	11.6
Population (million)	0.4	0.4	0.4

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

### Fiscal Condition of Emeishan

Emeishan's governmental fiscal revenues primarily stem from budgetary income and government fund income. In 2022, the budgetary revenue of the Emeishan government increased to RMB 2.2 billion, up from RMB 2.1 billion in 2021, while maintaining a consistent budgetary expenditure of RMB 3.2 billion. Consequently, the Emeishan government saw an improvement in its budget deficit, reducing to 45.9% during the same period. Simultaneously, government fund income exhibited robust growth, experiencing a year-on-year increase of 41.6% and reaching RMB 3.6 billion in 2022.

The debt ratio of the Emeishan government was high. At end-2022, the Emeishan government's outstanding debt was RMB8.2 billion, including RMB4.0 billion of general obligations and RMB4.1 billion of special debt. The debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 118.0% at end-2022 from 136.9% at end-2021.

<b>Emeishan's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	2.0	2.1	2.2
Budgetary revenue growth rate (%)	1.8	3.0	5.1
Tax revenue	1.4	1.3	1.0
Tax revenue (% of budgetary revenue)	67.2	60.9	43.4
Government fund income	2.5	2.6	3.6
Transfer payment	1.4	1.0	1.0
<b>Aggregate revenue</b>	<b>6.0</b>	<b>5.8</b>	<b>6.9</b>
Budgetary expenditure	3.0	3.2	3.2
Budget balance <sup>1</sup> (%)	47.4	51.6	45.9

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

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

EMADG was established in March 2007 with an initial registered capital of RMB300 million, funded by Emeishan SASAC. After a series of capital and equity injections, at end-September 2023, EMADG had a shareholding structure in which the Emeishan SASAC, as the solo shareholders and actual controller, held 100% of the company's equity, with the registered and paid-in capital recording at RMB1.0 billion and RMB30.0 million, respectively.

## Strategic Importance and Government Linkage

### Strategic Importance of EMADG to Emeishan

EMADG, as the key LIDC in Emeishan, is primarily responsible for the investment, development and operation of rural revitalization related infrastructure projects and affordable housing projects within the city. Serving as the key entity in charge of infrastructure projects throughout the region, EMADG is mainly engaged in urbanization construction, sewage pipe and drainage system renovation, road and bridge construction, healthcare and education, Emeishan tourism projects and other infrastructure related projects with strong regional advantages. EMADG 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

EMADG's linkage with the local government is strong as the Emeishan government holds the full ownership of EMADG through Emeishan SASAC. The Emeishan government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Emeishan government has assessment mechanism over the company and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

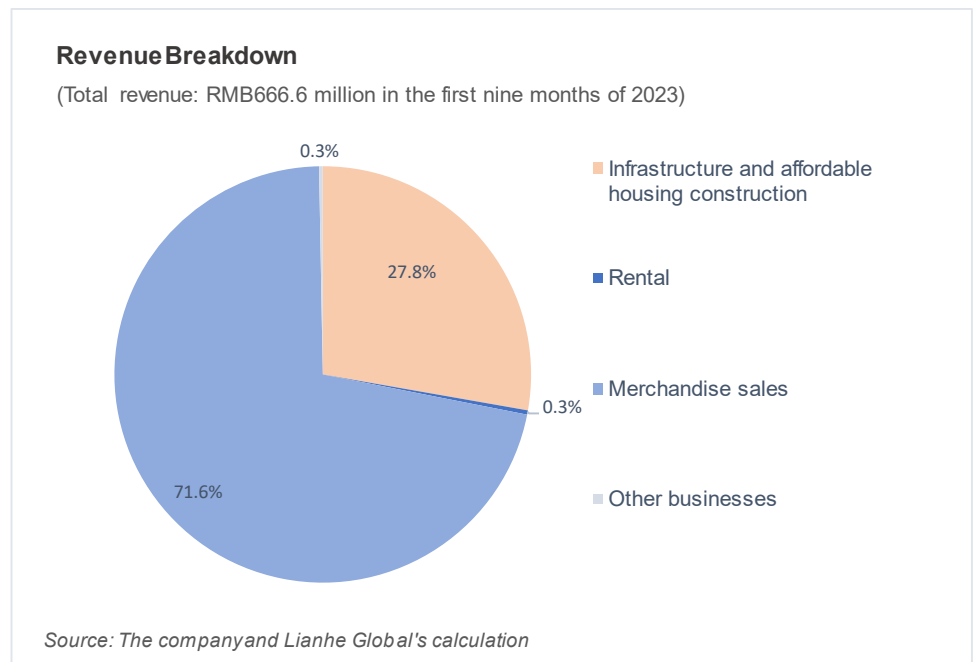
### Government Support

EMADG received operational and financial support from the Emeishan government. EMADG received a total subsidy amount of RMB272.4 million from 2020 to the first nine months of 2023. The Emeishan government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into EMADG to expand its asset size and diversify its business. Besides, the Emeishan government will repurchase some infrastructure projects and provide policy supports to EMADG to ensure its business operation. Given that it is the key entity for infrastructure construction and affordable housing construction in Emeishan, EMADG has an advantage in acquiring related resources and major projects. We believe EMADG is likely going to receive government support to support its daily business operation.

## Business Profile

### The Key Entity Responsible for Infrastructure and Affordable Housing Construction in Emeishan

EMADG, as an important LIDC in Emeishan, is mainly responsible for infrastructure construction and affordable housing construction within the region. Its primary revenue streams emanate from infrastructure and affordable housing construction, complemented by additional ventures such as merchandise sales, rentals, and property management. Notably, EMADG has witnessed a substantial increase in total revenue, reaching RMB666.6 million in the first nine months of 2023 compared to RMB561.2 million in 2020. While the company experienced consistent growth in its overall gross profit margin from 2020 to 2022, recording figures of 11.8%, 13.2%, and 13.4% during the respective periods, there was a decline to 4.3% in the first nine months of 2023. This dip is attributed to the rising revenue contribution from the low-margin merchandise sales segment. Despite this, EMADG's business operations remain relatively concentrated, leveraging regional advantages in its core sectors.



### Infrastructure and Affordable Housing Construction

EMADG has emerged as a crucial player in Emeishan's infrastructure and affordable housing sectors. Focused on rural revitalization, its operations span the entirety of Emeishan, excluding the southern region, and extend into cultural tourism, healthcare, and education-related infrastructure. Operating under commissioned construction and self-operated models, the company collaborates closely with government bodies such as Emeishan City Housing and Urban-Rural Development Bureau and Emeishan City Transportation Bureau. These partnerships involve signing cooperative agreements for project construction, with the company overseeing project preparation, construction, completion, and asset delivery, while internally sourcing funds.

In recent years, the company has embarked on significant projects that play a pivotal role in advancing Emeishan's road and transportation infrastructure, aligning seamlessly with the

goals of rural revitalization. Under the contractual terms, the company covers construction costs and annual management fees, set at approximately 15% of the total, with the entrusting party in accordance with the project's progress. However, despite these substantial endeavors, the revenue from this segment has exhibited a consistent downward trajectory since 2021. Specifically, the figures stood at RMB495.9 million, RMB584.2 million, RMB382.1 million, and RMB185.1 million for the years 2020, 2021, 2022, and the first nine months of 2023, respectively. Despite this decline, the gross profit margin for this segment remained stable at 13.0% during the corresponding periods.

### Merchandise Sales

EMADG is mainly engaged in the sales of grain and oil, sand and stone, mental, etc. The revenue generated from this segment showed an increasing trend in the past few years, recording at RMB15.1 million, RMB16.1 million and RMB477.4 million in 2021, 2022, and the first nine months of 2023, respectively. The gross profit margin of the segment remained relatively low at 0.2%-1.3% in the corresponding periods.

### Other Businesses

Other businesses of EMADG include rental, property management, cultural and creative products etc., with each segment accounting 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

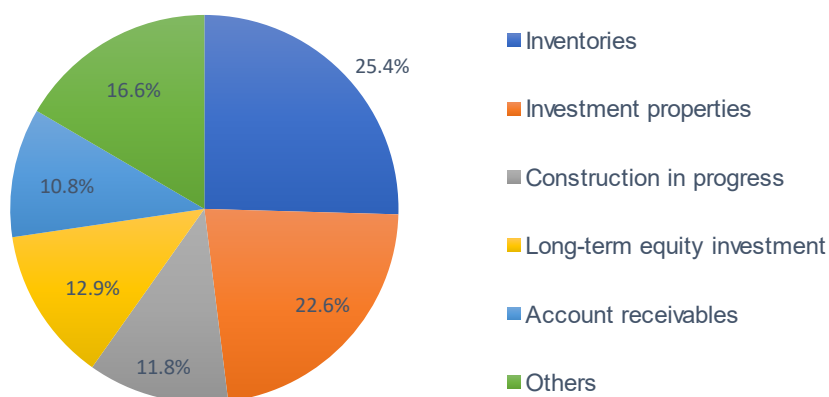
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September-2023
Total Asset	10,221	11,456	11,694	12,505
Equity	5,059	7,264	7,475	7,606
Debt	4,591	3,575	3,574	4,031
Debt / (Debt + Equity) (%)	47.6	33.0	32.3	34.6
LT Debt	4,304	3,244	3,004	3,443
LT Debt / (LT Debt + Equity) (%)	46.0	30.9	28.7	31.2

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

EMADG's asset size grew steadily to RMB12.5 billion at end-September 2023 from RMB10.2 billion at end-2020, largely attributed to the increase of receivables from local government and other LIDCs. The company's financial leverage, as measured by debt/capitalization decreased to 39.2% at end-September 2023 from 50.5% at end-2020 after the large-scale asset injection from the Emeishan government. However, its debt structure was weakening, with long-term debt's proportion decreasing to 31.2% at end-September 2023 from 46.0% at end-2020. Having said that, the total adjusted debt decreased to RMB4.0 billion at end-September 2023 from RMB4.6 billion at end-2020.

### Asset Breakdown

(Total assets: RMB12.5 billion at end-September 2023)



Source: The company and Lianhe Global's calculation

EMADG's asset liquidity was moderately weak, as it has a large part of inventories, investment properties and account receivables. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs), investment properties and construction in progress, which added up to RMB7.5 billion, representing 59.8% of total asset at end-September 2023. 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 number of account receivables and other account receivables (primarily due from government agencies), together representing 20.0% of total asset at end-September 2023. Their repayment schedules are highly subject to the fiscal conditions of the local government.

### Debt Servicing Capability

EMADG's liquidity was sufficient. At end-September 2023, EMADG had a cash balance and unused credit facilities of RMB212.4 million and RMB961.9 million, respectively, compared with its debt due within one year of RMB588.0 million. Besides, EMADG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.



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