

Emeishan Tianxiu Environment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	18 March 2024

Key Figures of Emeishan and ETEG (RMB billion)

Emeishan	2021	2022
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
ETEG	2022	2023.9
Asset	10.6	12.9
Equity	5.4	5.5
Revenue	1.37	1.07

Source: Public information, ETEG 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 Tianxiu Environment Group Co., Ltd. (“ETEG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Emeishan, (“the Emeishan government”) would provide strong support to ETEG if needed, in light of its indirect full ownership of ETEG, ETEG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for project construction, water supply, and waste management in Emeishan City, Leshan City (“Emeishan”), and the linkage between the Emeishan government and ETEG, 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 ETEG encounters any operational and financial difficulties.

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

Rating Rationale

Emeishan Government’s Ownership and Supervision: The Emeishan State-owned Asset Supervision and Administration Committee (“the Emeishan SASAC”) holds the full ownership of ETEG through Emeishan Development (Holding) Co., Ltd. (“EMD”), the largest LIDC in Emeishan. The Emeishan government has strong control and supervision over 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.

Strategic Importance to Emeishan and Strategic Alignment: ETEG, as the key subsidiary of EMD, is primarily responsible for project construction, water supply, and waste management in Emeishan, with a strong regional advantage. ETEG 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: ETEG received operational and financial support from the Emeishan government. ETEG received a total subsidy amount of RMB29.3 million from 2020 to 2023. The Emeishan government also injected capital and assets into ETEG to expand its asset size. Given that ETEG is the key entity for project development, water supply and waste management in Emeishan, we believe ETEG is likely to receive ongoing government support.

Economy and Fiscal Strength of Emeishan: Emeishan is a county-level city of Leshan City, Sichuan Province, 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 2nd among 11 districts and county-

Analysts

Roy Luo, FRM, CESGA
 (852) 3462 9582
roy.luo@lhratingsglobal.com

Sigmund Jiang, CFA, CESGA
 (852) 852 3462 9587
sigmund.jiang@lhratingsglobal.com

Applicable Criteria

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

level cities under the administration of Leshan. Emeishan's industries, including food and beverage, green materials, and tourism, show continuous growth in the past three years.

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% from 51.6% 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.

ETEG's Financial Matrix and Liquidity Position: ETEG's total asset surged to RMB12.9 billion at end-September 2023 from RMB7.9 billion at end-2020, as the company actively participated in project development within Emeishan. The company relied on both borrowings and asset injections from the local government to fund its asset expansion. Its total debt reached RMB4.1 billion at end-September 2023, as compared with RMB2.3 billion at end-2020. Therefore, the company's financial leverage, as measured by debt/capitalization increased significantly to 43.1% at end-September 2023 from 32.1% at end-2020; yet it stayed at a manageable level.

The short-term debt servicing pressure of ETEG is high. At end-September 2023, the company had cash balance of RMB589 million (including restricted cash of RMB113 million), while it had short-term debt of RMB1.6 billion. Nevertheless, we expect ETEG to roll over most of its short-term bank borrowings (end-September 2023: RMB918 million). In addition, the company has access to various financing channels, including bank borrowings and bond issuances, to support its debt repayments and business operations. At-end 2023, the company also had unused bank facilities of RMB403 million.

Rating Sensitivities

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

We would consider upgrading ETEG'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,

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 11 districts and counties under the administration of Leshan City. 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.

Emeishan's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
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% from 51.6% 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. Yet it managed to maintain the total outstanding of government debts. At end-2022, the Emeishan government's outstanding debt was RMB8.2 billion, slightly higher than RMB7.9 billion at end 2021. The debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 118.0% from 136.9% over the same period, owing to the larger increase in aggregate revenue.

Emeishan's Fiscal Condition			
(RMB billion)	2020	2021	2022
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
Aggregate revenue	6.0	5.8	6.9
Budgetary expenditure	3.0	3.2	3.2
Budget balance ¹ (%)	47.4	51.6	45.9

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

ETEG was established in November 2019 with an initial registered capital of RMB5 billion, funded by EMD, the largest LIDC directly owned by the Emeishan SASAC. At end-September 2023, ETEG's registered capital and paid-in capital were RMB5 billion and RMB760 million, respectively. The company is 100% owned by EMD and actually controlled by the Emeishan SASAC.



Strategic Importance and Government Linkage

Strategic Importance of ETEG to Emeishan

ETEG, as the key subsidiary of EMD, the largest LIDC in Emeishan, is primarily responsible for project development, water supply, and waste management with a strong regional advantages. ETEG 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

ETEG's linkage with the local government is strong as the Emeishan government holds the full ownership of ETEG through EMD. The Emeishan government has strong control and supervision over 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.

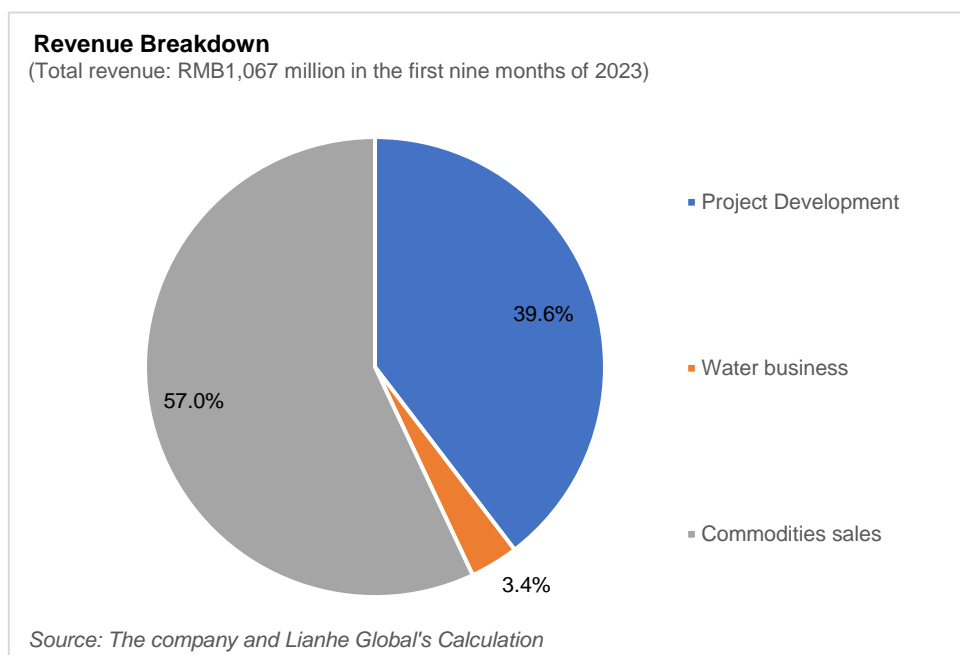
Government Support

ETEG received operational and financial support from the Emeishan government. ETEG received a total subsidy amount of RMB29.3 million from 2020 to 2023. The Emeishan government also injected capital and project-related assets into ETEG to expand its asset size. Given that ETEG is the key entity for project development, water supply and waste management in Emeishan, we believe ETEG is likely going to receive government support to support its daily business operation.

Business Profile

An Important LIDC Responsible for Project Development and City Operation in Emeishan

ETEG, as an important LIDC in Emeishan, is mainly responsible for project development and city operation in Emeishan, with a strong regional franchise advantage. The primary source of operating revenue for the company is project development, water supply and commodities sales. The company realized total revenue of RMB873 million, 1,125 million, RMB1,367 million and RMB1,067 million in 2020, 2021, 2022 and the first nine months of 2023, respectively, representing an upward trend. The overall gross profit margin of ETEG fluctuated between 13% and 21% over the same period.



Project Development

ETEG's project construction business includes agent construction and engineering construction. Agent construction business mainly involves shantytown renovation and infrastructure construction projects. The company signs agent-construction agreements with local government and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus 20% of management fees annually with the entrusting party according to the project's progress. Engineering construction business mainly involves the construction of water supply and drainage facilities as well as the upgrading of pipeline networks and the company acquires projects through public tender or directly entrusted by customers. The revenue of project construction business reached RMB347 million, 555 million, 533 million and 423 million in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin fluctuated between 17% and 31% over the same period. Currently, the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

Water Business

ETEG is responsible for water production and supply in Emeishan, enjoying a strong regional franchise advantage. The company receives a subsidy of RMB1.2 per ton from the Emeishan government. The revenue of this segment reached RMB123 million, 151 million, 175 million and 36 million in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment stayed above 60% in 2020-2022, but dropped to 30.7% in the first 9 months of 2023.

Commodities Sales

As a major source of revenue for the company, commodities sales mainly involves the sales of ethylene glycol, aluminum ingots, cathode copper, etc. The company makes a profit from the spread between buying and selling prices. The revenue generated from this segment reached RMB402 million, 404 million, 614 million and 608 million in 2020, 2021, 2022 and

the first nine months of 2023, respectively. The gross profit margin of this segment was relatively low, staying below over the same period.

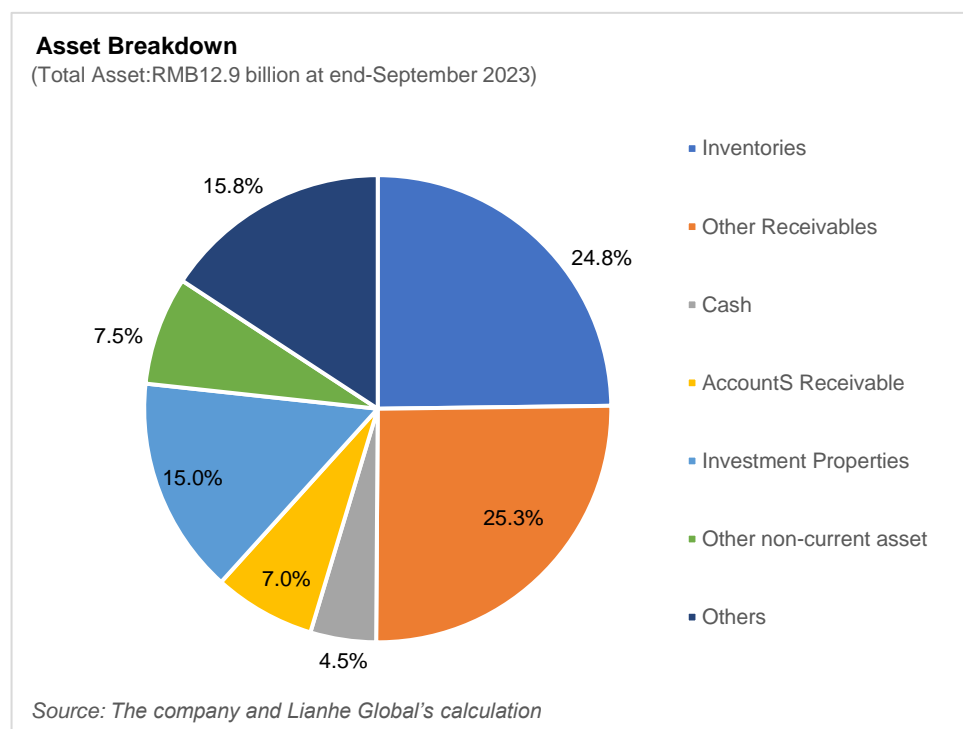
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	September-2023
Total Asset	7,922	8,297	10,601	12,948
Equity	4,829	4,987	5,386	5,473
Debt	2,285	2,171	3,461	4,140
Debt / (Debt + Equity) (%)	32.1	30.3	39.1	43.1
LT Debt	1,537	1,540	1,694	2,566
LT Debt / (LT Debt + Equity) (%)	24.1	23.6	23.9	31.9

Source: Company information and Lianhe Global's calculations

ETEG's total asset surged to RMB12.9 billion at end-September 2023 from RMB7.9 billion at end-2020, as the company actively participated in project development within Emeishan. The company relied on both borrowings and asset injections from the local government to fund its asset expansion. Its total debt reached RMB4.1 billion at end-September 2023, as compared with RMB2.3 billion at end-2020. Therefore, the company's financial leverage, as measured by debt/capitalization increased significantly to 43.1% at end-September 2023 from 32.1% at end-2020; yet it stayed at a manageable level.



ETEG's asset liquidity was relatively weak, as the company had accumulated sizable inventories of RMB3.2 billion (mainly land use rights and construction costs) from its project development activities, representing 24.8% 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 amount of account receivables and other account receivables, which added up to RMB4.2 billion, accounting for 32.3% of total asset at end-September 2023. They were primarily due from local government agencies and their repayment schedules are highly subject to the fiscal conditions of the local government.

Debt Servicing Capability

The short-term debt servicing pressure of ETEG is high. At end-September 2023, the company had cash balance of RMB589 million (including restricted cash of RMB113 million), while it had short-term debt of RMB1.6 billion. Nevertheless, we expect ETEG to roll over most of its short-term bank borrowings (end-September 2023: RMB918 million). In addition, the company has access to various financing channels, including bank borrowings and bond issuances, to support its debt repayments and business operations. At-end 2023, the company also had unused bank facilities of RMB403 million.



Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrade or downgrade or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by credit committee vesting processes. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstance shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fee in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entity nor its related party participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relies on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or parts, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.