

# Mianyang Science Technology City Development Investment (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>	8 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Mianyang Science Technology City Development Investment (Group) Co., Ltd. (“MSTCD” or “the company”)

### Summary

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

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

### Rating Rationale

**Mianyang Government’s Ownership and Supervision:** The Mianyang government holds the majority ownership of MSTCD through the Mianyang State-owned Assets Supervision and Administration Commission (“Mianyang SASAC”). Other shares are held by China Agricultural Development Key Construction Fund Co., Ltd. and Sichuan Provincial Department of Finance. The Mianyang 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 Mianyang 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 Mianyang and Strategic Alignment:** MSTCD, as the key LIDC in Mianyang, is primarily responsible for the investment, development and operation of infrastructure projects, as well as industrial parks within the city. As the most important state-owned enterprise responsible for industrial investment in Mianyang, the company covers investment attraction and investment in industries such as intelligent manufacturing, physical manufacturing, steel, aerospace, rare earths, and defense industries. MSTCD is also involved in real estate construction and sales, management of exhibition and tourism businesses, urban services, and financial development. The company 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:** MSTCD received operational and financial support from the Mianyang government. MSTCD received a total subsidy amount of RMB3.2 billion from

### Key Figures of Mianyang and MSTCD

(RMB billion)	2021	2022
<b>Mianyang</b>		
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
<b>MSTCD</b>	<b>2022</b>	<b>2023.6</b>
Assets	64.8	72.7
Equity	16.7	19.6
Revenue	12.8	11.5

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

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### Applicable Criteria

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

2020 to the first nine months of 2023. The Mianyang government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into MSTCD to expand its asset size and diversify its business. Besides, the Mianyang government will repurchase some infrastructure projects and provide policy supports to MSTCD to ensure its business operation. Given that it is the sole entity for infrastructure construction in Mianyang, MSTCD has an advantage in acquiring related resources and major projects. We believe MSTCD is likely going to receive government support to support its daily business operation.

**MSTCD's Financial Matrix and Liquidity Position:** MSTCD's total assets showed a continuous growth trend in the past few years and reached RMB72.7 billion at end-September 2023, largely attributed to the increase of inventories. The current assets of MSTCD accounted for 64.8% of the total assets at end-September 2023, yet the overall asset liquidity was moderately weak due to large amount of inventory, investment properties and receivables. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

MSTCD's financial leverage (total liabilities to total assets) remained relatively high at 72-74% from 2020 to end-September 2023, and its adjusted debt increased to RMB43.0 billion at end-September 2023 from RMB32.1 billion at end-2020. MSTCD's liquidity was weak. At end-September 2023, MSTCD had a cash balance and unused credit facilities of RMB4.2 billion (including restricted cash of RMB1.4 billion) and RMB11.8 billion, respectively, compared with its debt due within one year of RMB22.9 billion. Having said that, MSTCD 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 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.

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.

## Rating Sensitivities

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

We would consider upgrading MSTCD'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

### Economic 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.

<b>Mianyang's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
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	10.0	11.0	11.3
Fixed asset investment growth rate (%)	4.9	4.9	4.9
Population (million)	302.0	335.0	362.7

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

### Fiscal Condition of Mianyang

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 Condition</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

### Government's Ownership

MSTCD was established in July 2001 with a registered capital of RMB10 million, funded by Mianyang Science and Technology City Science and Education Venture Park Management Committee.

After a series of capital injections and equity transfers, at end-2023, MSTCD's registered and paid-in capital both recorded at RMB1.622 billion. MSTCD had a shareholding structure in which the "Mianyang SASAC, as the controlling shareholder and actual controller, directly held 68.44% of the company's equity and indirectly held 8.37% equity through Mianyang Investment Holding (Group) Co., Ltd. In addition, China Agricultural Development Key Construction Fund Co., Ltd. and Sichuan Provincial Department of Finance held the remaining 16.03% and 7.17% equity, respectively.

## Strategic Importance and Government Linkage

### Strategic Importance of MSTCD to Mianyang

MSTCD, as the key LIDC in Mianyang, is primarily responsible for the investment, development and operation of infrastructure projects, as well as industrial parks within the city. As the most important state-owned enterprise responsible for industrial investment in Mianyang, the company covers investment attraction and investment in industries such as intelligent manufacturing, physical manufacturing, steel, aerospace, rare earths, and defense industries. MSTCD is also involved in real estate construction and sales, management of exhibition and tourism businesses, urban services, and financial development. The company 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

MSTCD's linkage with the local government is strong as the Mianyang government holds the majority ownership of MSTCD through Mianyang SASAC. The Mianyang 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 Mianyang 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**

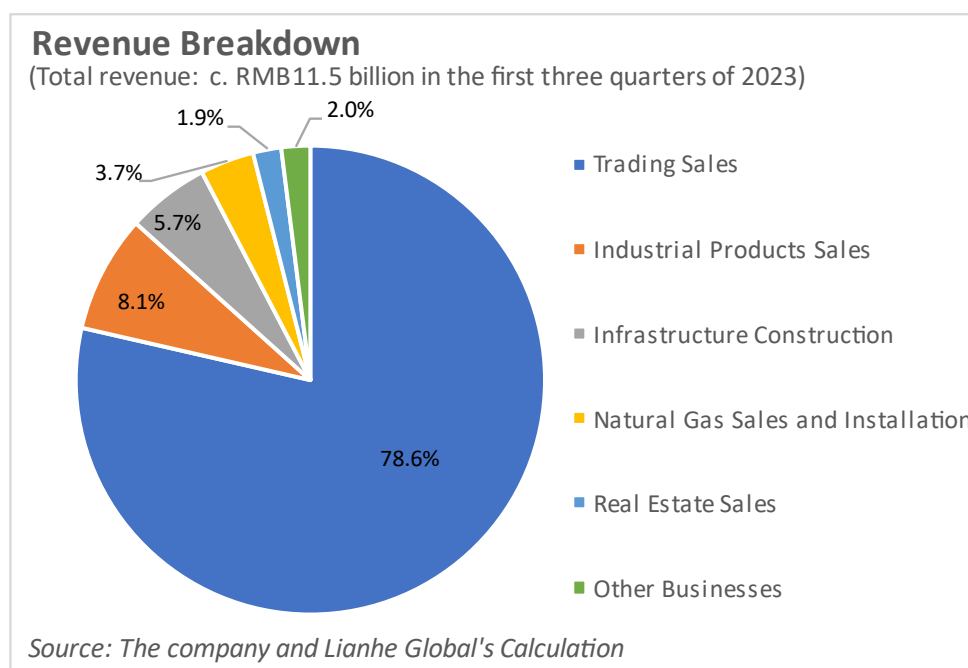
MSTCD received operational and financial support from the Mianyang government. MSTCD received a total subsidy amount of RMB3.2 billion from 2020 to the first nine months of 2023. The Mianyang government continued to inject capital, project-related assets, equities of other companies and other kinds of assets into MSTCD to expand its asset size and diversify its business. Besides, the Mianyang government will repurchase some infrastructure projects and provide policy supports to MSTCD to ensure its business operation. Given that it is the sole entity for infrastructure construction in Mianyang, MSTCD has an advantage in acquiring related resources and major projects. We believe MSTCD is likely going to receive government support to support its daily business operation.

### **Business Profile**

#### **The Key Entity Responsible for Infrastructure Construction and Industrial Development in Mianyang**

MSTCD, an important LIDC in the Mianyang, is mainly responsible for infrastructure construction within the region, including municipal infrastructures construction, land primary finishing development and industrial projects investment. The primary sources of operating revenue for MSTCD are trading sales, industrial products sales, infrastructure construction, natural gas sales and installation as well as real estate sales, while it also engaged in asset leasing and property management, guarantees, consulting, exhibition services, hotels, sports, fund management, electricity sales, etc. The company's total revenue reached RMB11.7 billion, RMB11.8 billion, RMB12.8 billion and RMB11.5 billion in 2020, 2021, 2022 and the first three quarters of 2023, respectively. The overall gross profit margin of MSTCD fluctuated between 3% and 9% over the same period. In general, MSTCD's business was well diversified, but it has regional advantages in its major businesses.

The primary sources of operating revenue for MSTCD are project construction, real estate development and trading business, while it also engaged in photovoltaic power generation, water supply, leasing and property services, etc. The company's total revenue was on an upward trend in the past few years, recording at RMB0.9 billion, RMB1.0 billion, RMB1.3 billion in 2020, 2021 and 2022, respectively. The overall gross profit margin of MSTCD fluctuated between 12.0% and 18.4% over the same period. In general, MSTCD's business was well diversified, but it has regional advantages in its major businesses.



### Infrastructure Construction

The company's infrastructure construction mainly involves the construction of roads, bridges, pipeline network within the Mianyang STC. The projects in this segment are generally conducted in agent construction mode, where the company signed agreements with government agencies and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress. The revenue of infrastructure construction reached c. RMB1.2 billion, RMB1.7 billion, RMB0.7 billion and RMB0.7 billion in 2020, 2021, 2022 and the first three quarters of 2023, respectively. Its gross profit margin in this segment fluctuated between -0.5% and 6.8% over the same period. 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.

### Land Consolidation

With the authorization of the Administrative Committee of the Mianyang STC, the company is responsible for the land consolidation and pre-development business within the region. The scale and progress of the company's land consolidation and transfer were determined by the Mianyang government, and the land development costs for the current period were recognized based on actual expenditures. The company carried out primary development and consolidation of the corresponding parcels of land, then handed over to the Land and Resources Departments for listing and transfer, while the company recognized revenues in accordance with the documents recognizing the land transfers. Revenue derived from this segment reached c. RMB0.5 billion, RMB1.0 billion and RMB0.9 billion in 2020, 2021 and 2022, respectively, with its gross profit margin fluctuating between 4.8% and 31.2% over the same period. However, no revenue was not recognized in the first three quarters of 2023, mainly due to the refund policy.



## Trading

As an important source of revenue for the company, trading sales business mainly involves the sales of electrolytic copper and copper products. The company mainly follows the market principles to determine the purchase price and supply price to gain profit. The company adopts the "purchase-on-sales" model to avoid the risk of price fluctuations and inventory backlog. The revenue generated from this segment reached c. RMB7.8 billion, RMB6.3 billion, RMB8.8 billion and RMB9.0 billion in 2020, 2021, 2022 and the first three quarters of 2023, respectively. The gross profit margin of this segment was very low, staying below 1% over the same period.

## Other Businesses

Other businesses of MSTCD include industrial products sales, natural gas sales and installation, real estate sales, asset leasing, property management, guarantees, consulting, exhibition services, hotels, sports, fund management, electricity sales, 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.

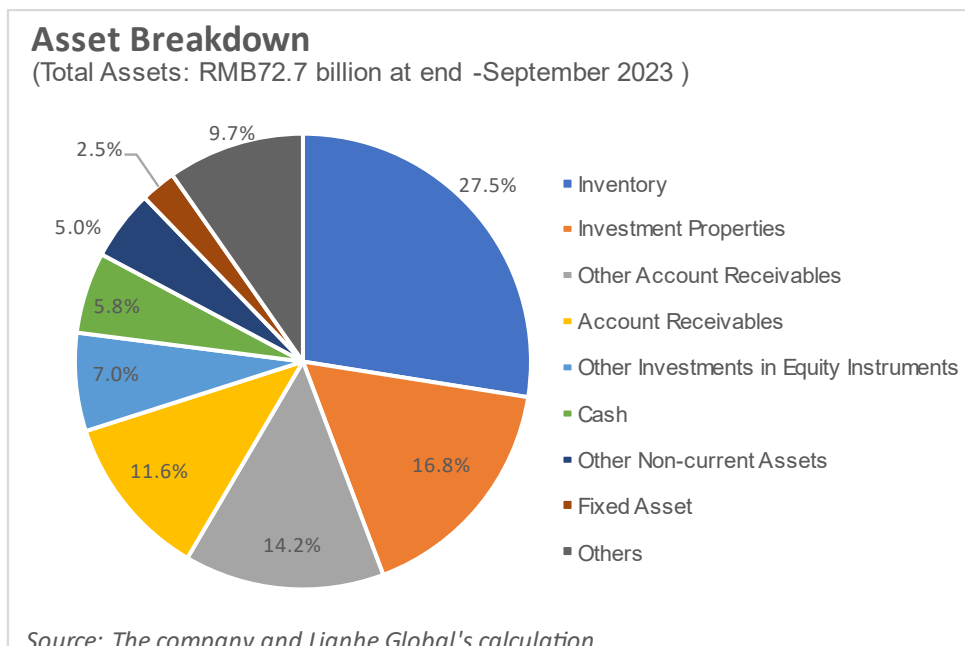
## Financial Profile

### 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>	<b>September-2023</b>
Total Asset	56,011	59,691	64,820	72,675
Equity	15,285	16,205	16,695	19,640
Debt	32,050	33,837	38,691	43,025
Debt / (Debt + Equity) (%)	67.7	67.6	69.9	68.7
LT Debt	16,861	17,021	20,473	20,096
LT Debt / (LT Debt + Equity) (%)	52.5	51.2	55.1	50.6

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

MSTCD's total asset size grew moderately to RMB72.7 billion at end-September 2023 from RMB56.0 billion at end-2020, largely attributed to the increase of inventory. The company's financial leverage, as measured by debt/capitalization slightly increased to 73.0% at end-September 2023 from 72.7% at end-2020. Its debt structure was slightly weakening, with long-term debt's proportion declined 46.7% at end-September 2023 from 52.9% at end-2020, thus the company's short-term debt pressure was elevated to some extent.



MSTCD's assets liquidity was moderately weak. At end-September 2023, the company's assets mainly comprised of inventory, investment properties, account receivables and other account receivables, representing 27.5%, 16.8%, 11.6% and 14.2% of the company's total assets, respectively. The company's project construction activities accumulated sizeable inventories (mainly lands and construction costs), investment properties, fixed asset and construction in progress, total amounting to RMB34.6 billion, and representing 47.6% 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, total representing 25.8% of total asset at end-September 2023. Their repayment schedules are highly subject to the fiscal conditions of the local government.

### Debt Servicing Capability

MSTCD's liquidity was weak. At end-September 2023, MSTCD had a cash balance and unused credit facilities of RMB4.2 billion (including restricted cash of RMB1.4 billion) and RMB11.8 billion, respectively, compared with its debt due within one year of RMB22.9 billion. Having said that, MSTCD 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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