

Chengdu Dujiangyan Investment Development Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	5 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Chengdu Dujiangyan Investment Development Group Co., Ltd. (“DIDG” or “the company”) to ‘BBB+’ from ‘BBB-’; Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects an upgrade in our internal credit assessment on the People’s Government of Dujiangyan City (“Dujiangyan government”) and the expectation of a high possibility that the Dujiangyan government would provide very strong support to DIDG if needed. It also reflects the increased strategic importance of DIDG in Dujiangyan City (“Dujiangyan”), as the company is expanding its range and extent in urban and rural construction, trade, tourism and industrial development, which is aligned with the development plans and policies of the Dujiangyan government and strengthen DIDG’s role in urban and rural construction as well as promoting the economic and industrial development of Dujiangyan.

Key Figures of Dujiangyan and DIDG

(RMB billion)	2022	2023
Dujiangyan		
GDP	48.4	50.7
GDP growth rate (%)	1.0	5.2
Budgetary revenue	3.1	4.0
Government fund	4.3	1.5
Budgetary expenditure	5.2	6.2
DIDG		
Assets	102.2	109.8
Equity	46.3	46.7
Revenue	5.6	4.1

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

We believe there is a high possibility that the Dujiangyan government would provide very strong support to DIDG if needed. This mainly considers the Dujiangyan government’s full ownership of DIDG, DIDG’s strategic importance as the sole local investment and development company (“LIDC”) for infrastructure construction and urban operation in Dujiangyan, and the strong linkage between the Dujiangyan government and DIDG, including control of the board of directors, appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Dujiangyan government may face significant negative impact on its reputation and financing activities should DIDG encounter any operational or financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: DIDG is wholly owned by the Dujiangyan government through the State-owned Assets Supervision and Administration and Finance Bureau of Dujiangyan City (“Dujiangyan SASAFB”). The Dujiangyan government has strong control and supervision over DIDG, including control of the board of directors, appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions. In addition, the Dujiangyan government has formulated a performance appraisal policy for DIDG, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: DIDG is the sole state-owned entity that is responsible for infrastructure construction and urban operation in Dujiangyan. It mainly engaged in infrastructure construction and land development and consolidation business with the region. It has a franchise right in sand business in the region. Besides, it also carries out other business related to people’s livelihood such as water business, sewage treatment, property management and other state-owned assets operation. DIDG plays an important role in the urban development

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Applicable Criteria

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

and operation in Dujiangyan. The company is expanding its range and extent of its business segments, including the segments of urban operations, building materials sales, rural revitalization, tourism, industrial investment, etc., to enhance its capacity of urban integrated service operation and revenue generation. This is aligned with the development plans and policies of the Dujiangyan government and strengthened DIDG's role in urban and rural construction as well as promoting the economic and industrial development of Dujiangyan.

Ongoing Government Support: DIDG continuously received support from the government such as capital injection, financial support and government subsidies. Between 2020 and the first nine months of 2023, the Dujiangyan government injected cash capital of RMB2.4 billion into DIDG, enlarging its paid-in capital to RMB3.8 billion at end-September 2023 from RMB1.4 billion at end-2020. During the same period, DIDG received financial subsidies of totally about RMB1.6 billion from the local government mainly for supporting projects related to public infrastructure and special projects. We expect DIDG to receive ongoing support from the local government in the coming years considering its strategic importance in Dujiangyan.

DIDG's Financials and Liquidity Position: The total assets of DIDG continued to grow and gradually increased to RMB109.8 billion at end-September 2023, mainly due to the increase in account receivables and other account receivables. DIDG's financial leverage (total liabilities to assets) and total debt capitalization increased gradually and were at a moderate level of 57.5% and 48.9% at end-September 2023, respectively. DIDG mainly relies on external financing for capital expenditure and debt repayment, and its total liabilities were still mainly long-term borrowings and bonds payable. The total debt of DIDG increased by 13.2% to RMB44.6 billion at end-September 2023 from RMB39.4 billion at end-2022, of which the short-term and long-term debt accounted for 41.9% and 58.1%, respectively, at end-September 2023.

Dujiangyan's Economy and Fiscal Condition: In 2023, the economic recovery after the epidemic has greatly improved the economy of Dujiangyan. The GDP of Dujiangyan increased to RMB50.7 billion in 2023 from RMB48.4 billion in 2022, which was ranked 16th out of 23 districts and county-cities within Chengdu. The GDP growth rate in 2023 increased to 5.2% from 1% in 2022. The economic development of Dujiangyan was mainly supported by the secondary and tertiary industries, accounting for 27.5% and 64.5% of its total GDP, respectively, in 2023. Dujiangyan's budgetary revenue increased to RMB4.0 billion in 2023 from RMB3.1 billion in 2022, while the contribution of tax revenue to budgetary revenue was lowered to 51.2% from 65.7% over the same period. Dujiangyan's fiscal self-sufficiency remained relatively weak although its budget deficit was narrowed to 54.8% in 2023 from 66.1% in 2022. Dujiangyan's government fund income slumped by 65.5% year-over-year to RMB1.5 billion in 2023, owing to the downturn in property market. Dujiangyan's government debt reached RMB17.9 billion at end-2023, including RMB6.9 billion of general obligations and RMB11.1 billion of special debt. The fiscal debt ratio (total government debt outstanding/aggregate revenue) increased to 187.7% at end-2023 from 108.0% at end-2022, mainly due to the decrease in aggregate revenue.

Rating Sensitivities

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

We would consider upgrading DIDG's rating if there is an upgrade in our internal credit assessment on the Dujiangyan government.



Company Profile

DIDG was established as the sole LIDC in Dujiangyan under the approval of the Dujiangyan government in March 2020, and the Dujiangyan government is the ultimate and actual controller of DIDG. At end-September 2023, DIDG's registered and paid-in capital were RMB5.0 billion and RMB3.8 billion, respectively, after an array of capital injections. Through its subsidiaries, DIDG undertakes the infrastructure construction and land consolidation in Dujiangyan, and it also carries out various businesses, such as water business, sewage treatment, real estate sales, sand and gravel sales, urban and rural construction, and tourism business, to support the urban operation and economic development in the region.

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