

Chongqing Tongnan District Construction Engineering (Group) Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Chongqing Tongnan District Construction Engineering (Group) Co., Ltd. (“CTDCE” or “the company”); Issuer Rating Outlook is Stable

Summary

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

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

Rating Rationale

Tongnan Government’s Ownership and Supervision: The Tongnan government holds the full ownership of CTDCE via the State-owned Assets Supervision and Administration Commission of Tongnan (“Tongnan SASAC”), and is the actual controller of the company. The Tongnan government has the final decision-making authority and supervises the company, including management appointments, decisions on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Tongnan 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 Tongnan and Strategic Alignment: CTDCE is a major LIDC responsible for infrastructure construction and state-owned assets operation in Tongnan. It undertakes infrastructure construction, sand mining and sales, commercial concrete sales, garbage disposal within the region. Besides, it also carries out other business such as river dredging, parking lots operation and other state-owned assets operation. CTDCE plays an important role in promoting the urban development and operation of the region. CTDCE’s strategic development plan has been aligned with the local government’s economic and social policies.

Ongoing Government Support: CTDCE continued to receive financial subsidies and asset/capital injections from the Tongnan government to support its business operations. The company received ongoing financial subsidies from the Tongnan government, amounting to RMB480.8 million between 2020 and 2023, mainly including operating subsidies. During the same period, CTDCE received capital and asset injections in the form

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 June 2024

Key Figures of Tongnan and CTDCE (RMB billion)

Tongnan	2022	2023
GDP	55.9	59.6
GDP growth rate (%)	3.0	6.8
Budgetary revenue	3.0	3.5
Government fund	2.7	2.8
Transfer payment	3.5	4.3
Budgetary expenditure	7.5	8.1
CTDCE	2022	2023
Asset	10.0	12.0
Equity	4.3	4.7
Revenue	0.5	0.5

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

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Applicable Criteria

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

of cash, project fund and right of management, etc. of about RMB1.9 billion. We expect CTDCE to receive ongoing support from the Tongnan government in the coming years considering its strategic importance in Tongnan.

Economy and Fiscal Condition of Tongnan: Tongnan's economic growth accelerated to 6.8% in 2023 from 3.0% in 2022. Its GDP reached RMB59.6 billion in 2023, which was ranked 22nd out of all districts and counties of Chongqing. The economic growth of Tongnan was mainly fueled by the secondary and tertiary industries, accounting for 42.1% and 42.0% of GDP in 2023, respectively.

The aggregate fiscal revenue of the Tongnan government was mainly derived from budgetary revenue and transfer payment from the higher government. The budgetary revenue of the Tongnan government increased to RMB3.5 billion in 2023 from RMB3.0 billion in 2022, while the contribution of tax revenue was slightly reduced to 27.1% from 28.4% over the same period. The financial self-sufficiency of Tongnan was still weak but improving, with the budget deficit narrowing to 130.0% in 2023 from 149.8% in 2022.

The outstanding amount of the Tongnan government's debt continued to grow in 2023. By the end of 2023, the Tongnan government's outstanding debt was RMB14.4 billion, including RMB5.1 billion of general obligations and RMB9.3 billion of special debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, elevated to 133.8% at end-2023 from 119.2% at end-2022.

CTDCE's Financial and Liquidity Position: CTDCE's total assets increased slightly to RMB11,978 million at end-2023 from RMB10,007 million at end-2022. Its total debt expanded to RMB3,992 million at end-2023 from RMB2,641 million at end-2022. At end-2023, the short-term debt and long-term debt accounted for 14.0% and 86.0% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, was elevated to 46.0% at end-2023 from 37.9% at end-2022.

CTDCE's liquidity was moderate. At end-2023, CTDCE had unrestricted cash balance of RMB57.3 million, compared with its debt to be due within one year of RMB559.6 million. However, CTDCE has access to various channels of financing, including bank loans, bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-2023, the company had an available offshore bond issuance quota of RMB1.0 billion and unused credit facilities of RMB1.9 billion.

Rating Sensitivities

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

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

Company Profile

CTDCE was established in December 2017, with an initial registered capital of RMB500 million. After an array of capital injections, its paid-in capital reached to RMB500 million at end-2023. The Tongnan SASAC, as the actual controller of the company, holds 100% shares of CTDCE, and the Tongnan government is the ultimate controller of the company.



CTDCE is a major LIDC responsible for infrastructure construction and state-owned assets operation in Tongnan. It undertakes infrastructure construction, sand mining and sales, commercial concrete sales, garbage disposal, river dredging, parking lots operation and other state-owned assets operation within the region. CTDCE plays an important role in promoting the urban development and operation of the region.

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