Chengdu Jianjiang Investment Group Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	2 September 2024

Key Figures of Pengzhou and CJIG

(RMB billion)	2022	2023
Pengzhou		
GDP	63.9	66.1
GDP growth rate (%)	5.0	3.1
Budgetary revenue	4.1	4.2
Government fund	3.4	3.4
Transfer payment	3.7	3.6
Budgetary expenditure	6.6	6.7
CJIG		
Assets	118.6	118.2
Equity	56.6	52.3
Revenue	5.2	6.0

Source: Public information, CJIG and Lianhe Global's calculations

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Applicable Criteria
China Local Investment and Development Companies Criteria (31 July 2024)

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB+' global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Jianjiang Investment Group Co., Ltd. ("CJIG" or "the company").

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Pengzhou City, Chengdu City ("Pengzhou government") would provide very strong support to CJIG if needed, in light of its full ownership of CJIG, CJIG's strategic importance as the sole local investment and development company ("LIDC") that is responsible for infrastructure construction and state-owned asset management in Pengzhou City ("Pengzhou"), Chengdu City ("Chengdu"), and the linkage between the Pengzhou government and CJIG, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Pengzhou government may face significant negative impact on its reputation and financing activities if CJIG encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that CJIG's strategic importance would remain intact while the Pengzhou government will continue to ensure CJIG's stable operation.

Rating Rationale

Government's Ownership and Supervision: The Pengzhou government holds 100% ownership of CJIG via the Pengzhou State-owned Assets Supervision and Administration and Financial Work Bureau ("Pengzhou SASAB"), which is both the sole shareholder and actual controller of the company. The Pengzhou government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Pengzhou government formulates a performance assessment mechanism for the company and appoints auditors to review the company's operating performance and financial position on a periodic basis.

Strategic Importance to Pengzhou and Strategic Alignment: CJIG is the sole LIDC that is responsible for infrastructure construction and state-owned assets management in Pengzhou. The company mainly engages in municipal projects construction, urban renovation and resettlement housing construction in Pengzhou with strong regional competitive advantage. It also engages in property sales and leasing, sand and other building material sales in Pengzhou. CJIG plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

Ongoing Government Support: CJIG continued to receive financial subsidies and asset/capital injections from the Pengzhou government to support its business operations. Between 2021 and 2023, CJIG received financial subsidies with the total amount of RMB1.2 billion from the Pengzhou government. Meanwhile, the company received asset and capital injections from the Pengzhou government in the form of cash, lands, buildings, construction projects, equity transfers and other assets. We believe the government support will remain intact given the company's strategic importance in Pengzhou.

CJIG's Financial and Liquidity Position: CJIG's total assets increased to RMB118.2 billion at end-2023 from RMB104.7 billion at end-2021, as the company actively participated in infrastructure project development and industrial development within Pengzhou. The total adjusted debt of the company reached RMB58.3 billion at end-2023 from RMB42.1 billion at end-2021. At end-2023, the short-term debt and long-term debt accounted for 24.5% and 75.5% of the total debt, respectively. The company's financial leverage, as measured by total liability/total asset, increased from 46.9% at end-2021 to 55.8% at end-2023.

The short-term debt servicing pressure of CJIG was moderate. At end-2023, the company had unrestricted cash balance of RMB3.4 billion, while it had debt due within one year of RMB14.3 billion. Having said that, the company has access to various financing channels, including bank borrowings, onshore and offshore bond issuances, etc., to support its debt repayments and business operations. The company had a total credit facility of RMB66.6 billion, of which RMB17.0 billion was unused, at end-2023.

Economy and Fiscal Condition of Pengzhou: Pengzhou is a county-level city under the direct jurisdiction of Sichuan Province and administered by Chengdu. Ranked 91th on 100 Top Counties in China, Pengzhou is an industrial city featured with oil processing, medicines, building material, tourism etc. Pengzhou's economic growth rate was on a downward trend in the past few years, decreasing to 3.1% in 2023 from 11.2% in 2021. Pengzhou's GDP amount reached RMB66.1 billion in 2023, which was ranked 14th among all jurisdictions of Chengdu. However, Pengzhou's GDP grew by 5.3% in the first half of 2024, reaching RMB31.6 billion. Fixed asset investment also increased by 21.6% during the same period, ranking among the top in all Chengdu's districts and counties.

Pengzhou's budgetary revenue increased steadily to RMB4.2 billion in 2023 from RMB4.0 billion in 2021, with the contribution of the tax revenue lowered to 68.6% from 73.7% over the same period. The fiscal self-sufficiency rate of the Pengzhou government was relatively low. Therefore, the Pengzhou government continuously received a certain number of subsidies from higher government authorities, and the transfer payment reached RMB3.6 billion in 2023. In addition, Pengzhou's government fund income decreased to RMB3.4 billion in 2023 from RMB3.7 billion in 2021, owing to the downturn of property market. The outstanding debt of the Pengzhou government continued to grow. At end-2023, the Pengzhou government's outstanding debt was RMB9.0 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 80.5% at end-2023 from 74.6% at end-2021, mainly due to the increase in special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Pengzhou

Pengzhou is a county-level city under the direct jurisdiction of Sichuan Province and administered by Chengdu. Ranked 91th on 100 Top Counties in China, Pengzhou is an industrial city featured with oil processing, medicines, building material, etc. Pengzhou has jurisdiction over 4 streets and 9 towns, with a land area of 1,421 square kilometers. At end-2023, Pengzhou had a resident population of 0.8 million, with an urbanization rate of 63.9%.

Pengzhou's economic growth rate was on a downward trend in the past few years, decreasing to 3.1% in 2023 from 11.2% in 2021. Pengzhou's GDP amount reached RMB66.1 billion in 2023, which was ranked 14th among all jurisdictions of Chengdu However, Pengzhou's GDP grew by 5.3% in the first half of 2024, reaching RMB31.6 billion. Fixed asset investment also increased by 21.6% during the same period, ranking among the top in all Chengdu's districts and counties. Pengzhou's economic growth was mainly fueled by the secondary industry and tertiary industries in the past few years, which accounted for 54.8% and 35.2% in 2023, respectively. GDP per capita of Pengzhou reached RMB84,600 in 2023, which was lower than that of Chengdu (RMB104,000) as well as that of China (RMB89,400).

Pengzhou's GDP and Fixed Asset Investment

(RMB billion)	2021	2022	2023
GDP	60.2	63.9	66.1
-Primary industry (%)	11.1	10.5	10.5
-Secondary industry (%)	55.0	56.2	54.8
-Tertiary industry (%)	33.9	33.3	35.2
GDP growth rate (%)	11.2	5.0	3.1
Fixed asset investment	33.5	36.2	26.7
Fixed asset investment growth rate (%)	19.2	8.1	-26.3

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Pengzhou

Pengzhou's budgetary revenue increased steadily to RMB4.2 billion in 2023 from RMB4.0 billion in 2021, with the contribution of the tax revenue lowered to 68.6% from 73.7% over the same period. The fiscal self-sufficiency rate of the Pengzhou government was relatively low and it recorded a budget deficit of 60.4% in 2023. Therefore, the Pengzhou government continuously received a certain number of subsidies from higher government authorities, and the transfer payment reached RMB3.6 billion in 2023. In addition, Pengzhou's government fund income decreased to RMB3.4 billion in 2023 from RMB3.7 billion in 2021, owing to the downturn of property market.

The outstanding debt of the Pengzhou government continued to grow. At end-2023, the Pengzhou government's outstanding debt was RMB9.0 billion, including RMB4.2 billion of general obligations and RMB4.8 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 80.5% at end-2023 from 74.6% at end-2021, mainly due to the increase in special debt.

Pengzhou's Fiscal Condition

(RMB billion)	2021	2022	2023
Budgetary revenue	4.0	4.1	4.2
Budgetary revenue growth rate (%)	12.1	2.6	1.6
Tax revenue	3.0	2.8	2.9
Tax revenue (% of budgetary revenue)	73.7	66.9	68.6

Government fund income	3.7	3.4	3.4
Transfer payment	2.7	3.7	3.6
Aggregate revenue	**10.4**	**11.2**	**11.2**
Budgetary expenditure	5.9	6.6	6.7
Budget balance[1] (%)	-46.9	-60.0	-60.4

*[1] Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%*
Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CJIG was established in March 2008 with an initial registered capital of RMB0.5 million, funded by Pengzhou Modern Transportation and Logistics Co., Ltd.

After an array of equity transfers and capital injections, CJIG's registered capital and paid-in capital were both RMB3.6 billion at end-2023. The company is now wholly owned and actually controlled by Pengzhou SASAB.

Strategic Importance and Government Linkage

Strategic Importance of CJIG to Pengzhou

CJIG is the sole LIDC that is responsible for infrastructure construction and state-owned assets management in Pengzhou. The company mainly engages in municipal projects construction, urban renovation and resettlement housing construction in Pengzhou with strong regional competitive advantage. It also engages in industrial land and property sales and leasing, sand and other building material sales in Pengzhou. CJIG plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

Strong Linkage with the Local Government

CJIG's linkage with the local government is strong as the Pengzhou government holds 100% ownership of CJIG via the Pengzhou SASAB, which is both the sole shareholder and actual controller of the company. The Pengzhou government has the final decision-making authority and supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Pengzhou government formulates a performance assessment mechanism for the company and appoints auditors to review the company's operating performance and financial position on a periodic basis.

Government Support

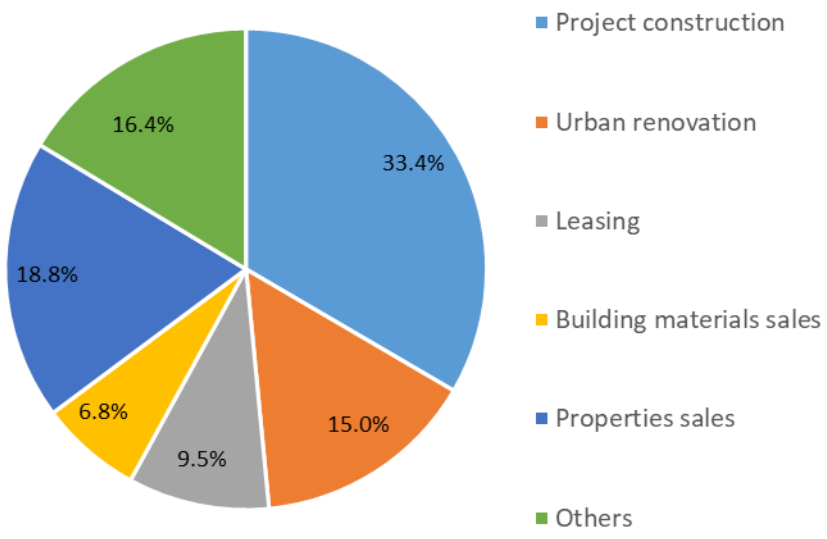
CJIG continued to receive financial subsidies and asset/capital injections from the Pengzhou government to support its business operations. Between 2021 and 2023, CJIG received financial subsidies with the total amount of RMB1.2 billion from the Pengzhou government. Meanwhile, the company received asset and capital injections from the Pengzhou government in the form of cash, lands, buildings, construction projects, equity transfers and other assets. We believe the government support will remain intact given the company's strategic importance in Pengzhou.

Business Profile

The Most Important Entity Responsible for Infrastructure Construction and State-owned Asset Operation in Pengzhou

CJIG, as an important LIDC in Pengzhou, is mainly responsible for infrastructure construction and state-owned asset operation within the region, with a strong regional franchise advantage. The primary source of operating revenue for the company is project construction and urban renovation, while it also engaged in leasing, building materials sales, properties sales, property service, guarantee, culture and tourism, rural revitalization etc,. The company's total revenue reached c. RMB3.79 billion, RMB5.20 billion and RMB6.01 billion in 2021, 2022 and 2023, respectively. However, the overall gross profit margin of the company decreased to 20.3% from 27.4% over the same period.

Revenue Breakdown
(Total revenue: RMB6.0 billion in 2023)



Source: The company and Lianhe Global's Calculation

Project Construction

CJIG undertakes project construction business within Pengzhou, including the construction of roads, municipal facilities, resettlement housing, etc. The projects in this segment are generally conducted under agent-construction model, where the company signs agent-construction agreements with local government and SOEs and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a 15% of management fees annually with the entrusting party according to the project's progress. The revenue derived from this segment reached c. RMB1.64 billion, RMB2.16 billion and RMB2.01 billion in 2021, 2022 and 2023, respectively. The gross profit margin of this segment remained stable at c. 13% over the same period.

Urban Renovation

CJIG undertakes urban renovation business in Pengzhou through signing government purchase agreements with local government agencies. The company is responsible for fundraising and construction of entrusted projects, and the entrusting party will pay service fees to the company annually according to the agreements. The revenue derived from this segment reached c. RMB887 million, RMB877 million and RMB904 million in 2021, 2022 and 2023, respectively. The gross profit margin of this segment remained relatively stable at 27%-31% over the same period.

Leasing

Leasing business of CJIG mainly involves the leasing of roads, properties, pipeline networks, etc. The company signed a long-term lease for the roads with local government agencies and SOEs, ensuring the stability and sustainability of leasing revenue. The revenue of this segment reached c. RMB669 million, RMB654 million and RMB571 million in 2021, 2022 and 2023, respectively. The gross profit margin of this segment decreased to 48.3% from 68.7% over the same period, but remained at a relatively high level.

Building Materials Sales

As the sole entity responsible for sand and gravel mining in Pengzhou, the company enjoys a strong franchise advantage over building materials sales business. The revenue generated from this segment was on an upward trend, recording at c. RMB238 million, RMB186 million and RMB411 million in 2021, 2022 and 2023, respectively. The gross profit margin of this segment increased to 27.2% in 2022 from 19.1% in 2021, but dropped to 9.5% in 2023.

Properties Sales

The properties sales business is mainly handled by one of the company's subsidiaries, Chengdu Mengjiang Investment Group Co., Ltd., which undertakes both commercial housing and resettlement housing projects in Pengzhou. The revenue generated from this segment reached c. RMB0.51 billion and RMB1.13 billion in 2022 and 2023, respectively. The gross profit margin of this segment remained relatively stable at 16%-18% over the same period.

Other Businesses

Except for the above businesses, the company also operates other businesses including property service, guarantee, etc., making the company's income structure more diversified while forming a better complement to the company's overall income.

Financial Profile

Balance Sheet Structure and Quality

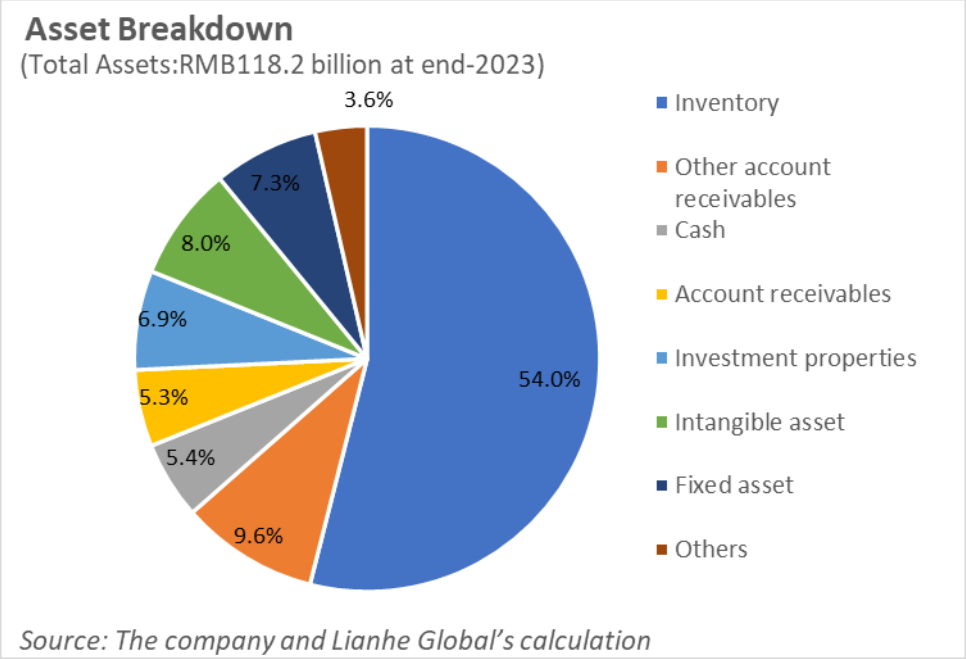
Balance Sheet Structure and Quality

(RMB million)	2021	2022	2023
Total Asset	104,716	118,643	118,220
Equity	55,553	56,588	52,279
Debt	42,122	53,532	58,265
Debt/(Debt+Equity) (%)	43.1	48.6	52.7
LT Debt	32,199	42,248	43,986

LT Debt/(LT Debt+Equity) (%)	36.7	42.8	45.7

Source: Company information and Lianhe Global's calculation

CJIG's total asset increased to RMB118.2 billion at end-2023 from RMB104.7 billion at end-2021, as the company actively participated in infrastructure project development within Pengzhou. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. CJIG's total adjusted debt reached RMB58.3 billion at end-2023, which was 38.3% higher than that at end-2021 (RMB42.1 billion). The company's financial leverage, as measured by total liability/total asset was elevated to 55.8% at end-2023 from 46.9% at end-2021.



CJIG's asset liquidity was relatively weak, as the company had accumulated sizable inventories of RMB63.8 billion (mainly construction costs and lands to be developed), representing 54.0% of total asset at end-2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period. At the same time, account receivables and other account receivables added up to RMB6.3 billion, representing 5.3% of total asset. They were primarily due from government agencies and their repayment schedules are highly subject to the fiscal conditions of the local government. In addition, the company had a large amount of intangible asset (mainly sand mining right), which accounted for 8.0% of total asset.

Debt Servicing Capability

The short-term debt servicing pressure of CJIG was moderately tight. At end-2023, the company had unrestricted cash balance of RMB3.4 billion, while it had non-current debt due within one year of RMB14.3 billion. Having said that, the company has access to various financing channels, including bank borrowings, onshore and offshore bond issuances, etc., to support its debt repayments and business operations. The company had a total credit facility of RMB66.6 billion, of which RMB17.0 billion was unused.

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