

Chengdu Dongfangguangyi Investment Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	20 February 2025

Key Figures of Chenghua and CDI (RMB billion)

	2022	2023
Chenghua		
GDP	136.1	144.4
GDP growth rate (%)	5.0	6.2
Budgetary revenue	9.2	8.7
Government fund	2.9	1.2
Transfer payment	11.8	8.7
Budgetary expenditure	8.7	8.6
CDI	2023	2024.9
Assets	33.3	35.1
Equity	10.9	11.0
Revenue	8.6	7.1

Source: Public information, CDI 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 Chengdu Dongfangguangyi Investment Co., Ltd. ("CDI" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Chenghua District, Chengdu City ("Chenghua government") would provide strong support to CDI if needed, in light of its indirect majority ownership of CDI, CDI's strategic importance as an important local investment and development company ("LIDC") responsible for regional development and state-owned asset operation in Chenghua, and the linkage between the Chenghua government and CDI, including appointment of the senior management, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the Chenghua government may face significant negative impact on its reputation and financing activities if CDI encounters any operational and financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: The Chenghua government holds 90% ownership of CDI through the State-owned Assets Supervision and Administration Bureau of Chenghua ("Chenghua SASAB")'s subsidiary, Chengdu Chenghua Development Group Co., Ltd. ("CDI, A-/Stable"). The remaining 10% was owned by the Sichuan Provincial Department of Finance to subsidize the provincial Social Security Fund. The Chenghua government also has strong control over CDI, including appointments of CDI's senior management, and supervision of CDI's major strategic, investment and financing plans. In addition, the Chenghua government has formulated comprehensive performance assessment policies for CDI.

Strategic Importance and Strategic Alignment: CDI is an important LIDC that is responsible for regional development and state-owned asset operations in Chenghua. It is primarily responsible for infrastructure construction and industrial park management within the Chengdu Longtan Industrial Robot Industry Functional Zone ("Longtan"), a provincial-level economic and technological development zone. Besides, CDI is now seeking to undergo an industrial transformation, continuously exploring new areas for business growth. CDI plays an important role in the urban development and operation in Chenghua. Its business operation and strategic planning have been aligned with Chenghua government's development plans.

Ongoing Government Support: CDI receives support from the Chenghua government such as supportive policies, financial support, project assets and government subsidies. Between 2021 and the first nine months of 2024, CDI received financial subsidies of RMB99.5 million from the Chenghua government, mainly including operation subsidies and supporting funds. Given CDI's strategic importance in Chenghua, we believe CDI is likely going to receive ongoing government support in the future.

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Applicable Criteria

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

CDI's Financial and Liquidity Position: CDI's total assets increased to RMB35.1 billion at end-September 2024 from RMB23.6 billion at end-2021, owing to equity injections from the government and ongoing project construction. Its total debt also increased from RMB10.3 billion at end-2021 to RMB16.2 billion at end-September 2024. At end-September 2024, the short-term debt and long-term debt accounted for 19.2% and 80.8% of the total debt, respectively. The company's financial leverage, as measured by total liability/total asset, increased from 60.5% at end-2021 to 68.7% at end-September 2024.

CDI's liquidity was moderately weak. At end-September 2024, CDI had unrestricted cash balance of RMB1.5 billion, compared with its debt to be due within one year of RMB3.1 billion. Having said that, the company may use bank borrowings, bond issuance and non-traditional financing to support its debt repayments and business operations. It had unused credit facilities of RMB1.6 billion at end-September 2024.

Economy and Fiscal Condition of Chenghua: Chenghua is one of five districts in Chengdu's central urban area. Its GDP reached RMB144.4 billion in 2023, representing a year-on-year growth rate of 6.2%, up from 5.0% in 2022. However, the Chenghua government's aggregate revenue decreased to RMB16.2 billion in 2023 from 21.7 billion in 2022. Its budgetary revenue decreased by 5.1%, while the government fund income dropped by 58.6% due to decreased land sales amid prolonged weak property conditions. Yet the Chenghua managed to maintain fiscal surplus of 1.3% in 2023. Given that Chenghua government borrowed heavily in special debts to support its public projects, its government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 46.5% at end-2023 from 28.1% at end-2022.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Chenghua

Chenghua District is one of five districts in Chengdu's central area, with a total land area of 109.3 square kilometers. Chenghua District's residential population reached around 1.4 million at end-2023, accounting for 6.7% of Chengdu's residential population. Chenghua realized GDP of RMB144.4 billion in 2023, representing a year-on-year growth rate of 6.2%. Its GDP scale was ranked 10th among 22 jurisdictions of Chengdu. As a central city area, Chenghua's GDP was mostly fueled by secondary and tertiary industries, accounting for 35.2% and 64.8% of its total GDP in 2023, respectively.

Chenghua's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	127.3	136.1	144.4
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	30.1	38.4	35.2
-Tertiary industry (%)	69.9	61.6	64.8

GDP growth rate (%)	9.9	5.0	6.2
Fixed asset investment growth rate (%)	19.0	0.9	0.9
Population (million)	1.4	1.4	1.4

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Chenghua

The aggregate fiscal revenue of the Chenghua government is mainly derived from budgetary revenue and government management fund. The budgetary revenue decreased to RMB8.7 billion in 2023 from RMB9.2 billion in 2022. The contribution from tax revenue to the budgetary revenue increased to 86.0% in 2023 from 76.9% in 2022. Yet the Chenghua government managed to maintain fiscal surplus of 1.3% in 2023. On the other hand, the government fund income continued to drop in the past three years. It decreased to RMB1.2 billion in 2023 from RMB2.9 billion in 2022, mainly due the downturn of the real estate market.

The outstanding debt of the Chenghua government continued to grow. At end-2023, the Chenghua government's outstanding debt reached RMB7.5 billion, including RMB1.4 billion of general obligations and RMB6.2 billion of special purpose debts. its government debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 46.5% at end-2023 from 28.1% at end-2022.

Chenghua's Fiscal Condition (RMB billion)	2021	2022	2023
Budgetary revenue	8.7	9.2	8.7
Budgetary revenue growth rate (%)	9.5	5.9	-5.1
Tax revenue	6.4	7.1	7.5
Tax revenue (% of budgetary revenue)	74.4	76.9	86.0
Government fund income	3.5	2.9	1.2
Transfer payment	4.7	9.2	6.0
Aggregate revenue	17.1	21.7	16.2
Budgetary expenditure	7.7	8.7	8.6
Budget balance ¹ (%)	10.8	-3.2	1.3

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CDI was established in July 2003 by Chengdu Dongxin Investment Guarantee Co., Ltd. and Chengdu Dongtong Gas Industry Development Co., Ltd. The company started with a registered capital of RMB20.0 million, fully funded in cash. After a series of capital injections, the registered and paid-in capital were both RMB821.3 million at end-September 2024, with CCD being the sole shareholder and actual controller.

Strategic Importance and Government Linkage

Strategic Importance of CDI to Chenghua

CDI is an important LIDC that is responsible for regional development and state-owned asset operations in Chenghua. It is primarily responsible for infrastructure construction and industrial park management within Longtan. Besides, CDI is now seeking to undergo an industrial transformation, continuously exploring new areas for business growth. CDI plays an important role in the urban development and operation in Chenghua. Its business operation and strategic planning have been aligned with Chenghua government's development plans.

Strong Linkage with the Chenghua Government

CDI has a strong linkage with the Chenghua government, as the Chenghua government has the final decision-making authority and strong supervision over the company, including appointment and supervision of the senior management, strategic alignment and decision on its major investment and financing plan decisions. In addition, the Chenghua government has assessment mechanism over the company and regularly appoints auditors to review the company's operating performance and financial position.

Government Support

CDI receives support from the Chenghua government such as supportive policies, financial support, project assets and government subsidies. Between 2021 and the first nine months of 2024, CDI received financial subsidies of RMB99.5 million from the Chenghua government, mainly including operation subsidies and supporting funds. In 2022, the Chenghua SASAB transferred its 51% equity stake in Sichuan Yuesheng Energy Group Co., Ltd. ("Yuesheng") to the company without compensation. Given CDI's strategic importance in Chenghua, we believe CDI is likely going to receive ongoing government support in the future.

Business Profile

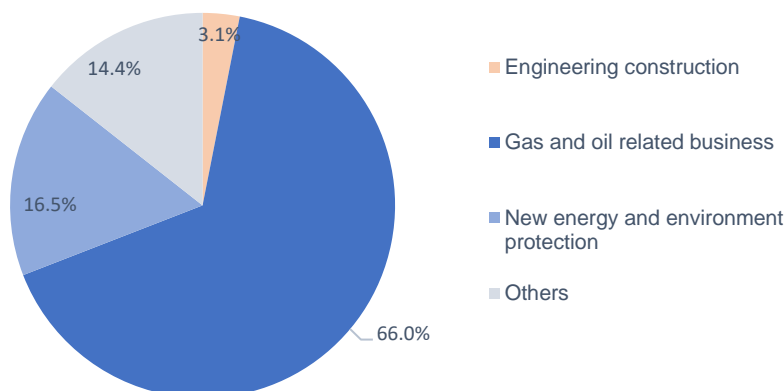
An Important LIDC Responsible for Infrastructure Construction and Stated-owned Asset Operation in Chenghua

CDI is an important LIDC that is responsible for infrastructure construction and stated-owned asset operation in Chenghua, especially in Longtan. CDI's main business income sources are engineering construction, gas and oil related business, new energy and environment protection, and mechanical manufacturing.

CDI's total revenue was RMB873.7 million in 2021, rising to 7.0 billion in 2022, 8.7 billion in 2023, and 7.1 billion in the first nine months of 2024, indicating an upward trend. The gross profit margins for these periods were 24.9%, 9.8%, 9.1%, and 6.7%, respectively. The substantial revenue increase since 2022 was due to the consolidation of Yuesheng, a state-owned enterprise engaged in petroleum-related support services, engineering technology services, clean production, the chemical industry, and mechanical manufacturing and processing. However, the consolidation also led to a decline in the company's gross profit margin.

Revenue Breakdown

(Total revenue: RMB7.1billion in the first nine months of 2024)



Source: The company and Lianhe Global's calculation

Engineering construction

As a key player in infrastructure and land development projects in Chenghua, the company operates under an “entrusted construction model”. It collaborates with the Longtan Industrial Robot Industry Functional Zone Management Committee, managing projects like the Longtan Ecological Park. The company handles design, bidding, and construction, initially funding these projects itself. Each year-end, the committee reimburses 120% of the annual project costs. Additionally, the company transfers land to Chengdu Chenghua Old City Renovation Investment Co., Ltd., with compensation based on audited land prices.

As project completion and settlements increased in 2024, the revenue from the engineering construction grew, maintaining a gross profit margin of 9.17% in the first nine months of 2024. Major projects included the Longtan Headquarters Economic City and land consolidation in Chenghua. The company’s ongoing projects, primarily in land and infrastructure, had large investment scales. The overall project payment collection remains slow, and there is a continuous need for construction funding, with large amount of development cost in inventory has not realized.

Gas and oil related business

The gas and oil related business of the company is mainly operated by Yuesheng, including engineering services, logistical support, and the production and sale of oil and chemical products. Although these activities significantly contribute to the company’s revenue, their profitability is low and heavily influenced by domestic and international economic and policy changes.

Yuesheng’s services encompass drilling, directional techniques, and logistics, among others, primarily serving subsidiaries of PetroChina's Chuanqing Drilling Company. Projects are acquired through bidding and competitive negotiations, with revenue recognized based on project completion or sales contracts. In the first nine months of 2024, gas and oil related revenue reached approximately RMB4.7 billion, covering various sectors like engineering, logistics, and manufacturing. Despite this, gross margins remain low at around 5.5% in the

first nine months of 2024, highlighting weak profitability and susceptibility to economic fluctuations.

Others

The company's other businesses provide diversification to its main operations. These activities include labor dispatch, leasing, dining, property management, and the integration of industry and finance, collectively supplementing the company's total income.

Financial Profile

Balance Sheet Structure and Quality

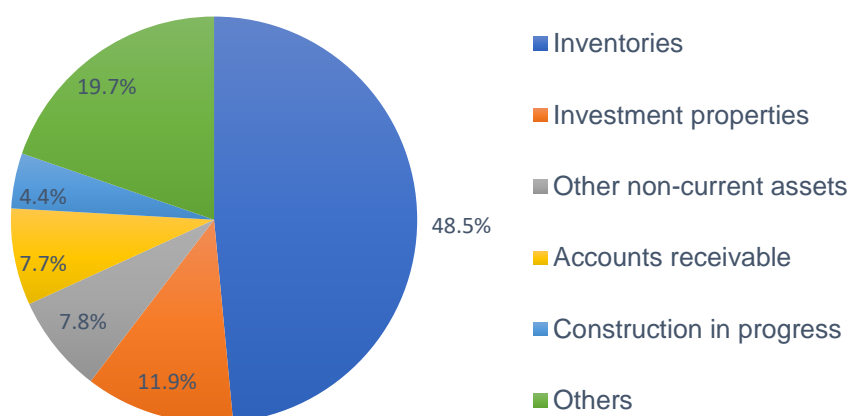
Balance Sheet Structure and Quality				
(RMB million)	2021	2022	2023	End-September 2024
Total Asset	23,619	31,642	33,315	35,086
Equity	9,334	10,714	10,888	10,996
Debt	10,328	12,331	14,414	16,250
Debt / (Debt + Equity) (%)	52.5	53.5	57.0	59.6
LT Debt	6,409	8,335	10,442	13,137
LT Debt / (LT Debt + Equity) (%)	40.7	43.8	49.0	54.4

Source: The company's financial reports and Lianhe Global's calculations

CDI's total assets increased to RMB35.1 billion at end-September 2024 from RMB23.6 billion at end-2021, owing to equity injections from the government and ongoing project construction. Its total debt also increased from RMB10.3 billion at end-2021 to RMB16.2 billion at end-September 2024. At end-September 2024, the short-term debt and long-term debt accounted for 19.2% and 80.8% of the total debt, respectively. The company's financial leverage, as measured by total liability/total asset, increased from 60.5% at end-2021 to 68.7% at end-September 2024.

Asset Breakdown

(Total assets: RMB35.1 billion at September 2024)



Source: The company and Lianhe Global's calculation



CDI's asset quality was moderately weak. At end-September 2024, the company's assets primarily consisted of inventories, receivables, and investment properties. Inventories, mainly development costs and project construction agency costs, accounted for 48.5% of the total assets, typically requiring a long time to monetize. Additionally, the company held significant amounts in construction in progress and investment properties, both possessing limited liquidity.

Debt Servicing Capability

CDI's liquidity was moderately weak. At end-September 2024, CDI had unrestricted cash balance of RMB1.5 billion, compared with its debt to be due within one year of RMB3.1 billion. Having said that, the company may use bank borrowings, bond issuance and non-traditional financing to support its debt repayments and business operations. It had unused credit facilities of RMB1.6 billion at end-September 2024.

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