

Deyang Tianfu Jingcheng Investment Development Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	19 February 2025

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

Summary

The Issuer Credit Rating reflects a high possibility that the Deyang Municipal People’s Government (“the Deyang government”) would provide strong support to DTJID if needed. This mainly considers the Deyang government’s ownership of DTJID, DTJID’s strategic importance as an important local investment and development company (“LIDC”) responsible for project development in Deyang, especially in Tianfu Jingcheng. In addition, the linkage between the local government and DTJID is strong, including management supervision, strategic alignment and ongoing operational and financial support. Moreover, the local government may face significant negative impact on its reputation and financing activities if DTJID encounters any operational and financial difficulties.

Deyang is a prefecture-level city in Sichuan Province and a heavy equipment manufacturing hub. In 2024, Deyang’s GDP grew by 7.2% to RMB326.5 billion and the budgetary revenue grew by 9.2% to RMB20.1 billion.

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

Rating Rationale

Government’s Ownership and Supervision: The State-Owned Assets Supervision and Administration Commission of Deyang (“Deyang SASAC”) holds a 20.7% share of DTJID through Deyang Investment Holding Group Co., Ltd. (“DIHG”) and is the ultimate controller of the company. Deyang SASAC has authorized the management committee of Deyang Tianfu Jingcheng (“DTJ MC”) to oversee DTJID. DTJ MC is a delegated administrative authority of the Deyang government, responsible for the overall management in Tianfu Jingcheng and is directly managed by the Deyang government.

The local government has the final decision-making authority and strong supervision over the DTJID, including the appointment of senior management and decisions on its major investment and financing plan. In addition, the Deyang government has an assessment mechanism over the company and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: DTJID is a significant LIDC responsible for project development in Deyang, particularly in Tianfu Jingcheng, a new development area designed to promote the integrated development of Chengdu and Deyang, as well as regional industrial upgrades. The development of Tianfu Jingcheng is a priority task for the Deyang government. DTJID undertakes major development projects within the area, including city infrastructure, public facilities, water conservation initiatives, and social

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Applicable Criteria

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

housing development. Its business operation and strategic planning have been aligned with the local government's development plans.

Strong Government Support: DTJID enjoys robust backing from the Deyang government, which includes advantageous policies, capital/asset injections and operational subsidies. Between 2021 and the first three quarters of 2024, the local government injected cash capital of RMB3,567 million and assets such as state-owned properties, mining rights, and pipeline networks valued at RMB4,990 million into DTJID. Additionally, the company received operational subsidies related to its provision of public goods totaling RMB151 million during the same timeframe. Given DTJID's strategic significance in Deyang, we believe that DTJID is likely to continue receiving government support in the future.

DTJID's Financial and Liquidity Position: DTJID's total assets tripled to RMB15.9 billion at the end of September 2024 from RMB5.2 billion at the end of 2021, as the company actively engaged in project development in Deyang and benefited from local government asset injections. Its total debts surged to RMB4.0 billion from RMB715 million during the same period. Nevertheless, the company's financial leverage, indicated by debt to capitalization, remained at a manageable level of 29.9% at the end of September 2024.

DTJID's liquidity is moderately weak. The company had unrestricted cash of RMB857 million compared to its short-term debts of RMB2,382 million. However, the company has access to various financing channels, including bank borrowings and non-traditional financing options, to support its debt repayments and business operations. By the end of June 2024, DTJID had unused bank facilities totaling RMB3.0 billion.

Rating Sensitivities

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

We would consider upgrading DTJID'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 Deyang

Deyang's GDP and Fixed Asset Investment			
(RMB billion)	2021	2022	2023
GDP	268.7	281.7	301.4
-Primary industry (%)	10.5	15.3	7.1
-Secondary industry (%)	47.8	44.2	48.2
-Tertiary industry (%)	41.7	40.5	44.7
GDP growth rate (%)	8.7	3.1	6.7
Fixed asset investment growth rate (%)	11.7	10.7	5.6
Population (million)	3.5	3.5	3.5

Source: Public information and Lianhe Global's calculations

Deyang is a prefecture-level city situated in central Sichuan Province. Renowned as a significant heavy equipment manufacturing hub, Deyang plays a crucial role as a regional center within the Chengdu-Chongqing Twin City Economic Circle and serves as an essential growth hub in the Chengdu Plain Economic Zone. Deyang oversees six districts and

counties, along with one national economic development zone and one national high-tech industrial development zone, covering a total area of 5,911 square kilometers. By the end of 2023, Deyang's residential population was 3.5 million, with an urbanization rate of 58.8%.

Deyang's GDP growth rate rebounded to 6.7% in 2023 from 3.1% in 2022. Its GDP amount reached RMB301.4 billion in 2023, ranking it 4 among 21 jurisdictions in Sichuan. In 2023, Deyang's economy was primarily driven by the secondary and tertiary industries, which contributed 48.2% and 44.7% to its GDP, respectively.

Fiscal Condition of Deyang

Deyang's Fiscal Condition (RMB billion)	2021	2022	2023
Budgetary revenue	14.9	15.7	18.4
Budgetary revenue growth rate (%)	12.6	5.3	13.6
Tax revenue	9.5	9.7	10.9
Tax revenue (% of budgetary revenue)	64.2	62.2	59.6
Government fund income	19.3	19.7	21.5
Transfer payment	15.7	17.6	18.8
Aggregate revenue	49.9	53.1	58.8
Budgetary expenditure	32.6	35.0	39.2
Budget balance ¹ (%)	-119.5	-123.8	-113.3

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

Source: Public information and Lianhe Global's calculations

The aggregate fiscal revenue of the Deyang government primarily comes from budgetary revenue and government fund income. Budgetary revenue steadily increased to RMB18.4 billion in 2023 from RMB14.9 billion in 2021, while the share of tax revenue decreased from 64.2% to 59.6% during the same period. Deyang's fiscal self-sufficiency remained moderately weak, with budget deficits of 119.5%, 123.8%, and 113.3% in 2021, 2022, and 2023, respectively. Government fund income, mainly derived from land sales revenue, rose from RMB19.3 billion in 2021 to RMB21.5 billion in 2023, making it the largest contributor to total revenue.

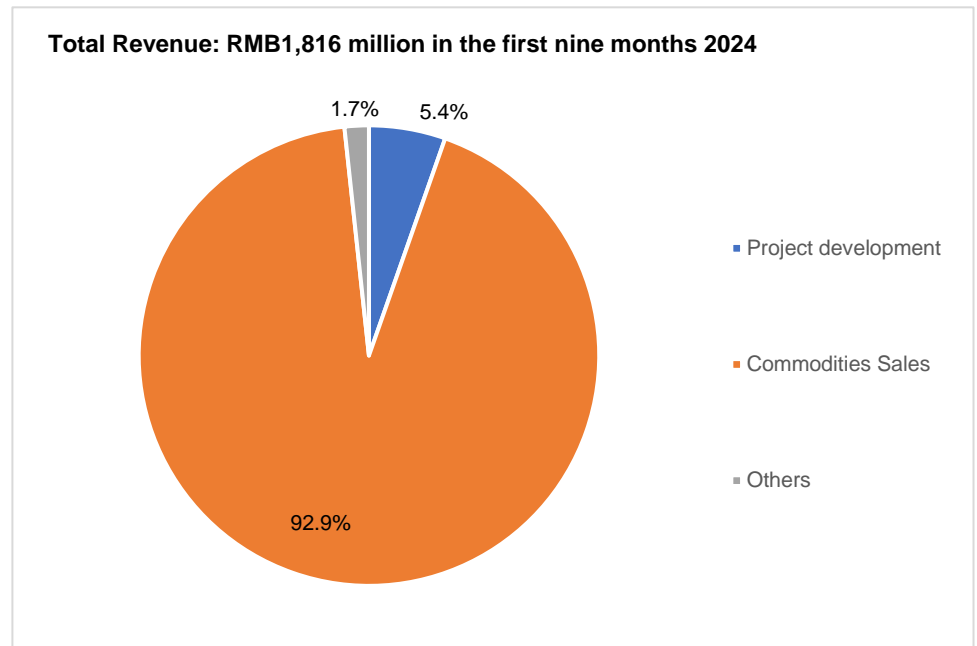
The outstanding amount of the Deyang government's debt expanded rapidly in 2021-2023, mainly due to the rise in special debts to support its public projects. By the end of 2023, the Deyang government's outstanding debt was RMB76.1 billion, including RMB16.6 billion of general obligations and RMB59.4 billion of special debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, elevated to 129.4% at end-2023 from 85.6% at end-2021.

Company Profile

Ownership Structure

DTJID was established in November 2019 by DTJ MC. In 2022, DTJID's 100% shares was transferred to DIHG, a flagship platform controlling all major LIDCs in Deyang. By end-2024, the Deyang SASAC held 20.7% shares of DIHG; the remaining 79.3% shares were held by other government agencies in Deyang. Deyang SASAC is the ultimate controller of DTJID and authorized DTJ MC to manage the company.

Revenue Breakdown



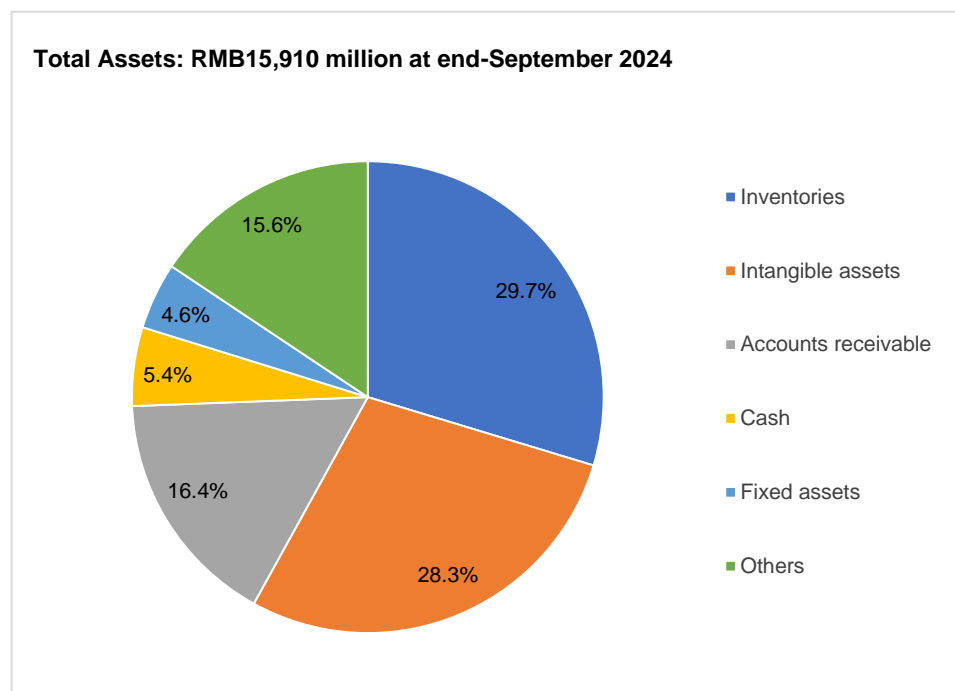
Source: The company's financial reports and Lianhe Global's calculations

DTJID is an important LIDC that is responsible for project development in Tianfu Jingcheng of Deyang. Its major sources of income are infrastructure construction and commodity sales. The company has also diversified into leasing and property management businesses. DTJID recorded total revenue of RMB995 million, 1,938 million, 2,630 million and 1,816 million in 2021, 2022, 2023 and the first nine months of 2024, respectively, representing an upward trend. Yet its gross margin was reduced to 1.5% in the first nine months of 2024 from 6.3% in 2021, owing to the higher contribution of low-margin commodity sales to the total revenue.

DTJID undertakes major development projects in Tianfu Jingcheng of Deyang, including city infrastructure, public facilities, water conservation initiatives, and social housing development under the local government's instruction. The company has a robust project pipeline. By the end of March 2024, the company was undertaking construction on projects with a total planned investment of RMB8.5 billion, of which RMB 3.4 billion was set to be invested. Furthermore, the company proposed two major projects with a collective budget of RMB4 billion. These initiatives could exert significant capital expenditure pressure on the company.

DTJID also participates in trading metal materials, wood, coal, and aggregates. Revenue from this segment has significantly increased over the past three years, becoming the company's primary source of income. However, DTJID's trading counterparties are highly concentrated, and it offers buyers a credit period of two to three months, which exposes the company to accounts receivable risk. Furthermore, the segment's gross margin is low, typically under 1%.

Assets Breakdown



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

DTJID's asset quality was moderately weak. As of the end of September 2024, the company's primary assets included inventories and intangible assets, representing 29.7% and 28.3% of total assets, respectively. The inventories primarily consisted of construction costs and land awaiting development, which typically take a long time to monetize due to lengthy construction and cash collection periods. The intangible assets included concession rights for mining, parking, and advertising. Accounts receivable, mainly from local government agencies, accounted for 16.4% of total assets. The actual payment schedule depends on the local government's fiscal conditions.

Key Financial Data				
(RMB million)	2021	2022	2023	2024.9
Total Assets	5,235	10,711	14,572	15,910
Equity	4,463	7,852	9,034	9,339
Debt	715	1,403	2,570	3,989
Debt / (Debt + Equity) (%)	13.8	15.2	22.1	29.9
Unrestricted cash/ST Debts (x)	0.4	2.2	0.8	0.4
Debt/EBITDA (x)	8.9	8.6	12.8	-
Guarantees/Equity (%)	-	-	-	-
Revenue	995	1,938	2,630	1,816
Operation Profit	73	148	134	1.7
Gross Margin (%)	6.3	7.4	5.2	1.5
Cash from sales or services/Revenue (%)	81.1	70.7	75.3	122.4

Source: DTJID and Lianhe Global's calculations

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