

CCXAP assigns first-time long-term credit rating of BBB_g- to Chengdu Xinjin City Industry Development Group Company Ltd., with stable outlook.

Hong Kong, 10 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Chengdu Xinjin City Industry Development Group Company Ltd. (“XCID” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of the Company reflects Chengdu Xinjin District Government’s relatively strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of Xinjin District Government’s capacity to provide support reflects Xinjin District’s status as one of the most advanced districts in Sichuan Province’s rural revitalization strategy, with a good gross regional product (“GRP”) per capita and fiscal self-sufficiency.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic position in the development of Xinjin District; (2) solid track record of receiving government supports; and (3) large undertakings in infrastructure construction projects, with sufficient project reserves. However, the Company’s rating is constrained by the Company’s (1) increasing exposure to commercial activities; (2) high debt growth driven by a large number of construction projects; and (3) moderate access to financing channels.

Corporate Profile

Founded in 2005, and after consolidating 3 state-owned companies, XCID has become the largest state-owned infrastructure construction and assets operation entity in Xinjin District as of 30 June 2022. XCID is primarily responsible for infrastructure construction, public transport operation, construction of resettlement housing, construction of industrial parks and other self-operating projects. Apart from its main business, the Company is also engaged in other self-operated businesses, such as gravel sales, parking, and construction quality testing. As of 30 June 2022, the Company is directly and wholly owned by the Xinjin District State-owned Assets Supervision and Administration Bureau (“Xinjin District SASAB”).

Rating Rationale

Credit Strengths

Important strategic position in the development of Xinjin District. XCID is the largest Local Infrastructure Investment and Financing Company (“LIIFC”) in Xinjin District by total assets. The Company has a clear positioning in the new planning layout of Xinjin District, while other LIIFCs are responsible for the development of agriculture and tourism industries in Xinjin District. In line with the development plan of the Xinjin Government, XCID is transforming its business focus from infrastructure construction to industrial and urban development. The Company is mainly responsible for the construction of peripheral facilities in intelligent manufacturing and digital economy industries in Xinjin District. In addition to playing an important role in the

intelligent manufacturing and digital economy industries, the Company continues to undertake local public activities such as the construction of local infrastructure and other public facilities.

Large undertakings in infrastructure construction projects, with sufficient project reserves. XCID undertakes the development of key public policy projects in Xinjin District, which mainly constitute major infrastructure construction and resettlement housing projects. XCID has successfully completed a series of large-scale infrastructure projects over the past few years, including roads, schools and city upgrading projects. The Company has also demonstrated strong business sustainability through its sufficient public project reserves. In addition, XCID provides bus services to support local public transportation needs. The Company also operates a local bus service in Xinjin District.

Solid tracked record of receiving government support. XCID has a proven track record of receiving ongoing government support from Xinjin District SASAB, including government subsidies, capital injections and equity transfers. The Company also regularly receives repurchase payments for its infrastructure construction projects. In order to support the Company's business expansion, Xinjin SASAB has transferred 3 local LIIFCs to the Company as of 30 June 2022, and increased the Company's capital reserve to RMB17.0 billion. The local government is planning to inject more assets into the Company, such as franchise rights of all state-owned car parks in Xinjin District.

Credit Challenges

Increasing exposure to commercial activities. In addition to public welfare activities, XCID is also involved in other commercial activities such as gravel sales, parking, leasing and construction quality testing businesses. The Company's resettlement housing project is also self-operated. We consider XCID's commercial business exposure to be low, as its market-driven businesses account for less than 15% of its total assets. Given the Company's blueprint for developing a market-driven business, we believe the Company will expand the scale of its commercial business in the future.

High debt growth driven by a large number of construction projects. XCID has had high debt growth due to its debt-driven business expansion over the past few years. Total debt increased from RMB12.7 billion at the end of 2019 to RMB20.0 billion in mid-2022. The increase in debt was mainly attributable to the fast expansion of the construction of infrastructure and commercial projects. As of 31 December 2021, the Company had 11 construction projects under construction or planning, with an expected investment amount of RMB6.5 billion and an outstanding amount of RMB4.9 billion. On top of that, the Company is building two industrial development parks with an estimated investment of approximately RMB3.6 billion.

Moderate access to financing channels. As of 30 June 2022, around 49% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB763.9 million. Around 16% of debt financing was provided by the onshore debt capital market. From 2021 to mid-2022, XCID issued a total of RMB1.2 billion of onshore bonds, with a coupon range of 6.5%-7.2%. However, the Company was highly dependent on non-standard financing, which accounted for 35% of its total debt. XCID has moderate asset liquidity.

Rating Outlook

The stable outlook on XCID's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key investment and operating entity in Xinjin District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as strengthening financing channels or improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or increasing exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

This rating is provided on a private basis. By prior written agreement between CCXAP and the rated entity, CCXAP prohibits the rated entity from disseminating this rating, or permitting its dissemination, to the public.

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