

CCXAP assigns first time long-term credit rating of BBB_g to Chengdu Xisheng Investment Group Co., Ltd., with stable outlook.

Hong Kong, 27 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Chengdu Xisheng Investment Group Co., Ltd. (“CXIG” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of CXIG reflects Chengdu Pidu District Government’s strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Pidu District Government’s capacity to provide support reflects Pidu District’s vital position in Chengdu City, given its good industrial resources, as well as increasing economic and financial strength.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important role as the major infrastructure constructor in Pidu District; (2) high sustainability for public policy projects; and (3) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt burden; and (3) moderate assets liquidity.

Corporate Profile

Founded in 2010, CXIG, formerly known as Pi County Xingcheng Investment Co., Ltd., is the most important local infrastructure investment and financing company (“LIIFC”) in Pidu District, with the largest asset size among other local state-owned enterprises. The Company is primarily responsible for infrastructure construction, resettlement housing construction and shantytown renovation in Pidu District. Apart from public development projects, the Company also derives revenue from businesses such as property sales, material and agricultural product trading, property leasing and management, medical services, carparking services, municipal planning and surveying. As of 30 September 2022, the Company was wholly owned and ultimately controlled by Chengdu Pidu District State-owned Assets Supervision and Administration and Financial Bureau (“Chengdu Pidu District SASAFB”).

Rating Rationale

Credit Strengths

Important role as the major infrastructure constructor in Pidu District. CXIG is the most important infrastructure construction and state-owned capital investment operation entity in Pidu district, with the largest total assets. CXIG adheres to and implements the development plans for the continual development of Pidu District as devised by the local government. The Company focuses on urban construction, rural revitalization and urban development. Considering the Company’s high strategic significance to the development of Pidu District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability for public policy projects. The Company had successfully delivered a



series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, schools, bridges, and resettlement houses. The Company's public projects cover two major sub-segments, namely, infrastructure construction and resettlement housing construction. As of 30 September 2022, the Company had 31 infrastructure construction projects and resettlement housing projects under construction, with a total investment amount of RMB14.3 billion and an outstanding amount of RMB4.8 billion. The Company has a large amount of infrastructure construction projects in the pipelines, indicating strong sustainability of the business, but exerting great capital expenditure pressure.

Solid track record of receiving government payments. As the most important infrastructure construction and state-owned capital investment operation entity in Pidun district, CXIG has a track record of receiving payments from the Pidun District government. These payments take various forms, such as government subsidies and capital injections. The Company also regularly receives repurchase payments for its public policy projects. Projects under the government purchase service model are included in fiscal government fund expenditure, so the repurchase payments are more stable. Given CXIG's important strategic role, we expect the Company will continue to receive support from the Pidun District Government in the future.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, CXIG is also involved in various commercial activities such as property development, building material trading, agricultural product sales, property leasing, medical services, car parking services, municipal planning and surveying. We consider CXIG's commercial business exposure to be medium, as its market-driven businesses account for around 15-30% of its total assets.

Increasing debt growth and moderate asset liquidity. CXIG's total debt had increased from RMB31.9 billion at end-2019 to RMB50.4 billion as of 30 September 2022, its total capitalization increased from 51.7% to 61.2% over the same period. In addition, its short-term debt accounted for 39.4% of its total debt as of 30 September 2022. The increase in debt was mainly attributable to the expansion of the construction of public activities projects. Furthermore, CXIG has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 75.5% of its total asset as of 30 September 2022.

Rating Outlook

The stable outlook on CXIG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in the infrastructure construction in Pidun District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

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

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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Olivia Feng
Credit Analyst
+852-2860 7133



olivia_feng@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656