

CCXAP assigns first-time long-term credit rating of BBB_g+ to Xianyang Urban Development Group Co., Ltd., with stable outlook.

Hong Kong, 30 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g+ to Xianyang Urban Development Group Co., Ltd. (“XYUD” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of XYUD reflects the Xianyang Municipal Government’s (1) strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Xianyang Municipal Government’s capacity to support reflects its increasing economic and fiscal strength, but constrained by relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) strategic importance to local economic and urban development; (2) dominant position in the provision of public services; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities in property development and guarantee business; (2) ongoing debt growth driven by construction projects; and (3) medium contingent liabilities risk associated with external guarantees.

Corporate Profile

Founded in August 2022, XYUD is the largest local infrastructure investment and financing company (“LIIFC”) for the urban construction and state-owned capital operation in Xianyang City after integrating local state-owned enterprises, including Xianyang Urban Construction Investment Holding Group Company (“XYUC”) and Xianyang Natural Gas Corporation (“XYNG”) in 2022. The Company is primarily responsible for local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation. The Company also engages in commercial activities, such as property development and leasing, equity investment, trading, engineering construction, as well as guarantee business. As of 31 December 2022, the Xianyang Municipal Government held 90% of shares of XYUD through the State-owned Assets Supervision and Administration Bureau of Xianyang Municipal Government and 10% of shares through Xianyang Finance Investment Management Co., Ltd.

Rating Rationale

Credit Strengths

Strategic importance to local economic and urban development. As the most important LIIFC under the control of the Xianyang Municipal Government, the Company plays dominant role in promoting local urban construction and state-owned capital operation. XYUD is responsible for various public activities, including local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation. The Company’s infrastructure construction business mainly focuses on Xianyang High-tech Industrial Development Zone (“Xianyang HIDZ”) and districts and counties of Xianyang City such as Wugong County, Qian



County, Yongshou County and Binzhou City. XYUD was in charge of funding raising and construction for the infrastructure projects and resettlement housing projects.

Dominant position in the provision of public services. XYUD provides essential public services in Xianyang City, including gas supply and bus service. The Company provide gas supply in urban area and majorities of counties in Xianyang City through franchising. It is the sole urban gas supplier in Xianyang City and the second largest municipal level gas supplier in Shaanxi Province. Also, XYUD is the sole public transportation operator in Xianyang City, providing bus service via its subsidiary, Xianyang Public Transport Group Company.

Good track record of receiving government support. XYUD has a good track record of receiving support from Xianyang Municipal Government in various forms, such as equity transfer, government subsidies, special funds, and capital injections. In 2022, the local government transferred the equity of major state-owned enterprises to the Company, such as XYUC and XYNG, which enlarged its business scope and capital strength. Given its strong public policy role and dominant role in urban development and state-owned asset operation of Xianyang City, we expect government support for XYUD will remain good over the next 12 to 18 months.

Credit Challenges

Medium exposure to commercial activities in property development and guarantee business. XYUD has medium exposure to commercial activities which includes property development, equity investment, trading, engineering construction, property leasing, as well as guarantee business. The certain portion of equity investment in listed companies may bring more investment risks driven by the fluctuation of stock prices. Moreover, the Company is assisting in the implementation of the local policy of ensuring timely delivery of presold homes and exposes to certain recovery risk due to on-lending to private-owned property developers.

Ongoing debt growth driven by construction projects. XYUD demonstrated ongoing debt growth driven by continuous investment in construction projects. The Company's total debt increased from RMB27.2 billion in 2020 to RMB35.1 billion in 2022; while its total capitalization ratio decreased from 69% in 2020 to 60% in 2022, which was still relatively high.

Medium contingent liabilities risk associated with external guarantees. XYUD bears medium contingent liabilities risk resulting from its external guarantees for state-owned enterprises. As of 31 December 2022, the Company's external guarantees amounted to RMB10.0 billion, accounting for around 43% of its net assets. Some guaranteed enterprises have provided counter-guarantee measures, such as land, factory buildings, and equipment offsets. Relatively large guarantee exposures may increase the Company's contingent liability risks.

Rating Outlook

The stable outlook on XYUD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance to local economic and urban development in Xianyang City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as reduced operating risk to commercial activities and improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance or deteriorated financing ability.

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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