

## Credit Opinion

29 May 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Chengdu Xisheng Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Chengdu Xisheng Investment Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Chengdu Xisheng Investment Group Co., Ltd. (“CXIG” or the “Company”) 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.

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 Pidu District.

## Rating Drivers

- Important role as the major infrastructure constructor in Pidū District
- High sustainability for public policy projects
- Solid track record of receiving government payments
- Medium exposure to commercial activities
- Increasing debt growth and moderate asset liquidity
- Reliance on bond financing and non-standard financing

## Rating Sensitivities

### 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.

## Key Indicators

	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	66.7	76.8	80.1	92.1
Total Equity (RMB billion)	29.6	31.2	31.7	31.9
Total Revenue (RMB billion)	2.1	2.0	2.1	1.5
Total Debt/Total Capital (%)	51.7	55.9	56.4	61.2

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## 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 Pidū 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 Pidū 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 Pidū District State-owned Assets Supervision and Administration and Financial Bureau ("Chengdu Pidū District SASAFB").

Exhibit 1. Revenue Structure in 2021

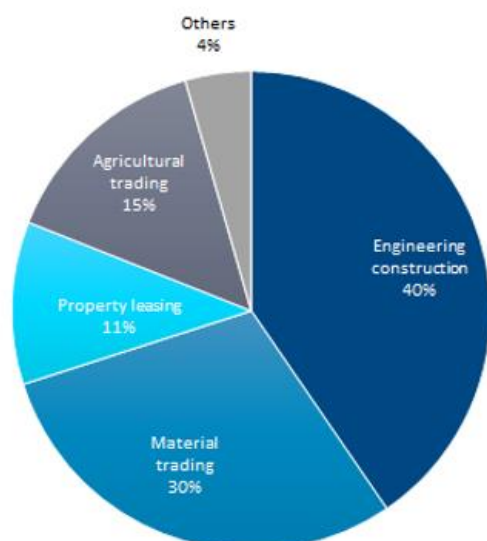
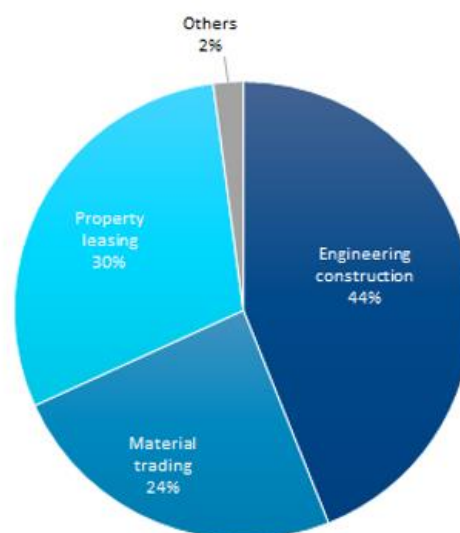


Exhibit 2. Gross profit Structure in 2021



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Pidun District Government has a strong capacity to provide support to the Company, given its good industrial resources, as well as increasing economic and financial strength.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6<sup>th</sup> in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up 2.3% YoY.

Chengdu City is a sub-provincial city that serves as the capital city of Sichuan Province. Chengdu City is also an important economic and financial center, as well as a transportation and communication hub in Southwest China, with a solid economic foundation. Its economy is characterized by industries such as electronic information product manufacturing, machinery, automotive, metallurgy, building materials and light industry. Chengdu's GRP increased from RMB1.8 trillion in 2020 to RMB2.1 trillion in 2022. Affected by the pandemic and tax refund, the Chengdu government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. Its fiscal balance ratio was 70.7%, which was at a moderate level. Chengdu's debt burden is manageable. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increase trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,771.7	1,991.7	2,081.8
GRP Growth (%)	4.0	8.6	2.8
General Budgetary Revenue (RMB billion)	152.0	169.8	172.2
General Budgetary Expenditure (RMB billion)	215.9	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

Source: Statistic Bureau of Chengdu City, CCXAP research

Pidu District is located in the northwest of Chengdu City, with a total area of 437.5 square kilometers. Relying on the industrialization of Sichuan cuisine, Pidū District has the largest Sichuan cuisine food industry brand incubation base in China. Supported by its pillar industries, such as tourism, sichuan cuisine, LED and electronic components, Pidū District demonstrated ongoing economic growth in the past few years. In 2022, the GRP of Pidū District increased by 3% to RMB75.1 billion, ranking 9<sup>th</sup> in terms of GRP among 20 districts and counties in Chengdu City. Pidū District Government's general budgetary revenue increased from RMB4.7 billion in 2020 to RMB5.4 billion in 2022, of which tax revenue accounted for more than 70% over the past three years, indicating relatively good fiscal stability. Pidū District also has moderate fiscal self-sufficiency, with a fiscal balance rate of 68.5% in 2022. In addition, Pidū District has a moderate debt profile, with a government debt to GRP ratio of 16.3% as of 31 December 2022. As an important state-owned enterprise in Pidū District, the Company expects to continue benefitting from the sustained development of Chengdu and Pidū District.

**Exhibit 4. Key Economic and Fiscal Indicators of Pidū District**

	2020FY	2021FY	2022FY
GRP (RMB billion)	65.6	72.4	75.1
GRP Growth (%)	3.5	8.0	3.0
General Budgetary Revenue (RMB billion)	4.7	5.1	5.4
General Budgetary Expenditure (RMB billion)	6.9	7.0	7.9
Local Government Debt (RMB billion)	10.3	10.3	12.3

Source: Statistic Bureau of Pidū District, CCXAP research

**Government's Willingness to Provide Support****Important role as the major infrastructure constructor in Pidū District**

CXIG is the most important infrastructure construction and state-owned capital investment operation entity in Pidū district, with the largest total assets. There are three major LIIFCs in Pidū District, including CXIG, Chengdu Shudu Sichuan Cuisine Industry Investment and Development Co., Ltd. ("SCID") and Chengdu Jinghong Investment Group Co., Ltd. ("Jinghong Group"). SCID is mainly responsible for infrastructure construction and land consolidation of Sichuan Cuisine Industrial Park, Ande Town and Tangchang Town, as well as sales of Douban products. Jinghong Group is mainly responsible for land consolidation, infrastructure construction and comprehensive development of Xinyizhou New Town Area of Deyuan Town, Pidū District. As the most important LIIFC in Pidū District, CXIG adheres to and implements the development plans for the continual development of Pidū District as devised by the local government. The Company focuses on urban construction, rural revitalization and urban development. The Company has a relatively diversified business scope, including resettlement housing construction, Shantytown renovation and infrastructure construction in Pidū District. Considering the Company's high strategic significance to the development of Pidū 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. CXIG conducts its public policy projects through its subsidiaries, Chengdu Pidu District State-Owned Assets Investment Operation Company ("PSAI") and Chengdu Xihui Investment Group Co., Ltd. ("Xihui Investment").

PSAI signs general contracting agreements or entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The repurchase payment is calculated based on the construction cost plus a 10-15% return. In addition, Xihui Investment signs a construction framework agreement with the Pidu District Government, which would repurchase the construction upon project completion. For projects that have no return, the repurchase payment is equal to the construction cost. For projects that generate returns, the repurchase payment is calculated based on the construction cost plus a 10-18% return. 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.

The Company conducts its shantytown renovation projects through a government purchase service model, including land acquisition, demolition and resettlement. The Company constructs shantytown renovation projects with the self-raised fund, and the Pidu District Government will pay the purchase services fee annually to the Company. As of 30 September 2022, the Company had 2 shantytown renovation projects under construction, with a total investment amount of RMB1.9 billion and an outstanding amount of RMB1.3 billion.

### 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.

CXIG's property development business is market-oriented, as the Company is responsible for the construction of real estate projects and their subsequent sales. As of 30 September 2022, the Company completed 5 major property development projects, which have almost all been sold, with a total investment amount of RMB1.1 billion and received a purchase amount of RMB1.2 billion. The Company has 1 major property development project under planning, namely Pidu Smart Technology City Area Comprehensive Development Project. It is expected that the Company and Poly Real Estate (Group) Co., Ltd. will establish a project company for the joint development of this project. The expected construction period is 8 years and the expected total investment is approximately RMB15 billion. The large investment amount might exert great capital expenditure pressure on the Company. As the Company's property development business is market-driven, which is greatly affected by the real estate market, and the income is uncertain.

The Company also conducts agricultural product sales business, including procurement and sales of food and oil, and the preservation and rotation of local food reserves in Pidu District. The Company mainly adopts two different transaction models in conducting its agricultural product sales: The synchronization model and the Time difference model. The upstream of agricultural product sales is relatively concentrated. As of 30

September 2022, the top 5 suppliers accounted for 87.8% of the supply, there may be concentration risk. In addition, the income of the storage of food and oil business is low, because it has certain public welfare nature, and the food and oil purchase and sales business has been in a state of low profit, with a gross profit margin of less than 1%. Overall, the agricultural product sales business contributed little to the Company's gross profit.

In addition, CXIG's building material trading business mainly involves the production and sales of concrete mortar and sandstone to construction companies. The Company was authorized by the government to operate and manage a total of 153.5 million cubic meters of sandstone reserves in Pidū District. The Company also provides several commercial activities in Pidū District, such as property leasing, medical services, car parking services, municipal planning and surveying. Although these commercial activities have brought stable income to the Company, the small operating scales limit their contributions to the Company's overall revenue.

### Solid track record of receiving government payments

As the most important infrastructure construction and state-owned capital investment operation entity in Pidū district, CXIG has a track record of receiving payments from the Pidū 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 Pidū District Government in the future.

#### Exhibit 5. Track Record of Government Support from 2019 to 2022Q3

(RMB million)	2019FY	2020FY	2021FY	2022Q3
Government Subsidies	69	66	133	20
Asset Injections	6,320	1,107	-	-
Cash Injections	98	100	-	-
Repurchase Payments	768	695	362	-
<b>Total</b>	<b>7,255</b>	<b>1,968</b>	<b>495</b>	<b>20</b>

Source: Company information, CCXAP research

### 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. As of 30 September 2022, the Company had 34 projects under construction or planning, with an expected investment of RMB31.2 billion and an outstanding amount of RMB21.2 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

**Exhibit 6. Major Projects under Construction and Planning as of 30 September 2022**

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
<b>Projects Under Construction</b>				
Infrastructure Construction	20	7,742	6,742	1,000
Resettlement Housing	11	6,552	2,711	3,841
Shantytown Renovation	2	1,932	604	1,328
<b>Projects Under Planning</b>				
Property Development	1	15,000	-	15,000
<b>Total</b>	<b>34</b>	<b>31,226</b>	<b>10,057</b>	<b>21,169</b>

Source: Company information, CCXAP research

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. Inventories were mainly undeveloped land and investment costs for infrastructure construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. As there were relatively large amounts of unreceived payments from the repurchased projects, we will pay attention to the payment collection.

**Reliance on bond financing and non-standard financing**

As of 30 September 2022, around 35.4% of the Company's debt financing was provided by domestic banks. It held a total credit facility of RMB34.7 billion and available credit facilities of RMB17.5 billion, indicating a sufficient liquidity buffer. The Company has a track record of fund-raising activities in both offshore and onshore debt capital markets, including the issuance of MTNs, PPNs, SCPs and USD bonds. The debt capital market provides around 50.1% of the Company's debt financing. Large reliance on bond financing is vulnerable to fluctuations in onshore and offshore capital markets. Around 14.5% of debt financing was provided by non-standard financing, including financial leasing and trust.

**ESG Considerations**

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CXIG assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CXIG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Pidu District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CXIG believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring

compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

### **Structural considerations**

CXIG's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its important strategic role in infrastructure construction of Pidu District, thereby mitigating any differences in an expected loss that could result from structural subordination.

### **Rating Methodology**

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

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