

Credit Opinion

3 November 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Chengdu Xinjin City Industry Development Group Company Ltd.

Surveillance credit rating report

CCXAP affirms Chengdu Xinjin City Industry Development Group Company Ltd.'s BBB_g- long-term credit rating, with stable outlook.

Summary

The BBB_g- long-term credit rating of Chengdu Xinjin City Industry Development Group Company Ltd. ("XCID" or the "Company") reflects Chengdu Xinjin District Government's 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 rural revitalization strategy in Sichuan Province, with a good gross regional product ("GRP") per capita.

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 support; and (3) high sustainability for infrastructure projects.

However, the rating is constrained by the Company's (1) increasing exposure to commercial activities; (2) high debt growth and large capital expenditure pressure driven by a large number of construction projects; and (3) moderate access to financing channels.

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.

Rating Drivers

- Important strategic position in the development of Xinjin District
- High sustainability for infrastructure projects
- Solid track record of receiving government support
- High debt growth driven by a large number of construction projects
- Increasing exposure to commercial activities
- Moderate access to financing channels

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	62.4	67.4	70.0	77.8
Total Equity (RMB billion)	36.7	37.9	38.7	39.5
Total Revenue (RMB billion)	2.2	1.7	1.9	1.1
Total Debt/Total Capital (%)	29.8	33.1	35.6	39.2

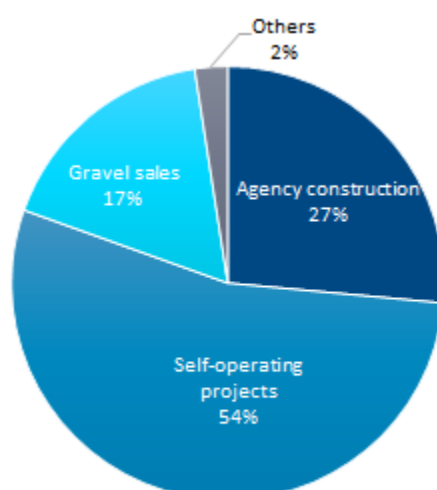
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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 2023. 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 commercial businesses, such as gravel sales, parking lot operation, and construction quality testing. As of 30 June 2023, the Company is directly and wholly owned by the Chengdu Xinjin District State-owned Assets Supervision and Administration Bureau ("Xinjin District SASAB").

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Xinjin District Government has a strong capacity to provide support for the Company, given its good economic growth.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a GRP of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up 2.3% YoY. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion, with a YoY increase of 5.5%.

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 and building materials 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 Municipal 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. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increasing trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP. In 2023H1, Chengdu's GRP reached RMB1.1 trillion, with a YoY increase of 5.8%; while its general budgetary revenue amounted to RMB110.0 billion.

Exhibit 2. 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

Xinjin District is located in the south of Chengdu City, with a total area of 330 square kilometers. It was approved by the State Council as a district in 2020. Relying on its advantageous geographic location, being only 18 kilometers away from Chengdu Shuangliu International Airport and 28 kilometers away from Tianfu New District, Xinjin District is famous for its convenient transportation system. Xinjin's pillar industries of food processing, railway and new material form its industrial base. As a new development district in Chengdu, Xinjin District had moderate economic and fiscal strength. The GRP of Xinjin District increased from RMB44.4 billion in 2021 to RMB46.9 billion in 2022, with a YoY increase of 4.4%. Xinjin District Government's general budgetary revenue increased from RMB3.3 billion in 2021 to RMB3.4 billion in 2022. Its tax revenue was RMB1.9 billion, accounting for 55.9% of its general budgetary revenue. In addition, Xinjin District Government's debt profile has continued to show an increasing trend, with a government debt to GRP ratio of 18.6% as of 31 December 2022.

Exhibit 3. Key Economic and Fiscal Indicators of Xinjin District

	2020FY	2021FY	2022FY
GRP (RMB billion)	40.1	44.4	46.9
GRP Growth (%)	6.0	8.6	4.4
General Budgetary Revenue (RMB billion)	3.0	3.3	3.4
General Budgetary Expenditure (RMB billion)	4.3	4.3	5.8
Local Government Debt (RMB billion)	7.2	7.9	8.7

Source: Statistic Bureau of Xinjin District, CCXAP research

Under the government's new planning layout, Xinjin District will develop four new major industries, namely, intelligent manufacturing, digital economy, agriculture, and tourism. Four corresponding development parks will be built, including Tianfu Intelligent Manufacturing Industrial Park, Digital Economy Industrial Park, Tianfu Agricultural Expo Park and Lihuaxi Cultural Tourism Zone. It presents opportunities for local state-owned capital investment and asset operation entities to expand their businesses, thereby becoming more sustainable and self-sufficient. In 2023H1, the GRP of Xinjin District was RMB22.7 billion, an increase of 3.3%YoY.

Government's Willingness to Provide Support**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. The Company undertakes local public activities such as the construction of local infrastructure and resettlement housing projects. The Company also has a strong regional franchise right, and it is exclusively commissioned by the government to operate bus services in Xinjin District. In line with the development plan of the Xinjin District 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. The Company will conduct transit-oriented development (“TOD”) for its urban development, and will be responsible for the construction of Tianfu Intelligent Manufacturing Industrial Park and Digital Economy Industrial Park to attract high-value companies to invest in Xinjin District.

As the major infrastructure construction company in the district, XCID has important strategic significance for local economic development and public activities. We believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability for infrastructure projects

XCID undertakes the development of key public policy projects in Xinjin District, which mainly constitute major infrastructure construction, resettlement housing projects and industrial parks development. As of 30 June 2023, XCID has completed a large amount of infrastructure construction projects with a total invested amount of RMB6.0 billion and received a repurchase amount of RMB6.4 billion.

The Company has also demonstrated strong business sustainability through its sufficient public project reserves. As of 30 June 2023, the Company had 28 infrastructure construction projects under construction or planning, with an expected investment amount of RMB5.8 billion and an outstanding amount of RMB4.1 billion.

In addition, XCID provides bus services to support local public transportation needs in Xinjin District. As of 31 December 2022, the Company operated 25 transportation lines and 181 buses. Due to the increase in operating costs and the public welfare nature of the public transportation business, the Company continues to suffer losses.

Increasing exposure to commercial activities

In addition to public welfare activities, XCID is also involved in other commercial activities such as resettlement housing projects, gravel sales, parking, leasing, and construction quality testing businesses. We consider XCID’s commercial business exposure to be low, as its market-driven businesses account for around 20% of its total assets.

In terms of resettlement housing projects, as of 30 June 2023, XCID has completed 9 resettlement housing projects with a total invested amount of RMB6.1 billion and received a repurchase amount of RMB4.6 billion; there were 2 resettlement housing projects under construction, with a total investment amount of RMB988.0 million and an outstanding amount of RMB457.9 million. We expect the payback period of the resettlement housing projects to be relatively long, and the large construction project reserves may bring great pressure on the Company’s capital expenditure at the same time.

The Company’s gravel sales business is approved by the Bureau of Planning and Natural Resources in Xinjin, which has been given the right to mine sand in approved areas within Xinjin District. The sand is processed into commercial concrete and sold mainly to construction companies. Most of the counterparties are construction companies in Sichuan Province, and the top 5 customers accounted for 31.3% of the sales in 2022, the customer concentration decreased compared with the previous year (65.3%). The Company also conducts construction quality testing services for local construction companies. This business provides construction materials testing, air quality and environment testing, road construction testing, and construction consultation. Although the gross profit margin of this business is high, the small operating scale limits its contribution to the Company’s overall income. The Company’s parking income mainly comes from the management of temporary street parking. XCID has introduced a street parking management service provider through open tender. The service provider receives 80% of the after-tax income, while the Company receives 20%.

Since 2021, the Company has begun to undertake the construction of Tianfu Intelligent Manufacturing Industrial Park and Digital Economy Industrial Park, including the construction of standard workshops, as well as talented apartments and commercial properties in the Parks. The Company plans to operate the parks by bringing in digital economy industries and incubating start-up companies to obtain rental income and investment returns. In addition, the Company had several commercial property projects under construction, such as the Tianfu Mushan Digital New City Project. As of 30 June 2023, the total investment in the first and second phases of these projects is estimated to be RMB3.6 billion, with an outstanding amount of RMB3.2 billion. XCID's property leasing business is policy-driven and aims to attract investments from enterprises. It rents out office buildings and standard workshops to enterprises. Furthermore, the Company will also set up an industrial fund to invest in local enterprises. 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. Moreover, we consider the initial investments in the construction of the parks to be large, with relatively long construction and payback periods, which will exert certain investment pressure and debt repayment pressure on the Company.

Solid track record of receiving government support

XCID has a proven track record of receiving ongoing government support from Xinjin District Government, including government subsidies, capital injections and equity transfers. The Company also regularly receives repurchase payments for its infrastructure construction and resettlement housing projects. From 2020 to 2023H1, the Company received project payments of RMB11.0 billion. In addition, the Company received a paid-in capital of RMB510 million from Xinjin District SASAB in 2022. Considering the strategic role of XCID, we expect the Company will continue to receive support from Xinjin SASAB in the future.

Exhibit 4. Government Capital Support from 2020 to 2022

(RMB billion)	2020FY	2021FY	2022FY
Capital Injections	8.4	0.1	0.5
Equity Transfers	17.0	-	-
Total	25.4	0.1	0.5

Source: Company information, CCXAP research

High debt growth driven by a large number of construction projects and moderate asset liquidity

XCID has had high debt growth due to its debt-driven business expansion over the past few years. The Company's total debt increased from RMB18.7 billion at the end of 2021 to RMB25.5 billion in mid-2023, while its total capitalization ratio increased from 33.1% to 39.2% over the same period. As of 30 June 2023, the Company had 30 construction projects under construction or planning, with an expected investment amount of RMB5.9 billion and an outstanding amount of RMB4.1 billion. On top of that, the Company is building two industrial development parks with an estimated investment of approximately RMB3.6 billion, and an outstanding amount of RMB3.2 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a high debt growth for the next 12-18 months.

XCID has moderate asset liquidity. As of 30 June 2023, the Company's total asset consists mainly of inventories, investment properties and receivables, accounting for 83.1% of its total asset. Inventories are mainly undeveloped land and investment properties are mainly land use rights, while receivables are mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

Moderate access to financing channels

The Company's large investment needs could be partly supported by its financing channels. As of 30 June 2023, around 65.6% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB863.9 million. Around 17.8% of debt financing was provided by the debt capital market. In addition, the Company has expanded the financing channel to the offshore debt capital market since 2023. In May 2023, the Company issued an offshore bond of RMB707 million with a coupon rate of 3.8%. However, the Company has a certain exposure to high-cost non-standard financing, which accounted for 17.8% of its total debt. The overall financing cost of the Company was about 6.93%, while that of non-standard financing was about 8.38%.

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. XCID assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of the projects and close supervision during construction.

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

The consolidation of state-owned assets in Xinjin District is still in progress. Governance considerations are also important for XCID as it is subject to oversight and reporting requirements of the local government, reflecting its public policy role and status as a government-owned entity.

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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