

Credit Opinion

20 December 2023

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

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Chengdu Xingjin Construction Development & Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chengdu Xingjin Construction Development & Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g+

Our assessment of Jinjiang District Government's capacity to provide support reflects that Jinjiang District is one of the five core districts of Chengdu City, with stable economic growth and good fiscal strengths.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) regional franchising of public projects within the Third Ring Road of Jinjiang District; (2) high sustainability of the public projects; (3) good access to funding, with low financing cost; and (4) track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate exposure to commercial activities, with capital expenditure pressure and investment return volatility; and (2) rapid debt growth and moderate assets liquidity.

The stable outlook on XCDI'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 Jinjiang District.

Rating Drivers

- Regional franchising of public projects within the Third Ring Road of Jinjiang District
- High sustainability of public projects
- Track record of receiving government payments
- Moderate exposure to commercial activities
- Rapid debt growth and moderate asset liquidity
- Good access to funding

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 improved debt management.

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 higher commercial business risk and reduced government payments.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	40.3	71.5	75.6
Total Equity (RMB billion)	11.4	31.1	31.3
Total Revenue (RMB billion)	1.8	2.4	2.7
Total Debt/Total Capital (%)	70.8	54.6	56.9

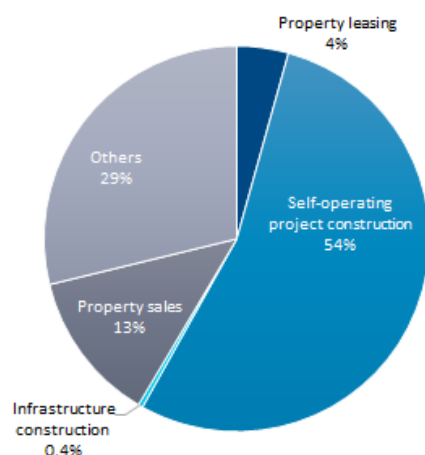
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

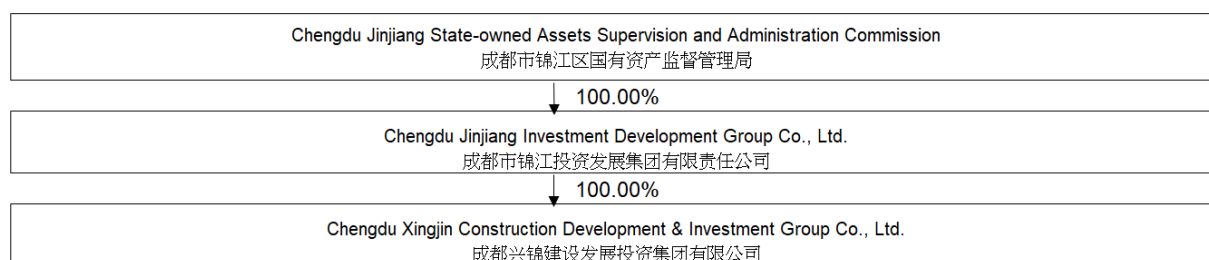
Founded in 2015, formerly known as Chengdu Hengrongjin Investment Co., Ltd., XCDI is one of the major Infrastructure construction and asset operation entities in Jinjiang District. The Company is primarily responsible for infrastructure construction, and urban renewal in Jinjiang District. Apart from public projects, the Company also derives revenue from commercial businesses such as property sales, shantytown renovation, regional comprehensive development, property leasing and capital lending. As of 31 December 2022, XCDI was wholly owned by Chengdu Jinjiang Investment Development Group Co., Ltd. ("JJID"), and ultimately controlled by the Jinjiang State-owned Assets Supervision and Administration Commission ("Jinjiang SASAC").

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 December 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Jinjiang District Government has a strong capacity to provide support for the Company given it is one of the five core districts of Chengdu City, with stable economic growth and good fiscal strengths.

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 6th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion in 2022, up 2.3% YoY. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion.

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. 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 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, while its general budgetary revenue amounted to RMB110.0 billion.

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

Jinjiang District is one of the five core districts of Chengdu City, and it is a traditional business and trade center area, as well as the political, economic, and cultural center of Chengdu City. Jinjiang District is driving regional development through the establishment of a "1+1+3" industrial system including the new economy, headquarters economy, commercial business, financial services, and cultural creativity. Relying on the pillar industries of modern business and trade, emerging finance, and digital media, Jinjiang's GRP increased from RMB 114.6 billion in 2020 to RMB130.4 billion in 2022, a YoY increase of 2.8%. Jinjiang District Government's general budgetary revenue was RMB9.4 billion in 2022. It maintains high fiscal stability, in which tax revenue accounted for more than 80% over the past three years. Jinjiang also has good fiscal self-sufficiency, with an average fiscal balance ratio of 142.9% over the past three years. In addition, Jinjiang District Government has a manageable debt profile, with outstanding government debt amounting to RMB4.1 billion, accounting for 3.1% of its GRP in 2022.

Exhibit 4. Key Economic and Fiscal Indicators of Jinjiang District

	2020FY	2021FY	2022FY
GRP (RMB billion)	114.6	126.1	130.4
GRP Growth (%)	2.0	7.2	2.8
General Budgetary Revenue (RMB billion)	8.3	9.0	9.4
General Budgetary Expenditure (RMB billion)	5.7	6.0	7.1
Local Government Debt (RMB billion)	3.0	3.1	4.1

Source: Statistic Bureau of Jinjiang District, CCXAP research

Government's Willingness to Provide Support

Regional franchising of public projects within the Third Ring Road of Jinjiang District

JJID is the most important modern city-integrated operator in Jinjiang District and the sole urban developer directly owned by the Jinjiang SASAC, which plays an essential role in urban development and public-related activities in Jinjiang District. The Company is the largest subsidiary of JJID by total assets, with a strong regional franchise within the Third Ring Road of Jinjiang District. The Company is responsible for infrastructure construction, urban renewal, and other public activities within the Third Ring Road of Jinjiang District. Considering the Company's high strategic significance to the development of Jinjiang District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

High sustainability of public projects

XCDI is responsible for the infrastructure construction projects within the Third Ring Road of Jinjiang District.

The Company has successfully delivered a series of large-scale infrastructure projects, public welfare facilities and a series of area improvement projects over the past few years, such as schools, parks and roads. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The entrusting party is usually the government department. The repurchase payment is calculated based on the construction cost plus an agreed return, typically 1.5%-5%. As of 31 December 2022, the Company had several infrastructure construction projects under construction or planning, with a total estimated investment amount of RMB3.1 billion and an outstanding amount of RMB2.2 billion.

We expect that the considerable projects in the pipelines can ensure the sustainability of the public policy business, but the overall project settlement cycle is generally long, and most of the funds need to be raised by the Company itself, which exerts large capital expenditure pressure on the Company.

Moderate exposure to commercial activities

In addition to public activities, XCDI is also involved in various commercial activities such as property sales, shantytown renovation, urban renewal, property leasing and capital lending. We consider XCDI's commercial business exposure to be medium.

XCDI is engaged in property development through the self-operated model, including the construction of resettlement housings, office buildings, residential properties, and commercial shops. Among them, part of the Company's resettlement housing will be sold to the demolished households involved in land acquisition and demolition. As of 31 December 2022, the Company had 7 major property development projects under construction or planning, with a total estimated investment amount of RMB15.6 billion and an outstanding amount of RMB6.6 billion. We expect that the repayment period of the property development project will be relatively long, and the debts formed by the property development may bring certain debt repayment pressure to the Company.

In addition, the Company is entrusted by other market-oriented operating entities to conduct shantytown renovation in Jinjiang District with self-raised funds. At the end of each year, the entrusting party settles with the Company based on a certain percentage of project investment cost plus expenses. As of 31 December 2022, the Company had 7 shantytown renovation projects under construction, with a total estimated investment amount of RMB18.4 billion and an outstanding amount of RMB7.9 billion.

The Company is also responsible for the urban renewal project in Jinjiang District with self-raised funds. As of 31 December 2022, the Company had 3 major urban development projects under construction, with a total estimated investment amount of RMB24.3 billion and an outstanding amount of RMB23.0 billion, exerting relatively large capital pressure. Fortunately, urban renewal projects are largely supported by special loans from policy banks and commercial banks. As of 31 December 2022, the Company obtained project loan credit of RMB19.1 billion from multiple banks.

XCDI possesses a large amount of high-quality state-owned properties, located in the central area of Chengdu City with high commercial value. These properties are obtained via purchases, self-construction, government allocation, and property rights exchanges. As of 31 December 2022, the Company had a total leasing area of 380.3 thousand square meters, providing stable rental income to the Company. In addition, the property leasing business has a high profit margin of 44.1% in 2022.

The Company also provides capital lending to holding companies or project companies established or held by

the Company, with relatively controllable risk, and received interest as a return. As of 31 December 2022, the Company lends a total amount of RMB2.1 billion mainly for property development and project construction.

Track record of receiving government payments

XCDI has a track record of receiving payments from the Jinjiang District Government. These payments take various forms, such as government subsidies and capital injections. In 2021, the local government injected capital of about RMB18.6 billion into the Company, mainly state-owned properties, significantly enhancing its capital strength. From 2020 to 2022, the local government has provided total subsidies of RMB360 million to the Company. XCDI's important strategic role, the government's ownership and tight control over XCDI reinforce our expectations that extraordinary government support would be extended if needed.

Exhibit 5. Track Record of Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	130	82	148
Capital Injections	-	18,645	-
Total	130	18,727	148

Source: Company information, CCXAP research

Rapid debt growth and moderate asset liquidity

With ongoing financing for its construction projects in recent years, XCDI has a rapid debt growth. The Company's total debt had increased from RMB27.6 billion at end-2020 to RMB41.3 billion at end-2022, and its total capitalization amounted to 56.9% in 2022. The Company's short-term debt pressure is manageable, as it maintained a good debt structure, with short-term debt accounting for around 17.6% of its total debt as of 31 December 2022. Given the Company's relatively large capital expenditure pressure from both public projects and commercial activities, we expect the Company will maintain a fast debt growth for the next 12-18 months.

Furthermore, XCDI has moderate asset liquidity. The Company's total asset mainly consists of receivables and inventories, which accounted for 71.0% of its total assets as of 31 December 2022. Receivables are mainly unreceived payments. Inventories are mainly investment costs for its construction projects, all of which are considered low liquidity.

Good access to funding

XCDI has good access to funding as mainly reflected by its good banking relationships and access to the debt capital market, with bank loans accounting for about 85% and bonds accounting for about 15% of its total debt at end-2022. The Company has sufficient liquidity, it held total credit facilities of RMB50.6 billion, with an unutilized amount of RMB16.0 billion as of the end of 2022. The Company has access to both onshore and offshore debt markets, with an average coupon rate of 4.86%. The Company's financing cost of bank loans was about 5.17%. In addition, the Company has very low reliance on non-standard financing.

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

XCDI is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jinjiang 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. XCDI 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.

Structural Consideration

XCDI's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its dominant position in the infrastructure construction in Jinjiang 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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