

Credit Opinion

29 April 2024

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

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Chengdu Xisheng Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Chengdu Xisheng Investment Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Chengdu Xisheng Investment Group Co., Ltd. ("CXIG" or the "Company") reflects Chengdu Pidu District Government's strong capacity and 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 leverage; 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 leverage 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 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

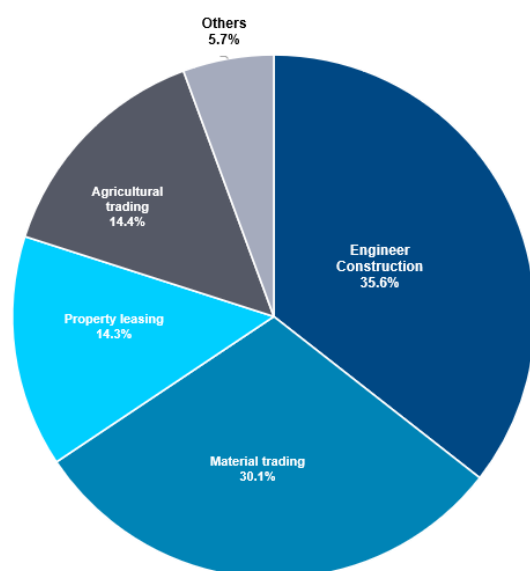
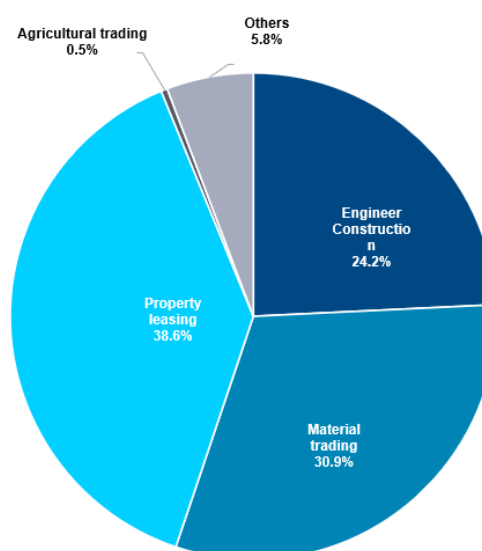
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	76.8	80.1	97.1	108.2
Total Equity (RMB billion)	31.2	31.7	38.7	38.8
Total Revenue (RMB billion)	2.0	2.1	1.9	1.8
Total Debt/Total Capital (%)	55.9	56.4	56.1	61.2

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

Source: Company data, 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 2023, the Company was wholly owned and ultimately controlled by Chengdu Pidū District State-owned Assets Supervision and Administration and Financial Bureau ("Pidū SASAFB").

Exhibit 1. Revenue Structure in 2022**Exhibit 2. Gross profit Structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Piddu 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 2023, Sichuan recorded a GRP of RMB6.0 trillion, with a YoY increase of 6.0%, ranking 5th in terms of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB522.9 billion in 2023, up by 13.3% 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 to RMB2.2 trillion in 2023, representing a YoY increase of 6.0%. The Chengdu government's general budgetary revenue amounted to RMB192.9 billion in 2023, a YoY increase of 12.0%. Its fiscal balance ratio was 74.6%, which was at a moderate level. Chengdu's debt burden is manageable. In 2023, Chengdu's outstanding government debt increased to RMB522.9 billion with an increase trend, accounting for 101.3% of its total fiscal revenue and 23.7% of its GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,991.7	2,081.8	2,207.5
GRP Growth (%)	8.6	2.8	6.0
General Budgetary Revenue (RMB billion)	169.8	172.2	192.9
General Budgetary Expenditure (RMB billion)	223.8	243.5	258.7
Local Government Debt (RMB billion)	404.3	464.1	522.9

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 2023, the GRP of Pidū District increased by 6% to RMB78.8 billion, ranking 9th in terms of GRP among 20 districts and counties in Chengdu City. Pidū District Government's general budgetary revenue increased from RMB5.4 billion in 2022 to RMB6.2 billion in 2023, of which tax revenue accounted for around 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 76.7% in 2023. The government fund income was once a crucial source of government fiscal strength but has dropped significantly in the past few years. (decreased from RMB3.6 billion in 2022 to RMB2.4 billion in 2023). In addition, Pidū District has a moderate debt profile, with a government debt to GRP ratio of 19.3% as of 31 December 2023. 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

	2021FY	2022FY	2023FY
GRP (RMB billion)	72.4	75.1	78.8
GRP Growth (%)	8.0	3.0	6.0
General Budgetary Revenue (RMB billion)	5.1	5.4	6.2
General Budgetary Expenditure (RMB billion)	7.0	7.9	8.1
Local Government Debt (RMB billion)	10.3	12.3	15.2

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 among the local state-owned enterprises. 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 has regional franchise in the construction of public policy projects, having successfully delivered

a series of large-scale infrastructure construction 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 Pidū District State-Owned Assets Investment Operation Company and Chengdu Xihui Investment Group Co., Ltd.

The Company has demonstrated strong business sustainability through its sufficient public project reserves, but exerting great capital expenditure pressure. The public projects undertaken by the Company are mainly completed via agency construction model. As of 30 September 2023, 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 RMB4.0 billion. The repayment amount of the infrastructure projects and resettlement housing was RMB1.5 billion as of 30 September 2023.

Moreover, the Company continues to conduct its shantytown renovation projects through a government purchase service model with the self-raised fund. As of 30 September 2023, the Company had 3 shantytown renovation projects under construction, with a total investment amount of RMB3.3 billion and an outstanding amount of RMB1.3 billion. The repayment amount of shantytown renovation projects is RMB922 million.

Overall, the repayment progress and funding of projects continuation shall be closely monitored, as the insufficient repayment has resulted in a high reliance on external financing to continue the construction work.

Medium exposure to commercial activities

In addition to public activities, CXIG is also involved in various commercial activities such as engineering construction, 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.

Engineering construction business is conducted via a general contracting model, in which the Company is responsible for the construction and management of the entire project but not the investment and financing of the projects. The Company has the first-level qualification for general contracting of construction projects, with business presence in Chengdu, Meishan, Suining, and Luzhou City. The projects under this segment are obtained via public bidding. As of 30 September 2023, the Company has 4 major projects under construction, with a total investment amount of RMB1.2 billion and an outstanding amount of RMB1.1 billion.

CXIG's property development business is market-oriented, as the Company is responsible for the construction of commercial housing projects and their subsequent sales. As of 30 September 2023, the Company completed 5 major property development projects, which have all been sold, with a total investment amount of RMB1.1 billion and received a purchase amount of RMB1.1 billion. The Company has 1 major property development project under planning, namely Pidū Smart Technology City Area Comprehensive Development Project. The Company and Poly Real Estate (Group) Co., Ltd. established 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 Pidū District. The upstream and downstream of

agricultural product sales are highly concentrated. As of 30 September 2023, the top 5 suppliers and customers accounted for 78.4% and 99.9% of the total supply and demand. In addition, the income of the storage of food and oil business is low, because it has certain public welfare nature. The agricultural product sales business has been in a state of low profit, with a gross profit margin of around 1%. Due to the weak economic fundamental and transportation disruptions, the revenue of agricultural product sales decreased from RMB306 million in 2021 to RMB270 million in 2022. 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 upstream and downstream of the business are relatively diversified, as the top 5 suppliers and customers accounted for 43.3% and 17.2% of the total supply and demand as of 30 September 2023. The Company also provides several commercial activities in Pidu 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 Pidu district, CXIG has a track record of receiving payments from the Pidu District government. These payments take various forms, such as government subsidies and capital injections. In 2022, the local government injected asset including sandstone, housing and car parks to the Company, with a total value of RMB6.6 billion. Over the same period, the local government also injected paid-in capital of RMB320 million and provided subsidies of RMB63 million. The Company also regularly receives repurchase payments for its public policy projects. In addition, the shantytown renovation projects under the government purchase service model are included in fiscal budget of Pidu District Government, so the repurchase payments are more stable. Given CXIG's important strategic role, we expect the Company will continue to receive support from the Pidu District Government in the future.

Increasing debt leverage and weak asset liquidity

CXIG's total debt had increased from RMB49.4 billion at end-2022 to RMB61.1 billion as of 30 September 2023, its total capitalization increased from 56.1% to 61.2% over the same period. In addition, the Company has a relatively high short-term repayment pressure. As of 30 September 2023, its short-term debt accounted for 33.5% of its total debt while the cash/short-term debt was 0.4x. The increase in debt was mainly attributable to the expansion of the project construction. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively high debt leverage for the next 12-18 months.

Furthermore, CXIG has weak asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 68.3% of its total asset as of 30 September 2023. 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 was relatively large amount of unreceived payments from the repurchased projects, we will pay attention to the payment collection.

Good access to funding

The Company has good access to the debt capital market and maintains a good relationship with large domestic banks. As of 30 September 2023, around 34.5% of the Company's debt financing was provided by domestic

banks. It held a total credit facility of RMB37.2 billion and available credit facilities of RMB18.6 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 bond. The debt capital market provides around 48.3% of the Company's debt financing. Large reliance on bond financing is vulnerable to fluctuations in onshore and offshore capital market. Around 17.2% 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 Pidū 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.

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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