

Credit Opinion

26 November 2024

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

Analyst Contacts

Jonathan Kwong +852-2860 7132

Credit Analyst

jonathan_kwong@ccxap.com

Waldo Li +852-2860 7137

Credit Analyst

waldo_li@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

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 ongoing economic growth.

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 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

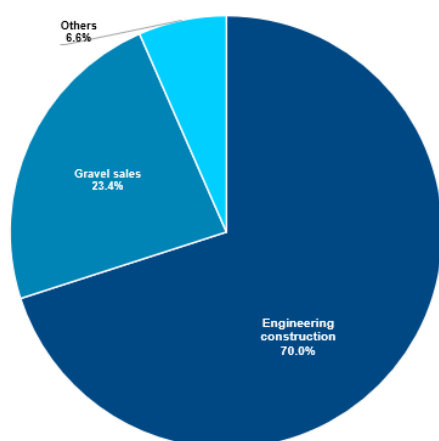
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	67.4	70.0	78.4	83.8
Total Equity (RMB billion)	37.9	38.7	39.1	39.2
Total Revenue (RMB billion)	1.7	1.9	2.1	1.6
Total Debt/Total Capital (%)	33.1	35.6	42.2	44.7

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

Source: Company information, 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 September 2024. 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 September 2024, 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 2024Q3

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 status as one of the most advanced districts in rural revitalization strategy in Sichuan Province, with ongoing economic growth.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a Gross Regional Product ("GRP") of RMB6.0 trillion, with a year-on-year ("YoY") increase of 6.0%, ranking 5th in terms of GRP among all provinces in China. The general budgetary revenue of Sichuan increased to RMB552.9 billion in 2023, up by 13.3% YoY. In 2024Q1-Q3, Sichuan recorded a GRP of RMB4.5 trillion, with a YoY increase of 5.3%.

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 23.7% of its GRP. In 2024Q1-Q3, the GRP of Chengdu City recorded a YoY increase of 5.2% and the general budgetary revenue slightly decreased by 1.7%.

Exhibit 2. 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

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 RMB46.9 billion in 2022 to RMB50.3 billion in 2023, with a YoY increase of 5.3%. Xinjin District Government's general budgetary revenue increased from RMB3.4 billion in 2022 to RMB3.7 billion in 2023. Its tax revenue was RMB2.0 billion, accounting for 54.0% of its general budgetary revenue. In addition, Xinjin District Government's debt has increased to RMB9.0 billion with an increase trend, with a government debt to GRP ratio of 17.9% as of 31 December 2023.

Exhibit 3. Key Economic and Fiscal Indicators of Xinjin District

	2021FY	2022FY	2023FY
GRP (RMB billion)	44.4	46.9	50.3
GRP Growth (%)	8.6	4.4	7.1
General Budgetary Revenue (RMB billion)	3.3	3.4	3.7
General Budgetary Expenditure (RMB billion)	4.5	5.8	5.9
Local Government Debt (RMB billion)	7.9	8.7	9.0

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 2024H1, the GRP of Xinjin District was RMB24.0 billion, an increase of 5.9%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. It will oversee the construction of the Tianfu Intelligent Manufacturing Industrial Park and Digital Economy Industrial Park in Xinjin District to attract high-value companies for investment purposes.

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 engineering construction projects

XCID undertakes large amount of key public policy projects in Xinjin District, which mainly constitute major

infrastructure construction, resettlement housing projects. We believe these projects are closely in line with the local development plan. The repayment progress of completed public projects is relatively good. As of 30 September 2023, the Company completed a large amount of infrastructure projects with a total investment amount of RMB6.3 billion and received repayment amount of RMB7.5 billion. The Company has also demonstrated strong business sustainability through its sufficient public project reserves. As of end-2023, the Company had 12 infrastructure construction projects under construction or planning, with an expected investment amount of RMB7.9 billion and an outstanding amount of RMB6.5 billion.

In addition, XCID provides bus services to support local public transportation needs in Xinjin District. As of 30 September 2023, the Company operated 44 transportation lines and 198 buses. Due to the increase in operating costs and the public welfare nature of the public transportation business, the Company continues to suffer losses and highly relies on government subsidies to make up for the operating losses.

Increasing exposure to commercial activities

In addition to public welfare activities, XCID is also involved in other commercial activities such as gravel sales, parking, self-operated projects, and construction quality testing businesses. We consider XCID's commercial business exposure to be low, as its market-driven businesses account for less than 15% of its total assets.

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. Most of the counterparties are construction companies in Sichuan Province. In 2023, the top 5 customers accounted for 92.9% of the sales, and the customer concentration increased compared with the previous year (31.3%). 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.

In addition, the Company also engages in the construction of self-operating projects (mainly industrial parks development), and the Company mainly achieves a fiscal balance through obtaining sales and leasing income from these projects. As of end-2023, the Company had 8 self-operated projects under planning, with total planned investment of RMB7.7 billion and uninvested amount of RMB5.2 billion. The flagship project is Tianfu Intelligent Manufacturing Industrial Park and Digital Economy Industrial Park. 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. 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 regularly receives repurchase payments for its infrastructure construction and resettlement housing projects. In 2023, the Company received government subsidies for its public transportation services and other projects. Over the same

period, the contributed capital of the Company increased by RMB78.0 million due to the injection from government. In addition, the Company received project special bonds of RMB38.8 million in 2023. Considering the strategic role of XCID, we expect the Company will continue to receive support from Xinjin SASAB in the future.

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 RMB21.4 billion at the end of 2022 to RMB31.6 billion as of 30 September 2024, while its total capitalization ratio increased from 35.6% to 44.7% over the same period. As of end-2023, the Company had 20 construction projects under construction or planning, with an expected investment amount of RMB15.6 billion and an outstanding amount of RMB11.7 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 September 2024, the Company's total asset mainly consisted of inventories, investment properties, and receivables, accounting for 85.4% of its total asset. Inventories are mainly undeveloped land, investment properties are mainly land use rights, and 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 September 2024, around 60.5% of the Company's debt financing was provided by domestic banks, with an available credit facility of RMB7.3 billion. Around 26.3% 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 2023, the Company issued three offshore bonds with total issuance amount of RMB1.2 billion and USD49.0 million. However, the Company has a certain exposure to high-cost non-standard financing, which accounted for 13.2% of its total debt.

Medium contingent risks arising from external guarantee

The Company bears certain risks arising from external guarantees. As of 31 December 2023, the Company had outstanding external guarantees of RMB10.4 billion, representing 26.6% of its net assets. All the external guarantee was provided to local state-owned enterprises, with manageable default risks, as they can received government support to withstand unfavorable market condition.

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.

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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656