

Credit Opinion

27 December 2024

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

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Chengdu Aerotropolis Industry Finance & Investment Development Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Chengdu Aerotropolis Industry Finance & Investment Development Co., Ltd.'s long-term credit rating to A_g-, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Chengdu Aerotropolis Industry Finance & Investment Development Co., Ltd. ("CAID" or the "Company") to A_g- from BBB_g+, with stable outlook. The rating upgrade reflects that the Company's strategic importance as the sole construction, development, and industrial investment entity in Chengdu International Airport Business District.

The long-term credit rating of CAID reflects Shuangliu District Government's very strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of Shuangliu District Government's capacity to support reflects its vital position in Chengdu City, given its good economic fundamentals and fiscal strength. Chengdu International Airport Business District is strategically important to the social and economic development of Shuangliu District.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strategic role as the major urban functional area development and transportation infrastructure construction entity in Shuangliu District; and (2) solid track record of receiving ongoing government payments. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) relatively large capital expenditure pressure; and (3) increasing debt with short-term repayment pressure.

The stable outlook on CAID's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in public policy projects in Shuangliu District.

Rating Drivers

- Strategic role as the major functional area developer and transportation infrastructure constructor in Shuangliu District
- Important status as the sole construction, development, and industrial investment entity in Chengdu International Airport Business District
- Solid track record of receiving ongoing government payments
- Medium exposure to commercial activities
- Increasing debt leverage with short-term repayment pressure
- Debt structure needs to be improved

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; and (2) changes in the Company's characteristics enhance local government's willingness to support, such as reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to support weakens; or (2) changes in the Company characteristics decrease the local government's willingness to support, such as reduced strategic significance.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	15.4	21.0	34.4	40.1
Total Equity (RMB billion)	10.8	11.3	20.2	20.6
Total Revenue (RMB billion)	1.8	2.0	3.0	1.4
Total Debt/Total Capital (%)	23.9	42.5	37.7	46.6

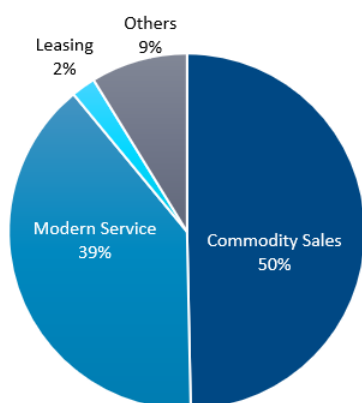
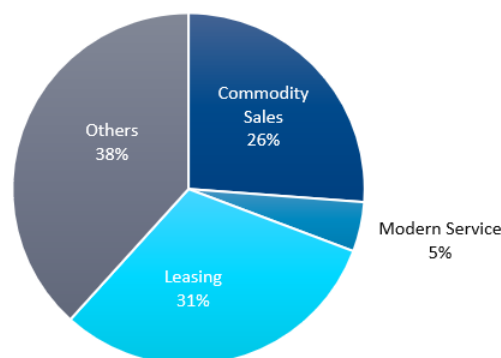
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information; CCXAP research

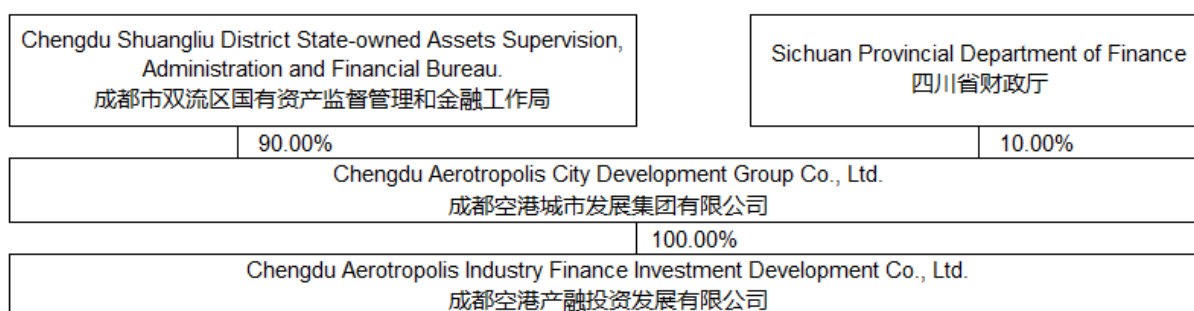
Corporate Profile

Founded in 2019, CAID is the major infrastructure and supporting facilities construction, functional area development, as well as the urban function operation entity in Shuangliu District. CAID is primarily engaged in functional area development, and transportation infrastructure construction projects in Shuangliu District. It also undertakes commercial activities such as self-operating projects, commodity sales, modern services, and car parking services.

As of 30 June 2024, the Company is wholly owned by Chengdu Aerotropolis City Development Group Co., Ltd. ("CACD"). Chengdu Shuangliu District State-owned Assets Supervision, Administration and Financial Bureau ("Shuangliu SASAFB"), and Sichuan Provincial Finance Department held 90% and 10% of CACD's shares, respectively. The Company is ultimately controlled by Shuangliu SASAFB.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross Profit structure in 2023**

Source: Company information, CCXAP research

Exhibit 3. Shareholding and organization chart as of 30 June 2024

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Shuangliu District Government has a very strong capacity to provide support for the Company given its good economic fundamentals and fiscal strengths.

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. In the first three quarters of 2024, Sichuan recorded a GRP of RMB4.5 trillion, with a YoY increase of 5.3%.

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

Shuangliu District was established in 2016 and is one of the central urban areas of Chengdu. Shuangliu District is where Chengdu Shuangliu International Airport is located. There are also national-level Tianfu New District, Chengdu Linkong Economic Demonstration Zone, and China (Sichuan) Free Trade Pilot Zone in Shuangliu District. Relying on the development of the three pillar industries of aviation economy, biomedicine, and electronic information, as well as important regional advantages, the economy of Shuangliu District has developed rapidly in recent years. In 2023, the GRP of Shuangliu District amounted to RMB119.7 billion, representing a YoY growth of 5.9% and accounted for 5.4% of the GRP of Chengdu City. Shuangliu District demonstrated ongoing fiscal growth, mainly reflected in general budgetary revenue. Its general budgetary revenue significantly increased from RMB9.6 billion in 2022 to RMB10.2 billion in 2023, ranking 5th among 20 districts and counties in Chengdu City. Meanwhile, due to the fluctuations in land market, the government fund revenue recorded a 20.5% YoY decline to RMB11.3 billion in 2023. Shuangliu District's fiscal balance ratio still maintain a relatively good self-sufficiency of 70.2% in 2023. Shuangliu District Government's outstanding debt amounted to RMB30.9 billion, with a government debt to GRP ratio of 25.8% as of 31 December 2023. In the first three quarters of 2024, Shuangliu District recorded a GRP of RMB87.0 billion, with a YoY increase of 4.5%.

Exhibit 4. Key Economic and Fiscal Indicators of Shuangliu District

	2021FY	2022FY	2023FY
GRP (RMB billion)	113.1	113.1	119.7
GRP Growth (%)	8.7	0.6	5.9
General Budgetary Revenue (RMB billion)	9.0	9.6	10.2
General Budgetary Expenditure (RMB billion)	11.2	13.1	14.6
Local Government Debt (RMB billion)	19.6	25.5	30.9

Source: Statistic Bureau of Shuangliu District, CCXAP research

Government's Willingness to Provide Support

Major urban functional area development and transportation infrastructure construction entity in Shuangliu District

There are two major Infrastructure Investment and Financing Companies ("LIIFC") in Shuangliu District, namely CACD and Chengdu Airport Xingcheng Investment Group Co., Ltd. ("CAXI"). CAXI is mainly engaged in infrastructure construction, industrial investment, as well as education. CACD is responsible for the functional area development, construction of transportation infrastructure and the operation of public transportation in Shuangliu District. The Company is the most important subsidiary of CACD, and the sole construction, development, and industrial investment entity in Chengdu International Airport Business District. The Company

also responsible for the area development in Jiujiang New Town Future Park Community Area, Huangang Road West Area and Shuangliu West Station Area.

Chengdu International Airport Business District is developed for promoting key industries in Shuangliu District, including airport services, international trade, airport tourism, airport retail, and high-end intelligent logistics. The development potential of Chengdu International Airport Business District provides great opportunities for the Company's business growth. The Company has a clear positioning of the construction of transportation infrastructure and affordable housing, as well as the urban functional development in Shuangliu District. With the progress of various major projects in the region either completed or nearing completion, such as the flagship project Chengdu Aerotropolis International Conference Center and Intelligent Technology Park (Phase I), we believe the strategic importance of the Company has strengthened. These projects are strategic important to the social and economic development of Shuangliu District, especially in the Chengdu International Airport Business District. Given its key role, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Entrusted by the government, CAID mainly focuses on the development of major transportation infrastructure construction projects and affordable housing projects in Shuangliu District with government funds. As of the 30 June 2024, the Company's completed public projects carried a total investment amount of RMB1.2 billion, while the amount to be repaid was RMB799.5 million. In addition, as of 30 June 2024, the Company had 4 infrastructure construction projects under construction or planning, with a total investment amount of RMB936.7 million and an uninvested amount of RMB545.4 million. All of the projects under construction are supported by government special bond funds.

Solid track record of receiving ongoing government payments

CAID has received ongoing support from the Shuangliu District Government including asset injections, capital injections, financial subsidies, and project grants. From 2023 to 2024H1, the Company received a total asset injection of around RMB8.5 billion, mainly infrastructure construction projects injected by CACD and lands injected by the Shuangliu District Government. Over the same period, the Company received a total of RMB916.4 million in government financial subsidies. In terms of capital injection, CAID received RM363.5 million during the same period. Given the strategic role of CAID in Shuangliu District, we expect the Company will continue to receive support from the Shuangliu District Government in the future.

Medium exposure to commercial activities

In addition to public activities, CAID is also involved in other commercial activities such as self-operating projects, commodity sales, modern services, and car parking services. We estimate that the Company has medium commercial exposure as the proportion of commercial business assets accounts for around 20% of its total assets.

In view of the large demand for development of Chengdu International Airport Business District, the Company has a large number of self-operating project construction. CAID engages in the construction of self-operating projects through self-raised funds, such as Aerotropolis International Conference Center, and Intelligent Technology Park (Phase II). The Company mainly achieves a balance between revenue and expense through leasing and sales income. As of 30 June 2024, the Company had 4 major self-operating projects under construction or planning, with an estimated total investment of RMB5.9 billion and an uninvested amount of RMB3.9 billion, exerting a relatively large capital expenditure pressure.

The Company's modern service business is to provide human resources services, China-Europe international train service, hotel operations and other services. More than 70% of the revenue of modern service business in 2023 was contributed by human resources services, which involves providing labor dispatch personnel mainly to the government agencies or institutions in Shuangliu Districts. However, the human resources segment entails business risk and will suffer from market volatility, as it is highly associated with the district economy and supply and demand of the working population. In 2024, the Company suspended its international air cargo charter flights and China-Europe international train services.

Commodities sales business has been the largest revenue contributor since 2023 with a total revenue of RMB1.5 billion, surpassing modern service segment. The commodities are mainly chemical commodities and refined oil. This segment faces certain concentration risk, as the top 5 suppliers and customers accounted for 68.2% and 76.5% of total procurement and sales, respectively. The commodity sales business generates effective supplemental income for the Company, but with a low gross profit margin of 3.1%. The Company's property leasing income mainly involves leasing bonded and logistics warehouses, with a good occupancy rate as of 30 June 2024. Moreover, the Company also operates car parking, depot rental and bus cleaning business, and vehicle inspection in Shuangliu District. However, the small operating scale limits the contribution to the Company's cash flow and revenue.

Increasing debt leverage with short-term repayment pressure

CAID's total debt had increased from RMB8.3 billion at end-2022 to RMB17.9 billion as of 30 June 2024. Its capitalization ratio increased from 42.5% to 46.6% over the same period. The Company faces certain short-term debt repayment pressure as short-term debt accounted for 39.3% of total debt and cash to short debt was 0.3x as of 30 June 2024. The restricted asset of the Company was RMB1.5 billion, which is 3.8% of its total asset. As of 30 June 2024, the Company had a total of 8 projects that are under construction or planning, with an expected total investment of RMB6.8 billion and an invested amount of RMB4.4 billion. Given the Company's relatively large capital expenditure on self-operating projects, we expect the Company will have fast debt growth and relatively high debt leverage for the next 12-18 months.

Moderate asset liquidity

CAID's asset quality is moderate, with may undermine its financing flexibility. The Company's total assets mainly consist of less liquid assets such as total receivables (mainly unreceived project payments from the local government), inventories (mainly undeveloped lands, and costs from urban construction projects), and investment properties (leased factories, office buildings, and residential properties), totally accounting for 57.1% of the Company's total assets as of 30 June 2024. Nevertheless, the large number of leasable properties can provide the Company with stable rental income.

Debt structure needs to be improved

The Company maintains a good relationship with large domestic banks. Around 69.1% of the Company's debt was provided by bank loans. The Company has a sufficient liquidity buffer given its relatively large amount of available credit facilities. As of 30 June 2024, it held a total credit facility of RMB18.3 billion and available credit facilities of RMB6.2 billion. However, the Company has a relatively high exposure to non-standard financing, such as financial leasing. As of 30 June 2024, non-standard financing accounted for 30.9% of its total debt. Nevertheless, the Company's funding cost decreased in 2024. The financing cost of bank loan decreased from 5.1% at mid-2023 to 4.85% as of 30 June 2024, while the funding cost of non-standard financing decreased

from 5.9% to 5.75% over the same period. In addition, the Company has not issued any bonds in the public debt capital market.

ESG Considerations

CAID 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. CAID's key operations are in material compliance with currently applicable national and local environmental, health and safety laws and regulations.

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

CAID's governance considerations are also important 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.

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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