

Credit Opinion

30 October 2023

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

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Xianyang Urban Development Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Xianyang Urban Development Group Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Xianyang Urban Development Group Co., Ltd. (“XYUD” or the “Company”) reflects Xianyang Municipal Government’s strong capacity to provide support, and extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the Xianyang Municipal Government’s capacity to support reflects its increasing economic and fiscal strength, but constrained by relatively weak fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic importance to local economic and urban development; (2) dominant position in the provision of public services; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities in property development and guarantee business; (2) ongoing debt growth driven by construction projects; and (3) medium contingent liabilities risk associated with external guarantees.

The stable outlook on XYUD’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 importance to local economic and urban development in Xianyang City.

Rating Drivers

- Strategic importance to local economic and urban development
- Dominant position in the provision of public services
- Good track record of receiving government support
- Medium exposure to commercial activities in property development and guarantee business
- Ongoing debt growth driven by construction projects
- Medium contingent liabilities risk associated with external guarantees

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 reduced operating risk to commercial activities and improved financing ability.

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's characteristics decrease the local government's willingness to provide support, such as reduced strategic significance or deteriorated financing ability.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	47.2	63.7	69.5
Total Equity (RMB billion)	12.1	24.0	23.4
Total Revenue (RMB billion)	2.0	2.9	3.7
Total Debt/Total Capital (%)	69.5	56.7	60.2

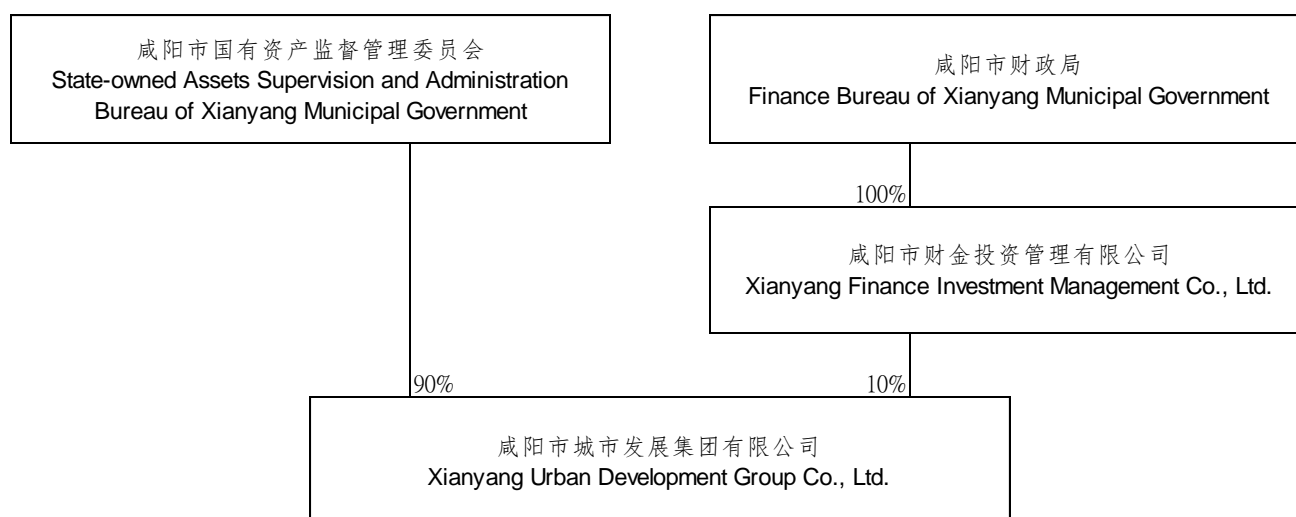
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

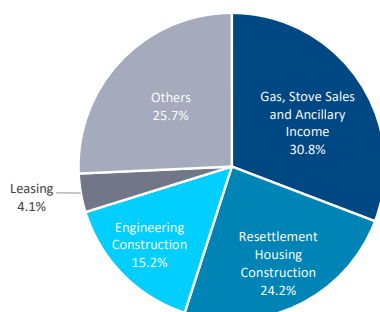
Founded in August 2022, XYUD is the largest local infrastructure investment and financing company ("LIIFC") for the urban construction and state-owned capital operation in Xianyang City after integrating local state-owned enterprises, including Xianyang Urban Construction Investment Holding Group Company ("XYUC") and Xianyang Natural Gas Corporation ("XYNG") in 2022. The Company is primarily responsible for local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation. The Company also engages in commercial activities, such as property development and leasing, equity investment, trading, engineering construction, as well as guarantee business. As of 31 December 2022, the Xianyang Municipal Government held 90% of shares of XYUD through the State-owned Assets Supervision and Administration Bureau of Xianyang Municipal Government and 10% of shares through Xianyang Finance Investment Management Co., Ltd.

Exhibit 1. Shareholding chart as of 31 December 2022



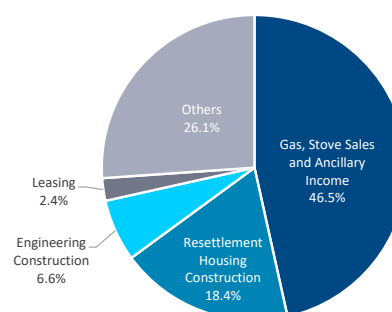
Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 3. Gross Structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Xianyang Municipal Government has strong capacity to provide support for the Company, given its increasing economic and fiscal strength, but constrained by relatively weak fiscal metrics.

Xianyang City is located in the middle of the Guanzhong Plain of Shaanxi Province and is a strategic city in the west of China. Xianyang City has formed a large transportation pattern with highways, railways, and aviation, which is one of the cities with the most developed transportation in the west of China. Xianyang City has rich mineral resources, and its coal reserves are estimated to be the second largest in Shaanxi Province. As the important industrial base in China's western region, it has developed seven pillar industries, including energy and chemical, equipment manufacturing, food, building material, medicine, textiles and clothing, and electronic.

In 2022, Xianyang City recorded GRP of over RMB281.8 billion, representing a year-over-year ("YoY") growth of 4.4% and ranking 3rd in Shaanxi Province by GRP. Xianyang City recorded continuous economic growth in recent three years, and its general budgetary revenue increased from RMB9.1 in 2020 to RMB11.6 in 2022. It also has good fiscal stability with tax income contributing over 70% of the general budgetary revenue over the past three years. However, the fiscal metrics of the Xianyang Municipal Government were relatively weak. In

2022, the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 23.5%, which requires the support from upper-tier government for fiscal balancing. The transfer income from upper-tier government was RMB34.8 billion in 2022, accounting for 70.7% of general budgetary expenditure. As of 31 December 2022, the outstanding government debt of Xianyang Municipal Government was RMB43.3 billion, accounting for 15.4% of its GRP and increasing by RMB9.5 billion from previous year.

Exhibit 4. Key economic and fiscal indicators of Xianyang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	220.5	258.1	281.8
GRP Growth (%)	0.1	8.5	4.4
General Budgetary Revenue (RMB billion)	9.1	10.8	11.6
General Budgetary Expenditure (RMB billion)	41.4	42.9	49.3
Local Government Debt (RMB billion)	26.8	33.8	43.3

Source: Statistics Bureau of Xianyang City, CCXAP research

Xianyang High-tech Industrial Development Zone ("Xianyang HIDZ") was established in May 1992 and upgraded to national-level High-tech Industrial Development Zone in August 2012. Xianyang HIDZ is the only national-level display device industrial park in western China. Xianyang HIDZ is located in the west of Xianyang City, with area of 123.39 square kilometers. Xianyang HIDZ focuses on the development of four leading industries, including electronic display, high-end equipment manufacturing, biomedicine, and new synthetic materials. In 2022, the total output value of industrial enterprises above designated size was RMB44.4 billion, representing a YoY decrease of 9.73%.

Government's Willingness to Provide Support

Strategic importance to local economic and urban development

As the most important LIIFC under the control of the Xianyang Municipal Government, the Company plays dominant role in promoting local urban construction and state-owned capital operation. XYUD is responsible for various public activities, including local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation.

The Company's infrastructure construction business mainly focuses on Xianyang High-tech Industrial Development Zone ("Xianyang HIDZ") and districts and counties of Xianyang City such as Wugong County, Qian County, Yongshou County and Binzhou City. XYUD was in charge of funding raising and construction for the infrastructure projects and resettlement housing projects. Meanwhile, the Company signed the "*Regional Development Cooperation Framework Agreement*" with the Management Committee of Xianyang HIDZ, and the land transfer income of industrial parks in Xianyang HIDZ would be repaid to cover the Company's investment costs. As of 31 December 2022, the invested amount of XYUD in Xianyang HIDZ was around RMB9.5 billion and government payment was only RMB1.2 billion. The Company also signed an agency construction contract or agreement with entrusting party for the infrastructure projects in districts and counties of Xianyang City. The entrusting party would pay the Company the construction cost plus a certain markup. The Company will undertake urban renewal projects in Xianyang City with an estimated investment amount of more than RMB17 billion in the future. Urban renewal projects would be supported by government special bond and bank special loans, which may mitigate the Company's expenditure pressure.

XYUD also engages in resettlement housing construction in Xianyang City, especially Xianyang HIDZ. As of 31 December 2022, there were 5 key shantytown renovation projects under construction, with an invested amount

of RMB10.8 billion. The fund balancing of shantytown renovation projects in Xianyang HIDZ achieves by land transfer income or selling the remaining housing at market price. The Company also signs government purchase of services agreement with local government for part of projects, the purchase price includes demolition and resettlement costs, construction costs, financing costs and certain profits.

In addition, XYUD undertakes the policy role to promote the stability of local economy and people's livelihood. The Company has assisted to manage the fund for ensuring timely delivery of presold homes on behalf of the local government. The private-owned real estate developers in operating difficulties would apply the special fund support for reviving stalled property projects from policy banks. After successful approval, the policy bank would deliver the fund to XYUD. The Company would transfer the fund to the real estate developers according to the construction progress of stalled property projects.

Dominant position in the provision of public services

XYUD provides essential public services in Xianyang City, including gas supply and bus service. The Company provide gas supply in urban area and majorities of counties in Xianyang City through franchising. The Company's medium and high voltage pipeline network in operation has basically covered the entire Xianyang City. It is the sole urban gas supplier in Xianyang City and the second largest municipal level gas supplier in Shaanxi Province. As of 31 December 2022, AYUD provided gas supply to residential and commercial customers with pipe network length of around 1,658 kilometers, serving over 610 thousand residential users and 2.7 thousand non-resident users.

Also, XYUD is the sole public transportation operator in Xianyang City, providing bus service via its subsidiary, Xianyang Public Transport Group Company. As of 31 December 2022, the Company had 769 public vehicles operating in 51 routes, with the amount of annual transported passengers reaches approximately 104 million. However, due to the public nature of this business and relatively high costs of labors and operating, the cost of this business was higher than the revenue and the Company recorded successive losses in recent years. The local government provides subsidies for bus service annually to support its ongoing operation.

Medium exposure to commercial activities in property development and guarantee business

XYUD has medium exposure to commercial activities which includes property development, equity investment, trading, engineering construction, property leasing, as well as guarantee business. The certain portion of equity investment in listed companies may bring more investment risks driven by the fluctuation of stock prices. Moreover, the Company is assisting in the implementation of the local policy of ensuring timely delivery of presold homes and exposes to certain recovery risk due to on-lending to private-owned property developers. The property developers provide collateral with value in excess of borrowing.

The Company's equity investment business aims to promote industrial development in Xianyang City. The portfolio of equity investment mainly includes Ligeance Aerospace Technology Co., Ltd. (Stock Code: 000697.SZ, "Ligeance Aerospace") and Irico Display Devices Co., Ltd. (Stock Code: 600707.SH, "Irico Display"). Irico Display is one of the most competitive companies in the field of display devices in China. Irico Display's main business is the research, development, production and sales of liquid crystal substrate glass. Ligeance Aerospace's main business is manufacturing and processing of various aircraft-related precision parts and structural parts. As of 31 December 2022, the Company held the stocks of Irico Display and Ligeance Aerospace with book values of RMB1.3 billion and RMB65 million, respectively. At the end of 2022, XYUD pledged a total of 157 million shares of Irico Display, accounting for 49.95% of its shareholding in Irico Display and using for repay the debts. The liquidity of shares of Irico Display is moderate. However, Ligeance Aerospace bears

delisting risk due to the three consecutive years of operating losses. The certain portion of equity investment in listed companies may bring more investment risks driven by the fluctuation of stock prices.

XYUD also engages in property development business. As of 31 December 2022, there were 5 major commercial housing projects under construction, with a total investment amount of RMB6.6 billion and invested amount of RMB6.1 billion. However, the selling rate of commercial houses was relatively low and the cumulative sales receivables were RMB1.5 billion. The Company also adopts a cooperative development model for secondary land development. Under cooperative development model, the Company established project companies with other property development enterprise to conduct property development. XYUD has not yet received investment income from the cooperative development projects. During the downturn of China's property market, investment in real estate projects would be exposed to more uncertainties during construction, sales, and operation and financial risks.

XYUD conducts engineering construction business with multiple construction qualifications. The Company has one Class A General Construction Contractor of Construction Works, four Class B Construction Contractor qualifications, and four Class C Construction Contractor qualifications. The Company mainly provide engineering construction services for various real estate companies through external bidding. In 2022, the value of the newly signed contract was RMB649 million and 59 projects were completed. Engineering construction business contributed revenue of RMB566 million, accounting for 15.2% of its total revenue in 2022. However, the profit level of this business is relatively low due to the fierce competition in the construction industry. Meanwhile, the downturn of China's property market would bring more uncertainties for this business.

The Company provides guarantee business to local small, medium, micro and rural enterprises through its subsidiary. The guarantee fee charged by the Company would not exceed 1.5%. The outstanding amount of guarantee and compensation amount have continued to expand in recent years. The Company has filed lawsuit against the companies which incurred compensation and won the lawsuits. We should pay attention to the process of recovering of compensation. As of 31 December 2022, the outstanding amount of guarantee and the outstanding amount of compensation for guarantee business was RMB3.2 billion and RMB154 million, respectively.

Good track record of receiving government support

XYUD has a good track record of receiving support from Xianyang Municipal Government in various forms, such as equity transfer, government subsidies, special funds, and capital injections. In 2022, the local government transferred the equity of major state-owned enterprises to the Company, such as XYUC and XYNG, which enlarged its business scope and capital strength. Thanks to the local government's injection of cash and assets, XYUD's registered capital and capital reserve increased to RMB7.6 billion and RMB9.1 billion respectively at the end of 2022. From 2020 to 2022, XYUD received government subsidies with a total amount of RMB2.3 billion. The local government also provides government payment to support the Company's infrastructure construction business. As the government payment is highly related with the land transfer market in Xianyang HIDZ, the payment would have more uncertainties especially during the downturn of land market.

Given its strong public policy role and dominant role in urban development and state-owned asset operation of Xianyang City, we expect government support for XYUD will remain good over the next 12 to 18 months.

Ongoing debt growth driven by construction projects

XYUD demonstrated ongoing debt growth driven by continuous investment in construction projects. The

Company's total debt increased from RMB27.2 billion in 2020 to RMB35.1 billion in 2022; while its total capitalization ratio decreased from 69% in 2020 to 60% in 2022, which was still relatively high. The exposure of short-term debt was moderate, accounting for 25.8% of its total debt. However, the non-restricted cash to short-term debt ratio was only around 0.3x, which could not fully repay the short-term debt. And the relatively slow government payment would increase the financial burden. According to the Company's business plan, XYUD will undertake urban renewal projects in Xianyang City with an estimated investment amount of more than RMB17 billion in the future. Although parts of urban renewal projects can be supported by government bonds, the Company still need external financing to fill the funding gap. Considering the large uninvested amount of infrastructure projects and resettlement housing projects under construction and planning, we estimate the Company will continue to rely on external financing such as bank loans and its total debt burden would further increase over the next 12-18 months.

Access to different funding channels

XYUD has access to different funding channels, mainly in bank loans and direct issuances. The Company has established long-term borrowing relationships with large domestic banks, such as China Development Bank, Agricultural Development Bank of China, and Ping An Bank Co., Ltd. As of 30 June 2023, the Company held total bank facilities of RMB22.2 billion and available bank facilities of RMB6.2 billion. The Company receives high acceptance in domestic bond market. From January 2022 to June 2023, the Company raised the amount of more than RMB9.6 billion from different products in the onshore capital market, with coupon rates ranging from 4.8% to 6.5%. Its exposure to non-standard financing was moderate, accounting for lower than 15% of total debt. The non-standard financing mainly included financial leasing and trusts. However, the relatively high cost of non-standard financing may cause certain refinancing pressure and financial burden.

Medium contingent liabilities risk associated with external guarantees

XYUD bears medium contingent liabilities risk resulting from its external guarantees for state-owned enterprises. As of 31 December 2022, the Company's external guarantees amounted to RMB10.0 billion, accounting for around 43% of its net assets. Some guaranteed enterprises have provided counter-guarantee measures, such as land, factory buildings, and equipment offsets. The outstanding number of guarantees to Xianyang Caihong Optoelectronics Technology Co., Ltd. ("Xianyang Caihong") and Xianyang Financial Holding Group Co., Ltd. ("XYFH") accounts for 44.8% and 33.3% of its external guarantees. Irico Display holds 99.8% shares of Xianyang Caihong and XYFH is the major shareholder of Irico Display. The guarantee to Xianyang Caihong mainly aims to assist the transformation and upgrading of Xianyang City's electronic information industry, and is used for the financing of Xianyang Caihong's LCD panel project. Xianyang Caihong's main business includes research, development, design and manufacturing of LCD panels, XYFH is state-owned capital investment company, which is established to raise fund and provide post-investment management for key industrial investment projects. However, at the end of 2022, the net losses of Xianyang Caihong and XYFH were RMB2.7 billion and RMB2.8 billion. Relatively large guarantee exposures may increase the Company's contingent liability risks.

ESG Considerations

XYUD faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure in Xianyang City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

XYUD's governance considerations are also material as the Company is subject to oversight by Xianyang Municipal Government and has to meet several reporting requirements, 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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