

Credit Opinion

28 March 2024

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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Shaanxi Xixian New Area Airport New City Development & Construction Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Shaanxi Xixian New Area Airport New City Development & Construction Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Shaanxi Xixian New Area Airport New City Development & Construction Group Co., Ltd. (“ANCD” or the “Company”) reflects (1) Xixian New Area Government’s very strong capacity to provide support; and (2) the local government’s relatively high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the local government’s capacity to provide support reflects Xixian New Area’s status as one of 19 state-level new areas with sound fundamentals, but is constrained by its high debt burden of government and local state-owned enterprises (“SOEs”).

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategic importance in the infrastructure construction and affordable housing development of Airport New City, with sufficient project reserves; (2) track record of receiving government supports.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) high debt leverage with large capital expenditure pressure; and (3) high contingent liability risk arising from large external guarantees to local SOEs.

The stable outlook on ANCD’s rating reflects our expectation that Xixian New Area Government’s capacity to provide support will remain stable, and the Company will maintain its significant strategic position in the development of Airport New City.

Rating Drivers

- Strategic importance in the infrastructure construction and affordable housing development of Airport New City, with sufficient project reserves
- Medium exposure to commercial activities
- Track record of receiving government supports
- High debt leverage with large capital expenditure pressure
- Moderate access to funding with certain exposure to non-standard product financing
- High contingent liability risk arising from large external guarantees to local SOEs

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xixian New Area Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management or increasing financing ability or reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Xixian New Area Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or increased exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	43.8	50.0	60.7	62.8
Total Equity (RMB billion)	10.4	10.7	17.0	17.0
Total Revenue (RMB billion)	4.5	4.9	5.1	3.3
Total Debt/Total Capital (%)	75.5	77.3	74.5	75.9

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

Source: Company data, CCXAP research

Corporate Profile

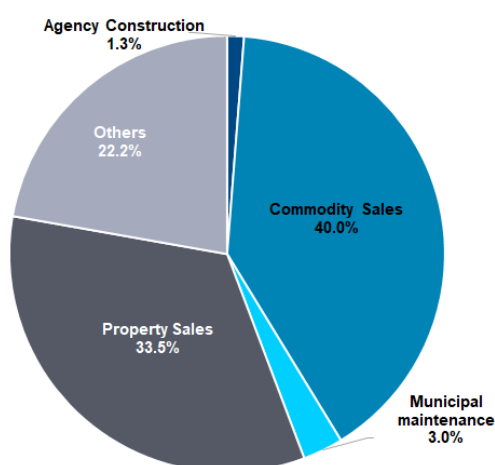
Founded in 2011, ANCD is one of the key local infrastructure investment and financing company ("LIIFCs") of Xixian New Area and plays a significant role in the development of Airport New City. As the most important and largest LIIFC in Airport New City in terms of total assets, the Company mainly engages in infrastructure construction and affordable housing construction. It also engaged in commercial businesses such real estate development, self-owned projects construction and operation, commodity sales, and leasing. As of 30 September 2023, the Development and Construction Management Committee of Xixian New Area of Shaanxi Province ("Management Committee of Xixian New Area") indirectly held 51% of ANCD's shares through Shaanxi Xixian New Area Development Group Co., Ltd. ("XXDG"), while the Management Committee of Airport New City of Xixian New Area of Shaanxi Province ("Management Committee of Airport New City") held 49% of its shares. The Management Committee of Xixian New Area was the ultimately controller of ANCD.

Exhibit 1. Shareholding chart as of 30 September 2023



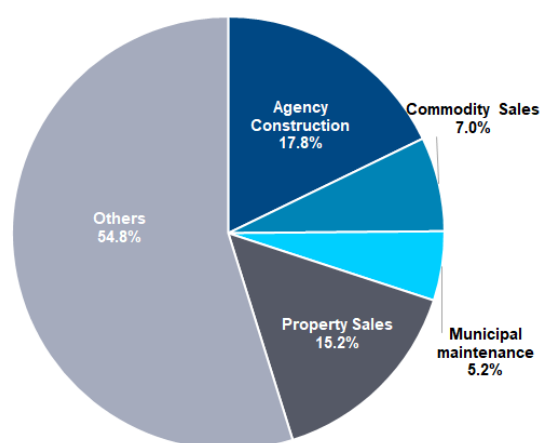
Source: Company data, CCXAP research

Exhibit 2. Revenue structure in 2022



Source: Company data, CCXAP research

Exhibit 3. Gross profit structure in 2022



Rating Considerations

Government's Capacity to Provide Support

We believe that the Xixian New Area Government has very strong capacity to provide support for the Company, given its status as one of 19 state-level new areas with sound fundamentals, but is constrained by its high debt burden.

Shaanxi Province has a relatively stable economic growth, providing a good support for the industrial development of Shaanxi Province. Shaanxi Province is located in the hinterland of China, with advantageous geographical location to serve as a bridge between the eastern and western regions of China. Meanwhile, Shaanxi Province is also an important transportation hub in China, with a well-developed high-speed rail network and expressway network. With the good transportation and location advantages, Shaanxi Province's economic strength improved steadily with general regional product ("GRP") increasing from RMB2.6 trillion to RMB3.3 trillion from 2020 to 2022, ranking 14th among all provinces in China. Shaanxi Provincial Government's fiscal strength also improved along with the economic growth. In 2022, the general public budgetary revenue of Shaanxi Province amounted to RMB331.2 billion. In 2023, Shaanxi Province's GRP was recorded at RMB3.4 trillion, representing a year-over-year ("YoY") increase of 4.3%.

Xi'an City is the provincial capital of Shaanxi Province and is located in the center of Shaanxi Province. It is also a Vice-provincial City and a National Central City approved by the State Council. On the back of its geographical

advantages, Xi'an City has developed six pillar industries, including electronic information manufacturing, automobiles, aerospace, high-end equipment manufacturing, new materials and new energy, as well as biomedicine. Xi'an City is the biggest city in Shaanxi Province in terms of economic size and its GRP ranked first in Shaanxi Province over the past five years. In 2022, Xi'an City recorded GRP of over RMB1.1 trillion, representing a YoY growth of 4.4% and accounting for approximately 35% of Shaanxi Province's GRP. It also has good fiscal stability with tax income contributing to over 70% of the general budgetary revenue over the past three years. However, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 53.0% in 2022, which was at a relatively weak level. Xi'an City also had a relatively high debt burden as its outstanding government debt was RMB362.6 billion as of 31 December 2022, accounting for 31.6% of its GRP. In 2023, Xi'an City recorded GRP of RMB1.2 trillion, a YoY increase of 5.2%.

Exhibit 4. Key economic and fiscal indicators of Xi'an City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,002.0	1,068.8	1,148.7
GRP Growth (%)	5.2	4.1	4.4
General Budgetary Revenue (RMB billion)	72.4	85.6	83.4
General Budgetary Expenditure (RMB billion)	134.8	147.5	157.3
Local Government Debt (RMB billion)	281.0	323.1	362.6

Source: Statistics Bureau of Xi'an City, CCXAP research

Xixian New Area is a state-level new area located between Xi'an City and Xianyang City. It was established by the Shaanxi Provincial Government in 2011 and became the seventh state-level new area in 2014 with the approval of the State Council. It is strategically positioned as the new modern center of Xi'an City, the new engine of the western development, an important fulcrum of the Silk Road Economic Belt, as well as the national experimental area for innovative urban development. From 2020 to 2022, Xixian New Area's GRP increased from RMB61.3 billion to RMB62.5 billion. However, the local government's general budgetary revenue sharply decreased to RMB5.9 billion in 2022, due to the reduction in tax revenue resulted by the government tax refund policy. Meanwhile, its fiscal balance ratio significantly decreased to 57.6% from 70.7% in 2021. The average fiscal balancing ratio over the past three years was 63.7%. Moreover, Xixian New Area has a relatively high debt burden, its outstanding government debt amounted to RMB89.6 billion as of end-2022, accounting for about 143.4% of GRP. In addition, there are numbers of LIIFCs in Xixian New Area, and the scale of outstanding debt of the local SOEs is large, causing the overall regional debt level remains high.

Exhibit 5. Key economic and fiscal indicators of Xixian New Area

	2020FY	2021FY	2022FY
GRP (RMB billion)	61.3	65.3	62.5
GRP Growth (%)	7.2	3.7	3.5
General Budgetary Revenue (RMB billion)	8.4	10.6	9.5
General Budgetary Expenditure (RMB billion)	13.4	15.1	16.5
Local Government Debt (RMB billion)	65.6	72.5	89.6

Source: Xixian New Area Government, CCXAP research

The Airport New City is one of the five regions and is located in the northwest of the Xixian New Area. The Airport New City was approved as a national-level airport economic demonstration zone in 2018. It is positioned as the transportation and logistics hub and air gateway of Greater Xi'an. Leveraging its geographical advantages, the Airport New City aims to develop three major airport industry clusters, including advanced manufacturing

industry, aviation hub support industry, and high-end airport service industry. In 2022, the Airport New City's GRP was recorded at RMB5.7 billion. Affected by the tax refund policy in 2022, the general budgetary revenue of Airport New City was RMB1.0 billion, indicating a higher reliance on fiscal support from higher-tier government.

Government's Willingness to Provide Support

Strategic importance in infrastructure construction and affordable housing development of Airport New City, with sufficient project reserves

As an important LIIFC in Airport New City, ANCD plays a strategic role in infrastructure construction and affordable housing development of Airport New City. These projects could promote the local economic development and improve the living quality of local people. Considering its large project reserves, we believe the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

ANCD carries out infrastructure construction projects mainly through agency construction mode, which mainly include construction of roads. Under agency construction mode, the Company signs an entrusted construction contract with Management Committee of Airport New City and takes responsibility for fundraising for infrastructure construction projects. Management Committee of Airport New City usually pays ANCD construction costs plus 5% markup. As of 30 September 2023, the Company has completed a series of infrastructure projects, with a total invested amount of RMB9.2 billion. Meanwhile, there was a large number of projects are under construction, with an uninvested amount of more than RMB10 billion. Large reverses in hand ensures the sustainability of the infrastructure construction business. However, they will also bring large capital expenditure pressure to the Company.

ANCD also actively participates in affordable housing development in Airport New City through self-construction mode and agency construction mode. Under self-construction mode, the Company signs the Project Commission Service Agreement with the Management Committee of Airport New City. ANCD is charge of financing and construction of the projects, and the local government would repurchase the affordable housing and pay the project construction cost plus certain markup in return to the Company after examination of the project. As of 30 September 2023, the Company had 15 projects under construction under self-construction mode, with uninvested amount of RMB18.6 billion, exerting high capital expenditure pressure. Under agency construction mode, ANCD signs the Project Construction Management Agreement with the Management Committee of Airport New City. The local government is charge of the financing of affordable housing projects and would pay the Company a project construction management fee based on 5% of the construction cost. As of 30 September 2023, the Company had 5 projects under construction under agency construction mode, with a total investment amount of RMB8.2 billion.

Medium exposure to commercial activities

ANCD also engages in commercial activities including real estate development, self-owned projects construction and operation, commodity sales, and leasing. Based on our assessment, ANCD's exposure to commercial activities is medium with assets accounting for around 30% of total assets as of 30 September 2023. However, with the ongoing investment in real estate projects, we expect its exposure to commercial activities would increase especially during the downturn of the real estate market.

ANCD participates in real estate development business in Airport New City. As of 30 September 2023, ANCD had completed one commercial housing project, most of which was sold out. Meanwhile, there were 3 commercial residential housing and 1 talent apartment under construction, with a total investment amount of RMB6.6 billion and uninvested amount of RMB4.1 billion, which may expose the Company to certain business

risks. Moreover, during the downturn of China's property market, the fund balancing would suffer from high volatility due to the uncertainty of construction and sales progress.

ANCD also takes the responsibility to attract investments and promote the development of local industries by participating the self-owned projects construction and operation, mainly including industrial parks and commercial office buildings. The Company would achieve fund balancing through selling and leasing after the projects are completed. As of 30 September 2023, the Company had 6 self-owned projects under construction and planning, with a total investment amount of RMB7.9 billion and uninvested amount of RMB4.5 billion. ANCD mainly relies on external financing for these self-operated projects, which would further increase ANCD's capital expenditure burden.

In addition, ANCD conducts commodity sales business through its subsidiaries, which has generated supplementary income but relatively low gross profit to the Company. The main products of commodity sales business are dairy products, electrical appliances, packaging materials, automobile, and non-ferrous metals. ANCD would provide payment periods to the customers, normally less than three months, which could increase the Company's exposure to recovery risk. The Company also bears certain concentration risk from its downstream customers. In 2022, the top 5 customers accounted for 56% of its total sales. Moreover, the Company started imports and exports business of nuts and juice in 2023, which may expose the Company to certain currency exchange risk.

Track record of receiving government supports

As the most important and largest LIIFC in Airport New City, the Company has received comprehensive supports from the government, in terms of asset and capital injections, project repayments, and operating subsidies. In 2022, the Company received capital injection of RMB2.9 billion in cash from the Management Committee of Airport New City, substantially enhancing ANCD's capital strength. ANCD also has a good track record of receiving government payments. From 2020 to 2022, the Company continuously received operating subsidies from the local government with a total amount of around RMB475 million. From 2020 to 2023Q3, the Company also received project repayment for its infrastructure construction and affordable housing projects of RMB2.9 billion. Moreover, the local government provided government special-purpose bonds of RMB1.8 billion to ANCD to support its public-related activities. Overall, we expect the local government would continuous to provide government supports to ANCD in the next 12-18 months given its significant strategic position role in the development of Airport New City.

High debt leverage with large capital expenditure pressure

ANCD demonstrated ongoing debt growth and high debt leverage. As of 30 September 2023, the Company's total debt increased to RMB43.2 billion from RMB31.4 billion as of end-2020 driven by continuous investment in construction projects. Meanwhile, the Company has maintained high debt leverage, its capitalization ratios were over 70% over the past three years. As of 30 September 2023, ANCD's total capitalization ratio was recorded at 75.8%. At the same time, the Company's short-term debt was RMB17.7 billion, accounting for 40.9% of its total debt. Moreover, its cash to short-term debt ratio was only 0.1x, indicating certain short-term debt repayment pressure. As of 30 September 2023, the Company had relatively large future investment in key projects including infrastructure construction projects, affordable housing projects, property development projects, and self-owned projects. We expect the Company's total debt would further increase and its debt leverage will be maintained at a high level in the next 12 to 18 months.

In addition, ANCD's asset liquidity was relatively weak. As of 30 September 2023, the Company's inventories,

account receivables, and investment properties accounted for around 80% of the total assets. The Company's inventories accounted for 57.8% of total assets and mainly include the cost of infrastructure construction and affordable housing, while other receivables are mainly receivables from the local government, which are considered low liquidity.

Moderate access to funding with certain exposure to non-standard product financing

ANCD has access to different funding channels including banks, domestic and offshore bond market, and non-standard financing products. Major funding channel is bank loan, accounting for more than 50% of total debt. The Company has also built good long-term relationships with different domestic banks such as Agricultural Development Bank of China, The Export-Import Bank of China, China Construction Bank Corporation, and Bank of Chengdu Co., Ltd. As of 30 September 2023, the Company has obtained total bank credit facilities of RMB28.0 billion, with an unutilized amount of RMB6.6 billion. The Company also stepped into debt capital market. From 2023 to January 2024, the Company issued 5 tranches of domestic bonds and 3 tranches of offshore bonds, raising around of RMB3.5 billion and USD117.5 million, respectively. However, the Company bears certain exposure to non-standard financing, which accounted for around 20% to 25% of its total debt. The main non-standard financing products were trusts and financial leasing. The non-standard financing product generally has high financing cost, which would bring higher refinancing pressure to the Company. Moreover, the rising debt level in Xixian New Area and Airport New City may put certain pressure on the financing activities of the Company.

High exposure to contingent liability risk arising from large external guarantees to local SOEs

ANCD's exposure to contingent liabilities is high from substantial external guarantees, which constrains the credit profile of the Company. As of 30 September 2023, the Company's external guarantee was RMB12.4 billion, accounting for 72.9% of its net assets. All external guarantees were provided to local SOEs in Xixian New Area. It is common phenomenon of the cross-guarantee by local SOEs within the 5 regions of Xixian New Area, which exposes the Company to substantial contingent liabilities. If a credit event occurs in the Xixian New Area, it may lead to large-scale cross-effects. Moreover, some of the guaranteed enterprises have been listed as judgement debtors, increasing the Company's exposure to contingent liability risk.

ESG Considerations

ANCD faces environmental risks because it has undertaken affordable housing and 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.

ANCD bears social risks as it implements public policy initiatives by building infrastructure in Airport New 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.

ANCD's governance considerations are also material as the Company is subject to oversight by the local government and has to meet several reporting requirements, reflecting its status as a government-owned entity.

Structural Considerations

ANCD's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its significant strategic position in the development of Airport New City, 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Shaanxi Xixian New Area Airport New City Development & Construction Group Co., Ltd.	Jinhe New City Development and Construction (Group) Co., Ltd. of Xixian New Area, Shaanxi Province	Xixian New Area Jinhe New City Industrial Development Group Co., Ltd.
Long-Term Credit Rating	BBB _g -	BBB _g -	BBB _g -
Shareholder	XXDG (51%) and Management Committee of Airport New City (49%)	XXDG (48.48%), Management Committee of Jinhe New City (45.14%), Shaanxi Financial Asset Management Co., Ltd. (4.94%), and China's Agriculture Development Key Construction Fund Co., Ltd. (1.44%)	Management Committee of Jinhe New City (89.22%) and Shaanxi Xixian New Area Capital Operation Group Co., Ltd. (10.78%)
Positioning	The most important entity in infrastructure construction and affordable housing development of Airport New City	Major urban developer and operator of Jinhe New City	Key entity in urban operation and industry development of Jinhe New City
Total Asset (RMB billion)	60.7	44.0	22.1
Total Equity (RMB billion)	17.0	12.0	8.3
Total Revenue (RMB billion)	5.1	3.0	0.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data as of 31 December 2022.
Source: CCXAP research, Company data

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