

## Credit Opinion

21 July 2023

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

### Analyst Contacts

Olivia Feng +852-2860 7133

Senior Credit Analyst

[olivia\\_feng@ccxap.com](mailto:olivia_feng@ccxap.com)

Jonathan Kwong +852-2860 7132

Credit Analyst

[Jonathan\\_kwong@ccxap.com](mailto:Jonathan_kwong@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto: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 Aerotropolis City Development Group Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Chengdu Aerotropolis City Development Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.

#### Summary

CCXAP has upgraded the long-term credit rating of Chengdu Aerotropolis City Development Group Co., Ltd. ("CACD" or the "Company") to BBB<sub>g</sub>+

from BBB<sub>g</sub>, with stable outlook. The rating upgrade is based on the enhancing regional fiscal metrics of Shuangliu District, which strengthens the local government's capacity to support the Company. It also reflects the important position of the Company, as the sole entity of transportation infrastructure construction in Shuangliu District.

The long-term credit rating of CACD reflects Shuangliu District Government's very strong capacity and very 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.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) monopolistic position in the transportation infrastructure construction in Shuangliu District; (2) solid track record of receiving ongoing government payments; and (3) sufficient project reserves with good sustainability.

However, the Company's rating is constrained by the Company's (1) high debt growth driven by a large number of construction projects; (2) medium exposure to commercial activities; and (3) medium contingent liability risk from external debt guarantees

The stable outlook on CACD'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

- Monopolistic position in transportation infrastructure construction in Shuangliu District
- The sole construction, development, and industrial investment entity in Chengdu International Airport Business District
- Sufficient project reserves with good sustainability in public activities
- Solid track record of receiving ongoing government payments
- High debt growth driven by large number of construction projects
- Medium exposure to commercial activities

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as improved debt management.

### What could downgrade the rating?

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

## Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	52.9	62.1	68.2	71.8
Total Equity (RMB billion)	27.1	28.6	29.0	29.3
Total Revenue (RMB billion)	2.1	2.2	2.4	0.7
Total Debt/Total Capital (%)	44.8	50.3	55.5	57.4

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

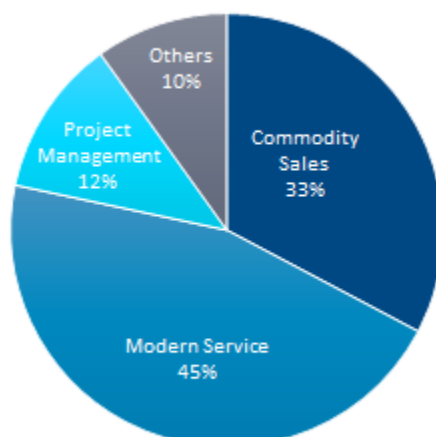
Source: CCXAP research

## Corporate Profile

Founded in 2008, CACD was formerly known as Shuangliu Transportation Construction Investment Co., Ltd., then Chengdu Shuangliu District Transportation Construction Investment Co., Ltd. The Company is the only transportation infrastructure construction entity and only public transportation operator in Shuangliu District. CACD is primarily engaged in the development and services of city infrastructure projects in Shuangliu District. It also undertakes commercial activities such as talent services, asset leasing, and hotel services.

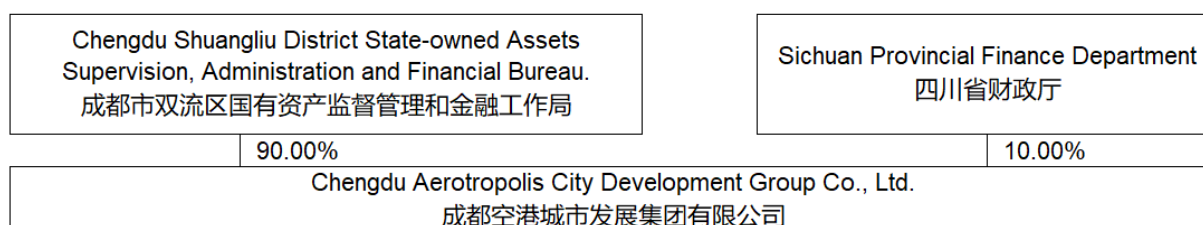
As of 31 March 2023, the Chengdu Shuangliu District State-owned Assets Supervision, Administration and Financial Bureau ("Shuangliu SASAFB"), and Sichuan Provincial Finance Department held 90% and 10% of the Company's shares, respectively. The Company is directly controlled by Shuangliu SASAFB.

## Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

## Exhibit 2. Shareholding and organization chart as of 31 March 2023



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 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6<sup>th</sup> in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up 2.3% 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 and building materials industry. Chengdu's GRP increased from RMB1.8 trillion in 2020 to RMB2.1 trillion in 2022. Affected by the pandemic and tax refund, the Chengdu government's general budgetary revenue amounted to RMB172.2 billion in 2022, a YoY increase of 1.4%. Its fiscal balance ratio was 70.7%, which was at a moderate level. Chengdu's debt

burden is manageable. In 2022, Chengdu's outstanding government debt increased to RMB464.1 billion with an increasing trend, accounting for 88.9% of its total fiscal revenue and 22.3% of its GRP.

### Exhibit 3. Key Economic and Fiscal Indicators of Chengdu City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,771.7	1,991.7	2,081.8
GRP Growth (%)	4.0	8.6	2.8
General Budgetary Revenue (RMB billion)	152.0	169.8	172.2
General Budgetary Expenditure (RMB billion)	215.9	223.8	243.5
Local Government Debt (RMB billion)	344.0	404.3	464.1

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 2022, the GRP of Shuangliu District amounted to RMB113.1 billion, accounting for about 5.4% of Chengdu's GRP. Shuangliu District demonstrated ongoing fiscal growth, mainly reflected in both general budgetary revenue and government funds revenue, enhancing its regional fiscal strength. Its general budgetary revenue significantly increased from RMB7.8 billion in 2020 to RMB9.6 billion in 2022, ranking 3<sup>rd</sup> among all districts in Chengdu City. Shuangliu District's fiscal balance ratio decreased by 9.1% from 2021, but still maintain a relatively good self-sufficiency. Shuangliu District Government's debt profile has continued to show an increasing trend, with a government debt to GRP ratio of 22.5% as of 31 December 2022.

### Exhibit 4. Key Economic and Fiscal Indicators of Shuangliu District

	2020FY	2021FY	2022FY
GRP (RMB billion)	100.2	113.1	113.1
GRP Growth (%)	2.1	8.7	0.6
General Budgetary Revenue (RMB billion)	7.8	9.0	9.6
General Budgetary Expenditure (RMB billion)	10.2	11.2	13.1
Local Government Debt (RMB billion)	17.2	19.6	25.5

Source: Statistic Bureau of Shuangliu District, CCXAP research

Given the strategic importance role of CACD to the local economy, we believe the enhanced regional fiscal metrics of Shuangliu District will strengthen the local government's capacity to support the Company. It is very likely the Shuangliu District Government will provide stronger support to the Company if needed.

## Government's Willingness to Provide Support

### Monopolistic position in transportation infrastructure construction 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 and affordable housing construction, industrial investment, as well as education and healthcare. CACD is a key LIIFC with the second-largest total assets in Shuangliu District. It has clear positioning and strong regional franchise rights. As the major infrastructure construction and the only public transportation company in the district, as well as the sole construction, development, and industrial investment entity in Chengdu

International Airport Business District, CACD has high business significance to the development of the local economy and public activities. Entrusted by the local government, CACD is solely responsible for the construction and operation of transportation infrastructure in Shuangliu District, including (1) city upgrading and development, and the construction of city infrastructure and transportation infrastructure; (2) city transportation services, mainly public transportation operations. As such, the Company plays a pivotal role in upgrading and improving the city infrastructure and public services in Shuangliu District. Given its key role, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

### **Sufficient project reserves with good sustainability in public activities**

CACD continues to focus on the development of major infrastructure construction projects in the Airport Business District and the Yixin Lake Area, as well as major transportation infrastructure construction projects in Shuangliu District. The Company also provides high-quality transport logistics services in Shuangliu District, developing the airport and urban transportation networks with a focus on providing public transportation services.

The Company employs three different models in the management and development of public projects: (1) the Build Transfer (“BT”) model, (2) the Agent Construction model, and (3) the Public-private Partnership (“PPP”) model. As of March 2023, the Company's BT model projects and PPP model projects were the same as last year, and there are no new completed projects or construction projects this year. The majority of the Company's construction projects continue to be conducted under the Agent Construction model, with government funds and self-raised funds. As of 31 March 2023, the Company had 13 agent construction projects under construction or planning, with a total outstanding amount of RMB7.3 billion. We expect that the public activities of the Company will be sustainable given the large projects in its pipeline.

In addition, the Company owns all public transportation operation rights in Shuangliu District. As of the end of March 2023, the Company operated 77 transportation lines and 729 buses. However, due to the public welfare nature of the business, the Company suffered large losses and has received government subsidies to compensate for the losses. From 2022 to 2023Q1, in order to compensate for operating losses, the Shuangliu District Government paid the Company a bus operation subsidy of RMB316 million.

### **Solid track record of receiving ongoing government payments**

CACD has received ongoing support from the Shuangliu District Government including asset injections, capital injections, financial subsidies, and project grants. From 2022 to 2023Q1, the Company received a total capital injection of RMB387.1 million, including the transfer of cash and properties. The Company's capital was RMB20 million at the time of its establishment and increased to RMB2.1 billion as of 31 March 2023 after several capital injections by the local government. From 2022 to 2023Q1, the Company received a total of RMB311.2 million in government financial subsidies. In terms of project payments, CACD received RMB2.4 billion in 2022. Although there are uncertainties in the collection of public welfare projects, given the monopoly and strategic role of CACD 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, CACD is also involved in other commercial activities such as self-operated project construction, parking, vehicle inspection, fuel trading, and modern service business. We estimate that the Company has medium commercial exposure as the proportion of commercial business assets accounts for around 30% of its total assets

Apart from public projects, CACD also engages in the construction of self-operating projects, and the Company mainly achieves a balance between revenue and expense through obtaining operating income from these projects. As of 31 March 2023, the Company had 4 major self-operating projects under construction or planning, with an estimated total investment of RMB9.8 billion and an outstanding amount of RMB6.9 billion, exerting a certain capital pressure. As these projects are self-supporting, they are less likely to receive government subsidies and are therefore more market-driven. Moreover, the Company also operates parking, vehicle inspection and fuel trading business in the Shuangliu District. However, the small operating scale limits the contribution to the Company's cash flow and revenue.

The Company's modern service business provides human resources services, property management, hotel operations, media services and others. The Company's leasing income mainly involves leasing bonded and logistics warehouses, with a total leasable area of 264 thousand square meters, with a good occupancy rate as of 31 March 2023. The Company also provides labor dispatch personnel mainly to the government agencies or institutions in Shuangliu Districts. However, the human resources business 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 addition, the Company was engaged in a new commodity sales business in 2020, and the types of commodities sold are mainly chemical commodities. This business generates effective supplemental income for the Company, but with a low gross profit margin.

### High debt growth driven by large number of construction projects

CACD has high debt growth owing to its debt-driven business expansion over the past few years. Its total debt had increased from RMB22.0 billion at end-2020 to RMB39.3 billion as of 31 March 2023, while its capitalization ratio increased from 44.8% to 57.4% over the same period. As of 31 March 2023, the Company had a total of 17 projects that are either under construction or in planning. Given the Company's large capital expenditure pressure, we expect the Company will maintain high debt growth for the next 12-18 months.

### Exhibit 5. Major Projects under Construction and Planning as of 31 March 2023

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
<b>Projects Under Construction</b>				
Agent Construction Model Projects	10	11,505	4,392	7,113
Self-Operating Projects	3	8,417	2,888	5,529
<b>Projects Under Planning</b>				
Infrastructure Construction	3	142	-	142
Self-Operating Projects	1	1,419	-	1,419
<b>Total</b>	<b>17</b>	<b>21,483</b>	<b>7,280</b>	<b>14,203</b>

Source: Company information, CCXAP research

### Good access to funding

The Company maintains good relationship with large domestic banks. Around 50% of the Company's debt was provided by bank loans. It held a total credit facility of RMB36.6 billion and available credit facilities of RMB11.2 billion as of 31 March 2023. The Company has diversified its funding channel to both onshore and offshore debt capital markets, which accounted for 38% of the Company's total debt. The Company has issued various type of bonds, such as PPNs, MTNs, and offshore bonds, with a relatively low average coupon rate of 3.79%. In

addition, the Company's exposure to non-standard financing is relatively low, at about 12%. We consider the Company has a relatively low short-term debt pressure given its sufficient liquidity buffer. As of 31 March 2023, the Company recorded a short-term debt of RMB9.9 billion, which can be covered by its available credit facilities.

### **Medium contingent liability risk from external debt guarantees**

CACD has medium contingent liability risk, which may increase its repayment obligations given its relatively large number of external guarantees. As of 31 March 2023, the Company had outstanding external guarantees of RMB7.0 billion, accounting for 24% of its net assets. However, the counterparties of external guarantees are all local state-owned enterprises with relatively low default risks.

## **ESG Considerations**

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

CACD 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.

CACD'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.

## **Structural Consideration**

CACD's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its key role in transportation infrastructure construction in Shuangliu District, 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 \(July 2022\)](#).

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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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656