

## Credit Opinion

28 September 2023

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

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

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+** to Chengdu Aerotropolis Industry Finance & Investment Development Co., Ltd., with stable outlook.

### Summary

The BBB<sub>g</sub> long-term credit rating of Chengdu Aerotropolis Industry Finance & Investment Development Co., Ltd. (“CAID” or the “Company”) 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) strategic role as the major urban functional area development and transportation infrastructure construction entity in Shuangliu District; (2) solid track record of receiving ongoing government payments; and (3) reasonable debt leverage.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) relatively large capital expenditure pressure; and (3) debt structure needs to be improved.

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
- Reasonable but increasing debt leverage
- Medium exposure to commercial activities
- Debt structure optimization is required

## 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

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	13.5	15.4	21.0	32.1
Total Equity (RMB billion)	10.1	10.8	11.3	19.9
Total Revenue (RMB billion)	1.5	1.8	2.0	1.4
Total Debt/Total Capital (%)	15.9	23.9	42.5	34.3

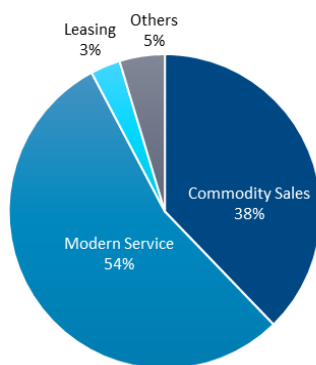
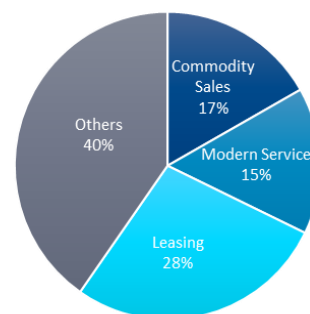
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

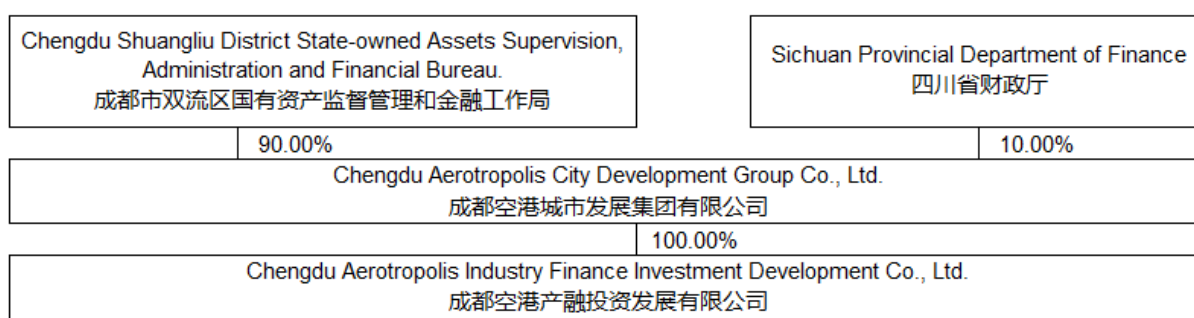
## Corporate Profile

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 2023, 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 2022****Exhibit 2. Gross Profit structure in 2022**

Source: Company information, CCXAP research

**Exhibit 3. Shareholding and organization chart as of 31 June 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. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion.

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. In 2023H1, Chengdu's

GRP reached RMB1.1 trillion, with a YoY increase of 5.8%; while its general budgetary revenue amounted to RMB110.0 billion.

#### **Exhibit 4. 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 maintains 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. In 2023Q1, Shuangliu District's GRP reached RMB27.5 billion, with a YoY increase of 5.3%, while its general budgetary revenue amounted to RMB2.6 billion.

#### **Exhibit 5. 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

### **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. After the consolidation of other subsidiaries of CACD, 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 Chengdu

International Airport Business District, Jiujiang New Town Future Park Community Area, Huangang Road West Area and Shuangliu West Station Area.

Chengdu International Airport Business District is a major component of “One belt and two cores”. It focuses on building an industrial system that includes 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. 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. The Company constructs infrastructure projects assigned by the Chengdu Shuangliu District Development and Reform Bureau, which will pay the management fees based on the construction progress, typically 2%-5% of the total investment amount of infrastructure projects. As of 30 June 2023, the Company had 9 infrastructure construction projects under construction or planning, with a total investment amount of RMB3.3 billion and an invested amount of RMB571.3 million. At the same time, the Company has received a total of RMB710 million in government special bond funds for these projects. The infrastructure projects undertaken by CAID are all under the government investment plan and mainly funded by government fiscal funds. We expect that this business will have good sustainability and there will be little pressure on capital expenditures.

### **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 2020 to 2023H1, the Company received a total capital injection of RMB9.8 billion, mainly infrastructure construction projects injected by CACD and lands injected by the Shuangliu District Government. From 2020 to 2023H1, the Company received a total of RMB954 million in government financial subsidies. In terms of project payments, CAID received RMB766 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.

### **Exhibit 6. Track Record of Government Support from 2020 to 2023H1**

<b>(RMB million)</b>	<b>2020FY</b>	<b>2021FY</b>	<b>2022FY</b>	<b>2023H1</b>
Government Subsidies	228	16	560	150
Assets Injections	132	9	196	8,463
Cash injections	190	162	190	-
Equity transfer	3	476	3	-
<b>Total</b>	<b>553</b>	<b>663</b>	<b>949</b>	<b>8,613</b>

Source: Company information, CCXAP research

### **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. The Company mainly achieves a balance between revenue and expense through leasing and sales income. As of 30 June 2023, the Company had 6 major self-operating projects under construction or planning, with an estimated total investment of RMB10.5 billion and an invested amount of RMB1.6 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, property management, hotel operations and other services. The Company provides labor dispatch personnel mainly to the government agencies or institutions in Shuangliu District. 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. The Company also provides international cargo logistic service and receives logistic delivery fees in return. However, due to the high railway transportation cost, the Company relies on financial subsidies to breakeven.

The Company also engaged in commodity sales business, mainly chemical commodities and refined oil. The commodity sales business generates effective supplemental income for the Company, but with a low gross profit margin. 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. The Company's property leasing income mainly involves leasing bonded and logistics warehouses, with a total leasable area of 165 thousand square meters, with a good occupancy rate as of 30 June 2023.

#### **Reasonable but increasing debt leverage**

Due to the consolidation of other subsidiaries of CACD, CAID's total debt had increased from RMB1.9 billion at end-2020 to RMB10.4 billion as of 30 June 2023. Its capitalization ratio increased from 15.9% to 34.3% over the same period, maintained at a reasonable level. In addition, the Company's debt structure is fair, with short-term debt accounting for about 29.0% of its total debt. As of 30 June 2023, the Company had a total of 15 projects that are under construction or planning, with an expected total investment of RMB13.8 billion and an invested amount of RMB2.1 billion. Among them, there were 6 self-operating projects under construction or planning, with an invested amount of RMB1.6 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.

**Exhibit 7. Major Projects under Construction and Planning as of 30 June 2023**

Project Types	No. of Projects	Budgeted	Invested	Outstanding
		Amount	Amount	Amount
		(RMB million)	(RMB million)	(RMB million)
<b>Projects Under Construction</b>				
Infrastructure Construction	4	1,916	576	1,340
Self-Operating Projects	2	4,660	1,558	3,102
<b>Projects Under Planning</b>				
Infrastructure Construction	5	1,425	-	1,425
Self-Operating Projects	4	5,831	-	5,831
<b>Total</b>	<b>15</b>	<b>13,832</b>	<b>2,134</b>	<b>11,698</b>

Source: Company information, CCXAP research

**Debt structure optimization is required**

The Company maintains a good relationship with large domestic banks. Around 72.6% 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 2023, it held a total credit facility of RMB11.2 billion and available credit facilities of RMB7.8 billion. However, the Company has a relatively high exposure to non-standard financing. As of 30 June 2023, non-standard financing accounted for 27.4% of its total debt. 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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