

## Credit Opinion

10 October 2024

### 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

Allen Lin +852-2860 7128

Credit Analyst

[allen\\_lin@ccxap.com](mailto:allen_lin@ccxap.com)

Amy Chen +852-2860 7140

Credit Analyst

[amy\\_chen@ccxap.com](mailto:amy_chen@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

## Xi'an Free Trade Port Construction Operation Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Xi'an Free Trade Port Construction Operation Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Xi'an Free Trade Port Construction Operation Co., Ltd. ("XFTP" or the "Company") reflects the Company's leading market position among all operators of China Railway Express ("CR Express") with a strong competitive position, under the guidance of the Belt and Road Initiative ("BRI").

However, the rating is constrained by the Company's (1) weak profitability from freight train operation, which is subject to fluctuations due to the macro environment and market competition; (2) high leverage level with large short-term debt pressure; and (3) moderate asset liquidity with high proportion of receivables.

The rating also reflects our expectation of a high likelihood of support from the local government and XFTP's parent company, namely Xi'an Port Holding Group Co., Ltd. ("Port Group"), which is based on the Company's (1) status as the core subsidiary of Port Group; (2) ultimate control by the Management Committee of Xi'an Chanba International Port; (3) regional importance in terms of freight forwarding and freight train operation in Xi'an International Trade & Logistic Park ("International Park"); and (4) good track record of receiving support from the local government and the parent company.

The stable outlook on XFTP's rating reflects our expectation that the Company's important position to the International Park and its parent company is unlikely to change. We also expect that the Company will maintain its competitiveness and importance in Chang'an freight train operation over the next 12-18 months.

## Rating Drivers

- Rapid development of CR Express albeit macroeconomic and geopolitical risks
- Leading market position among all operators of CR Express
- Supplementary revenue from trading and venue operation business
- Ongoing revenue growth but weak profitability
- High leverage level with large short-term debt pressure
- Moderate asset liquidity with high proportion of receivables
- High likelihood of support from the local government and the parent company

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the government support or parental support is expected to be strengthened; or (2) the Company's standalone credit profile improves significantly, including increased profitability, improvement in debt structure and liquidity.

### What could downgrade the rating?

The rating could be downgraded if (1) the government support or parental support is expected to be weakened; or (2) the Company's stand-alone credit profile weakens significantly, including deterioration in credit metrics, and poor liquidity management.

## Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	11.7	21.5	19.2	20.6
Total Equity (RMB billion)	3.3	7.0	6.8	7.0
Total Revenue (RMB billion)	3.2	5.1	6.5	3.7
Net Profits (RMB million)	82.7	25.1	47.6	15.0
EBIT Margin (%)	13.7	9.4	9.2	9.2
Return on Assets (%)	3.8	2.9	3.0	-
Total Debt/Total Capital (%)	69.7	59.3	65.2	65.3
Total Debt/EBITDA (x)	17.0	20.9	19.4	-
EBITDA/Interest (x)	1.3	1.1	1.1	1.1
FFO/Total debt (%)	5.7	4.7	4.7	-

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

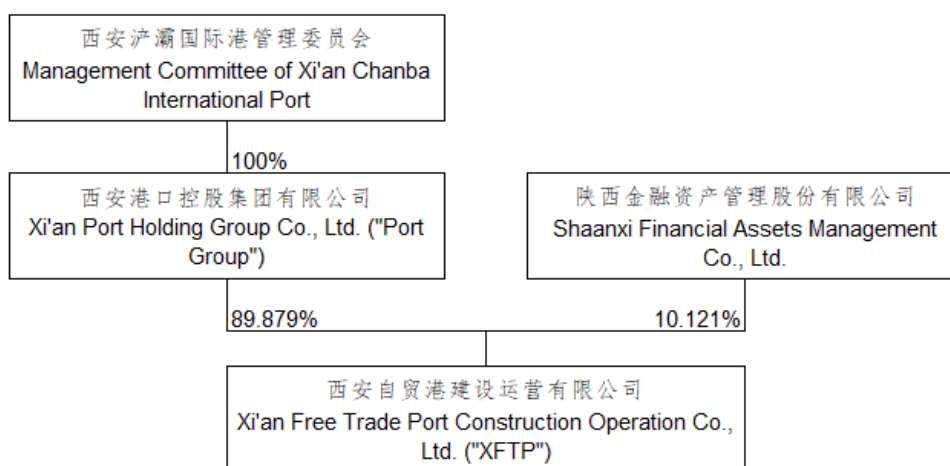
Source: Company data, CCXAP research

## Corporate Profile

Established in 2018, XFTP is an important state-owned enterprise located in International Park. The Company is the largest freight forwarding entity and the primary operator of CR Express starting from Xi'an City, namely Chang'an freight train. CR Express is one of the key projects of the BRI, with a high strategic position to connect China with the Eurasian continent. Chang'an freight train has the most complete routes with the widest coverage, the highest efficiency and the fastest speed among CR Express in China. In addition, the Company is also engaged in diversified business including commodity sales, venue operation, consulting and investment.

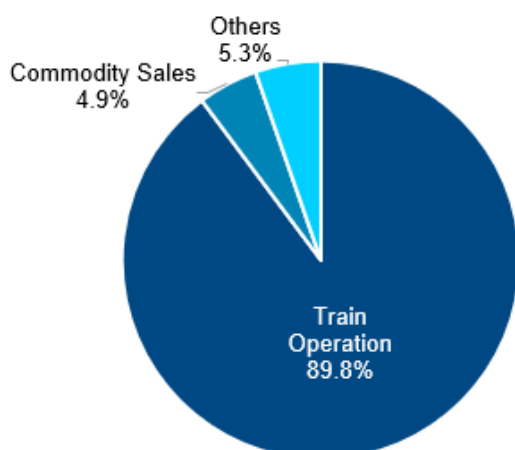
XFTP is a core subsidiary of Port Group, which held 89.879% of its shares directly as of 30 June 2024, and the actual controller is the Management Committee of Xi'an Chanba International Port. Port Group is the primary investment, financing and construction entity for the infrastructure construction of the International Park. As of 30 June 2024, XFTP had total assets of RMB20.6 billion and a paid-in capital of RMB1.7 billion.

#### Exhibit 1. Shareholding chart as of 30 June 2024



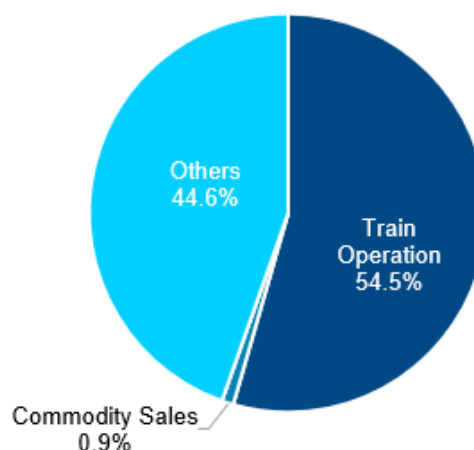
Source: Company information, CCXAP research

#### Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

#### Exhibit 3. Gross profit structure in 2023



## Rating Considerations

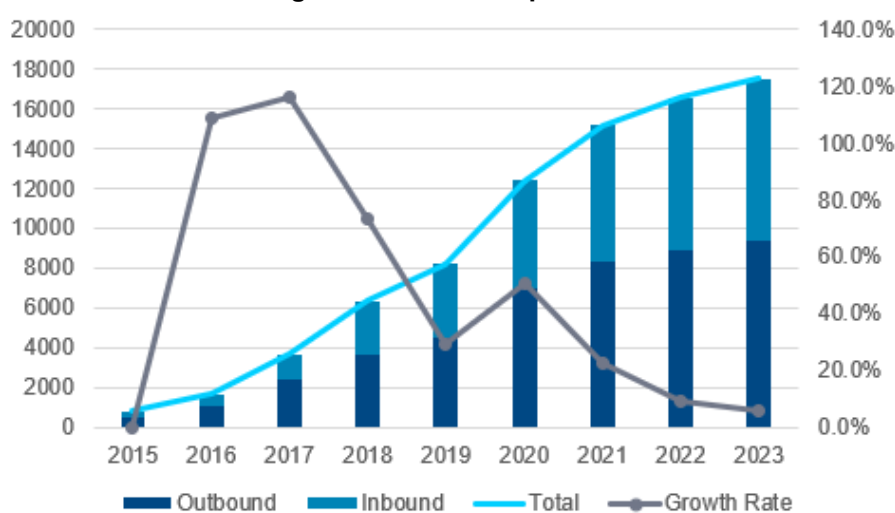
### Business Profile

#### Rapid development of CR Express albeit macroeconomic and geopolitical risks

In 2013, China launched the BRI to promote construction of the world's most extensive and largest international cooperation platform with countries in 5 continents. As the flagship project of BRI, CR Express represents internationally joint railway transport services including container transport based on fixed train numbers and lines, schedules and whole-course operation hours between China and Europe and other BRI countries and facilities trade among them. After the fast development for more than 10 years, the CR Express has passed through more than 100 cities in 11 Asian countries and regions, and reached more than 200 cities in 25 European countries. Moreover, the import and export value between China and countries along BRI in 2023

was RMB19.5 trillion, a YoY increase of 2.8%, accounting for 46.6% of China's total import and export value, reaching the highest level since the initiative was launched. In 2023, the total number of train trips operated by CR Express reached 17,523 (including outbound and inbound), and the volume of cargo transportation reached 1.9 million Twenty-foot Equivalent Units ("TEUs"), a year-over-year ("YoY") increase of 6.0% and 18.0%, respectively. Meanwhile, Chinese government has provided important policy and subsidy support for the development of the CR Express. In the early stages of development of CR Express, local governments including provincial, municipal and district levels are required to provide operating subsidies to promote the fast development of the CR Express. However, the operation of CR Express heavily relies on government financial subsidies. Since 2018, the Ministry of Finance has required local governments to reduce the subsidy standards for CR Express to reduce the dependence of freight train operations on subsidies and improve market development.

**Exhibit 4. Number and grow rate of CR Express's trains outbound and inbound in 2015-2023**



Source: CR Express, CCXAP research

CR Express operation is exposed to macroeconomic and geopolitical risks. For example, the Russia-Ukraine conflict in 2022 has had a significant impact on XFTP's freight train operating routes and the number of train trips on some lines. The previous railway transportation to Ukraine has been terminated, and the number of trains going to Russia exceeded that going to Europe, becoming the main operating route. Moreover, many dual-use and advanced technology products are also unable to be transported via railways passing through Russia due to EU's sanctions on Russia, which further limited the products transported.

The CR Express operation is also influenced by global shifts in the logistics industry, particularly the intensifying competition from shipping markets. China's international trade is dominant by shipping and around 95% of China's import and export cargo is carried by shipping by freight volume. The transportation cost of shipping is generally much lower than CR Express, while the transportation time of shipping is much longer than CR Express. Also, the transportation cost and transportation time of shipping bear higher volatility than CR Express due to natural disasters, and emergencies and geopolitical crises. Compared with shipping, CR Express can provide a faster and relatively stable transportation solution to customers albeit the higher costs.

#### **Leading market position among all operators of CR Express**

XFTP is the largest freight forwarding entity and primary operator of Chang'an freight train in International Park, Xi'an City. Supported by good location, cost and policy advantages, Xi'an City has developed into a key

gathering city along BRI, and its major international freight train, namely Chang'an, also became the international freight train with the most complete routes, the widest coverage, the highest efficiency and the fastest speed among all the CR Express operated in other cities. In 2023, Chang'an freight train operated a total of 5,351 train trips, a YoY increase of 15.3%, ranking first among all cities in China, followed by Chongqing City and Zhengzhou City.

There are 2 companies operating Chang'an freight train including XFTP and Xian international Inland Port Multimodal transport co., Ltd. ("XIIP"). XFTP is mainly responsible for the routes to Russia, Belarus, Central Asia and part cities in Europe, while XIIP is mainly responsible for the routes to Europe. With the outbreak of the Russian-Ukrainian conflict in 2022, the main structure of the Chang'an freight train route has shifted from China-Europe to China-Russia, and XFTP became the largest freight forwarding entity. In 2023, XFTP operated 4,828 train trips, accounting for 90.2% of total train trips operated by Chang'an freight train.

Specifically, the Company provides freight forwarding services to customers, mainly freight companies and enterprises with freight demands, thereby charging loading and unloading fees, as well as agency service fees. In addition, the Management Committee of the International Park would provide freight forwarding subsidies based on freight. Some of the freight collected from downstream has a payment period of 1 to 2 months. For the upstream, the Company needs to pay the full freight deposit to the main upstream supplier, namely China Railway International Multimodal Transport Co., Ltd. ("CRIM"), and settle on a quarterly basis. XFTP has limited bargaining power to CRIM. As a result, XFTP needs to advance a large amount of capital to run freight forwarding services. The Company has a low concentration of downstream customers and offers services across a wide industries and geographical area, including the Yangtze River Delta, Pearl River Delta, and Beijing-Tianjin-Hebei region. Meanwhile, the Company also provides supporting services such as customs services, container leasing and financial services.

The Company expects to rely on complete and intelligent services with relatively low comprehensive cost, high transportation efficiency, and the widest route coverage to strengthen competitiveness and maintain market position. However, the operating income of freight forwarding business of XFTP could not cover the freight due to the low pricing for Chang'an freight train to downstream customers, and the Company highly relied on government subsidies to achieve fund balance. We should keep track the sustainability of subsidies for Chang'an freight train.

### **Supplementary revenue from trading and venue operation business**

XFTP also engages in other diversified businesses including commodity sales and venue operation, primarily in the International Park. These businesses have brought supplements to the Company's total revenue, but the gross profit margins remain low and the profit contribution is limited.

The Company's commodity sales business is mainly operated by its subsidiary, which adopt a sales-based procurement business model. The trading products include chrome ore, coal, steel, electronic products and meat products. This business exhibits a high degree of upstream and downstream concentration. In 2023, purchases from the top five suppliers and sales to the top five customers accounted for 92.9% and 93.4% of the total purchase amount and total sales, respectively. The customer base is comprised primarily of enterprises situated in the International Park. From 2022 to 2023, the revenue from the segment increased from RMB166.7 million to RMB319.1 million, while the gross profit margin decreased from 4.1% to 1.8%. Furthermore, the Company offers account periods to some downstream customers, typically spanning 3-6 months. This presents potential payment recovery risks for it. In 2022 and 2023, the Company incurred bad debt losses of RMB16.7 million and RMB2.1 million, respectively.

XFTP is also responsible for the operation and management of some venues held by Port Group, including cultural parks, industrial parks, and stadiums. In 2023, the Company generated revenue of RMB40.0 million from venue operation business, with a gross profit margin of 6.8%.

## Financial Profile

### Ongoing revenue growth but weak profitability

As a result of the ongoing growth in operating revenue of Chang'an freight train operation, XFTP's total revenue level has risen consistently over the past three years. The operation of Chang'an freight train is the Company's primary source of revenue, accounting for approximately 90.0% of total revenue in 2023. Furthermore, revenue from commodity sales business and venue operations has also grown over the past three years, providing a stable source of supplementary income for the Company. From 2021 to 2023, the Company's total revenue increased from RMB3.2 billion to RMB6.5 billion.

However, XFTP's profitability is relatively weak and subject to uncertainties, as evidenced by the declining EBIT margin and the weak return on assets. Due to the influence of global macroeconomic fluctuation and intensive market competition, the gross profit margin of Chang'an freight train operation fluctuated. From 2021 to 2023, the gross margin of Chang'an freight train operation was 14.65%, 2.08%, and 5.71%, respectively. In 2023, the Company adjusted part of its subsidies from other income in 2022 to offset operating costs in 2022, and the gross profit margin of train operation business for the year turned positive. The operation of Chang'an freight train is highly relied on government subsidies drive by its policy-driven nature. Although the amount of government freight subsidies increased from RMB1.0 billion in 2021 to RMB1.4 billion in 2023 driven by the increase in operation volume, the proportion of government freight subsidies to operation revenue of Chang'an freight train decreased from 31.6% to 23.7%, mainly due to the policies to reduce the proportion of the local government subsidies. According to the government policies, the government would provide operating subsidies to freight train operation business until 2026. At the same time, the profitability of other businesses such as commodity sales and venue operations were weak and their contribution to profits was limited. The Company's EBIT margin decreased from 13.7% in 2021 to 9.2% in 2023, and the return on assets decreased from 3.8% to 3.0% over the same period.

Considering the Company's leading market position and stable operating prospects, we expect the Company's revenue to maintain a growth trend over the next 12 to 18 months with the deepening of BRI. However, the profitability of Chang'an freight train is expected to remain relatively weak and we should keep track the sustainability of subsidies for Chang'an freight train.

### High leverage level with large short-term debt pressure

XFTP's total debt demonstrate increasing trend over the past three years, mainly driven by supporting construction of Chang'an freight train project and operation expenses of Chang'an freight train. As of 30 June 2024, the Company's total debt increased to RMB12.3 billion from RMB7.6 billion as of end-2021. Its capitalization ratio (total debt to total capital) remained relatively high despite a slight decrease to 65.3% from 69.7% over the same period mainly due to the capital injection from Port Group and Shaanxi Financial Assets Management Co., Ltd. XFTP has a relatively high short-term debt burden, with a heightened short-term proportion of 42.1% and low cash to short-term debt ratio of 0.1x as of 30 June 2024.

Considering the increase operation scale of the train operation, ongoing investment in CR Express (Xi'an) Assembly Center, as well as the responsibilities to undertake external financing for Port Group, we expect the Company to continue rely on the external financing to meet the investment needs for the operation, and the



debt level and the leverage ratio to increase in the next 12-18 months. Moreover, XFTP's funds are allocated uniformly by Port Group, and its fund position would be affected by changes in the creditworthiness of other local state-owned enterprises with lots of inter-borrowing accounts.

XFTP's debt burden and short-term repayment pressure could be partially alleviated by its good standby liquidity provided by large domestic banks and the parent company. Bank loans have been the primary funding source for XFTP, accounting for more than 90% of the total interest-bearing debt. XFTP has established good relationships with domestic policy banks and large joint-stock commercial banks, such as the Export-Import Bank of China and Ping An Bank Co., Ltd, ensuring the debt continuation. In addition, the Company obtained support from Port Group in bank loans, as around 20.5% of the Company's debt is guaranteed by Port Group. As of 30 June 2024, the Company has total bank credit facilities of RMB15.8 billion, with an available remaining portion of RMB2.3 billion. At the same time, XFTP's exposure to non-standard financing products was moderate, accounting for around 10% of the total debt. Apart from that, the parent company, Port Group would provide backup liquidity support when necessary.

### **Moderate asset liquidity with high proportion of receivables**

XFTP's financial liquidity was moderate, as its assets were dominant by receivables, debt investment, and long-term equity investment, which could undermine its financial flexibility. As of 30 June 2024, the Company's receivables constituted 33.3% of its total assets and were primarily from other state-owned enterprises in the International Park and the Management Committee of the International Park, causing large occupation of the Company's funds. As of 30 June 2024, the freight forwarding subsidies receivable from the Management Committee of the International Park was RMB164.3 million. In 2023, the Company reallocated RMB5.7 billion from other receivables to debt investment, which were debt investment funds for other state-owned enterprises in the International Park to invest in local infrastructure construction, accounting for 27.7% of the total assets. Since the Company's external debt and equity investment are mainly for the entities in the International Park with limited income, we expect the liquidity is relatively low.

### **External Support**

#### **High likelihood of support from the local government and the parent company**

We expect a high likelihood of government support from the local government and Port Group to XFTP in times of need. Our expectation incorporates the considerations of the Company's (1) status as the core subsidiary of Port Group; (2) ultimate control by the Management Committee of Xi'an Chanba International Port; (3) regional importance in the International Park, Xi'an City; and (4) good track record of receiving government support from the local government.

Xi'an City is the provincial capital of Shaanxi Province, and is also a sub-provincial city and a National Central City approved by the State Council. With its good economic development, locational advantages and political advantages, Xi'an City has an important strategic position in the national economic layout and development strategy, including the Western Development Strategy and the Belt and Road Initiative.

Established in 2008, the International Park is located in the northeast of the main urban area of Xi'an City. It is an economic pilot zone established by Shaanxi Province and Xi'an City with the aim to create a new highland for inland reform and opening up, as well as the core area of the Shaanxi Free Trade Zone. In December 2023, for the purpose of regional integration and optimization, the Xi'an Municipal Government merged the Chanba Ecological Zone and the International Park into the Xi'an Chanba International Port. In 2023, the International Park's GRP was RMB22.2 billion with a YoY growth rate of 6.5%.

The Management Committee of the International Park maintains a high degree of control over XFTP's operations through Port Group, including the formulation of business strategies and the appointment of the board of directors and key management personnel. As the main operator of Chang'an freight train, XFTP's train operation business is an important tool for Xi'an City and the International Port to deepen the BRI, and is crucial to local strategic planning and policy implementation. In addition, the inland port distribution centers and logistics centers that the Company is responsible for building and operating are also fundamental for local international trade business and foreign exchanges, and the Company's default will affect the operation and construction of such key facilities. From 2021 to 2023, with the coordination of the Management Committee of the International Park, XFTP received Chang'an operation subsidies of RMB1.0 billion, RMB1.2 billion and RMB1.4 billion from the provincial, municipal and district governments, which were recorded in the freight forwarding business income. At the same time, XFTP received a total of RMB21 million in rewards and subsidies in 2023 for supplementing and strengthening the supply chain operation.

Port Group is the most important infrastructure development and construction entity in the International Park. It is primarily responsible for infrastructure construction, land consolidation, freight forwarding, quasi-financial services and port-side trade businesses within the area. As of 30 June 2024, Port Group is wholly owned and controlled by the Management Committee of the International Park. XFTP is the major subsidiary of Port Group, particularly in the operation of Chang'an freight train and trading sector. As of end-2023, the Company had contributed approximately 20.4% of Port Group's total assets, with its revenue accounting for over 52.2% of the total revenue. The Company's operation of Chang'an freight train is one of the core businesses in Port Group's strategic planning and an important aspect of Port Group's completion of its regional policy positioning. XFTP has continuously received comprehensive support from Port Group, including capital injection and debt guarantees. From 2022 to 2023, the Company has received capital injection in cash from Port Group, amounting to RMB3.6 billion, significantly strengthening its capital position. Furthermore, XFTP has a moderate degree of legal affiliation with the parent company, as around 20.5% of the Company's loans is guaranteed by Port Group and its subsidiaries. The Company's default will have a significant impact on the reputation of Port Group and the local government, as well as on regional financing channels and financing costs.

Overall, we anticipate that the local government and the parent company will provide support to XFTP when necessary, given its regional importance in line with the government's strategy development blueprint and policy.

## Structural Consideration

XFTP's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that shareholder support and government support will flow through the Company given its status as major subsidiary of Port Group and the main operator of Chang'an freight train in International Park, 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 [General Corporate \(April 2019\)](#).



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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