

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Positive Outlook to Chengdu Airport Xingcheng Investment Group Co., Ltd.

HONG KONG, 22 April 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Chengdu Airport Xingcheng Investment Group Co., Ltd. (“CAXIG”). The Outlook is Positive.

The Issuer Credit Rating reflects a high possibility that the Shuangliu District People’s Government of Chengdu (“Shuangliu government”) would provide strong support to CAXIG if needed, in light of its 100% ownership of CAXIG, CAXIG’s strategic position as the major development and operation entity of Shuangliu District in Chengdu City and the strong linkage between the Shuangliu government and CAXIG including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Shuangliu government may face significant negative impact on its reputation and business and financing activities should CAXIG encounter any operational or financial difficulties.

The Positive Outlook reflects our expectation that CAXIG’s strategic importance would be strengthened given its strategic development role, while the Shuangliu government will continue to ensure CAXIG’s stable operation.

Key Rating Rationales

Shuangliu Government’s Full Ownership: The Shuangliu government has 100% ownership of CAXIG via the Chengdu Shuangliu District State-owned Assets Supervision, Administration and Financial Bureau, which is appointed by the government to supervise state-owned entities. CAXIG was established with an initial registered capital of RMB50 million in September 2005. After several capital injections and equity transfers, the registered capital of CAXIG was enlarged to RMB15 billion at end-2021, with the paid-in capital of RMB3.34 billion. The registered capital is planned to be fully injected on or before December 2029.

High Strategic Importance to Shuangliu District: CAXIG is the largest LGFV in Shuangliu District in terms of asset size and accounted for c. 60% of the total assets of all Shuangliu District’s LGFVs at end-2021. It is responsible for various businesses including infrastructure construction, affordable housing construction, construction materials sales, property management, construction quality inspection and sewage treatment etc., to support the economic and urban development in Shuangliu District. In the future planning of the Shuangliu government, CAXIG will continue to play a significant role as an integrated city operator in Shuangliu District.

Government Supervision and Strategic Alignment: The Shuangliu government has strong control and supervision over CAXIG, including the control of the board of directors, senior management appointments, and major strategic, investment and financing planning. CAXIG’s

business operation and development have been aligned with the government's economic and social policies in Shuangliu District.

Ongoing Government Support: CAXIG has received strong support from the government such as government subsidies, capital injections and financial supports. The government has also injected capital, land resources and ore-mining operation franchise and other state-owned assets since CAXIG's inception. The Shuangliu government has also purchased a considerable amount of the completed infrastructure projects from CAXIG in the past three years. Thus, CAXIG is expected to continue receiving repayments from the government in the future from the completed projects. We believe CAXIG is likely going to receive timely government support in the form of operational and/or financial subsidies.

Moderately Weak Financials: CAXIG's earnings generation capability has been weak given its focus on contracting construction. CAXIG's financial leverage (total liabilities to assets) was c. 45% at end-2021. Apart from the financial support from the government, CAXIG has access to financing channels such as bank loans, corporate bonds, and other financing channels to support its debt repayment and business operation. CAXIG's liquidity was adequate. At end-2021, CAXIG had total cash of c. RMB2.74 billion, of which c. RMB2.6 billion was unrestricted and a total credit line of RMB53.4 billion, of which approximately RMB24.0 billion was available, compared with its debt to be due within one year of c. RMB7.9 billion.

Moderate Economy and Fiscal Strength of Shuangliu District: Shuangliu District realized c. RMB113.1 billion GDP with a year-over-year growth rate of 8.6% in 2021. Shuangliu District's economic growth was mainly fueled by the secondary and tertiary industries in the past few years. The service industry became the main GDP growth driver with the tertiary industry (the service sector) accounting for the largest, at 66.4%, of Shuangliu District's 2021 GDP, followed by the secondary industry (comprising manufacturing and construction) at 30%.

Shuangliu District's aggregate fiscal revenues are mainly derived from the relatively volatile government fund income and budgetary revenue. The tax revenue as a percentage of the budgetary revenue has been relatively stable at c. 85% in the past three years. The significant growth of revenue from government fund income in 2020 was mainly from the increase in the transfer of land use right, which increased by 61.3% in 2020 compared with 2019, leading the government fund income to increase by c. 26.1% to c. RMB12.3 billion in 2020. The decrease of revenue from government fund in 2021 was also mainly due to the decrease in the transfer of land use right. Although Shuangliu District was financially self-sufficient with a relatively low fiscal debt rate compared with other county-level cities or districts within Chengdu, its fiscal debt ratio (total government debt outstanding/aggregate revenue) deteriorated from 69.5% in 2019 to 84.3% in 2021. Besides, Shuangliu District's government debt increased from RMB13.8 billion at end-2019 to RMB19.6 billion at end-2021, representing a compound annual growth rate of 19.2%. On the bright side, Shuangliu District's budget deficit keeps improving from 56.3% at in 2019 to 24.6% in 2021.

Rating Sensitivities

We would consider downgrading CAXIG's rating if (1) there is perceived weakening in support from the Shuangliu government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Shuangliu government's ownership of CAXIG, or (3) there is a downgrade in our internal credit assessment on the Shuangliu government.

We would consider upgrading CAXIG's rating if (1) there is strengthened support from the Shuangliu government, or (2) there is an upgrade in our internal credit assessment on the Shuangliu government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this CAXIG's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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