

Chengdu Airport Xingcheng Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Positive
Location	China
Industry	Local Government
	Financing Vehicle
Date	29 April 2022

Lianhe Global has assigned 'BBB' global scale Long-term Issuer Credit Rating with Positive Outlook to Chengdu Airport Xingcheng Investment Group Co., Ltd. ("CAXIG").

Summary

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.

Rating Rationale

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 ("Shuangliu SASAFB"), 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

Key Figures of Shuangliu and CAXIG (RMB billion)

	2020	2021
Shuangliu		
GDP	100.2	113.1
GDP growth rate (%)	2.1	8.7
Budgetary revenue	7.8	9.0
Government fund	12.3	11.1
Transfer payment	3.4	3.0
Budgetary expenditure	10.2	11.2
CAXIG	2020	2021
Assets	91.3	100.6
Equity	52.5	55.1
Revenue	3.7	4.3

Source: Shuangliu District People's Government, Finance Bureau of Shuangliu, CAXIG and Lianhe Global's calculations

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Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

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.

Operating Environment

Moderate Economy with Stable Growth of Shuangliu

Shuangliu District is one of the twelve urban districts of the prefecture-level city of Chengdu. With a total land area of 1,065 square kilometres, the actual jurisdiction area of Shuangliu District is 466 square kilometers, along with 35 square kilometers entrusted to Chengdu Hi-Tech Industrial Development Zone [成都高新技术产业开发区] and 564 square kilometers under the direct management of Chengdu Tianfu New District [成都市天府新区]. As the home of Chengdu Shuangliu International Airport, the fourth busiest airport in China, Shuangliu District is rapidly being urbanized by the growth of Chengdu and the airport's recent expansion, with a residential population of c. 1.5 million, according to the 7th National Census in 2020.

Shuangliu realized GDP of RMB96.2 billion, RMB100.2 billion, RMB113.1 billion in 2019, 2020 and 2021, representing a year-over-year growth rate of 8.8%, 2.1% and 8.7%, respectively. The slowdown of GDP growth in 2020 was mainly due to the pandemic. Shuangliu's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, among which the proportion of the secondary industry dropped to less than 30% in 2020. The secondary and tertiary industries realized added value of RMB38.6 billion and RMB73.0 billion in 2021, respectively. Shuangliu's whole-year GDP amount was ranked 8th in Chengdu in 2021 (out of 23 county-level cities and districts). GDP per capita was c. RMB77,130 in 2021.

Shuangliu's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	96.2	100.2	113.1
-Primary industry (%)	1.9	1.9	1.3
-Secondary industry (%)	32.3	33.0	34.1
-Tertiary industry (%)	65.8	65.1	64.6
GDP growth rate (%)	8.8	2.1	8.7
Fixed asset investment	50.0	54.6	62.1
Fixed asset investment growth rate (%)	16.9	9.1	13.7
Population (million)	81.5	146.6	146.6

Source: Shuangliu government's website and Lianhe Global's calculation

Moderate Fiscal Condition of Shuangliu

Shuangliu's fiscal revenue was c. RMB9.0 billion in 2021, growing rapidly in the past few years, with the growth rates of 12.1%, 8.2% and 15.3% in 2019, 2020 and 2021, respectively. The tax revenue as a percentage of budgetary revenue maintained relatively stable at c. 85% in the past three years. The significant growth of revenue from government fund income in 2020 was mainly due to the increase of the transfer of land use rights, which increased by 61.3% in 2020 compared with 2019, leading to an increase of government fund income by 26.1% to c. RMB12.3 billion in 2020. The decline of revenue from government fund income in 2021 was also mainly due to the decrease of the transfer of land use rights.

Although Shuangliu is 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'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 19.1%. On

the bright side, Shuangliu's budget deficit has improved from 56.3% in 2019 to 24.6% in 2021.

Shuangliu's Fiscal Condition (RMB billion)	2019	2020	2021
Budgetary revenue	6.8	7.8	9.0
Budgetary revenue growth rate (%)	12.1	8.2	15.3
Tax revenue	5.7	6.8	7.5
Tax revenue (% of budgetary revenue)	84.2	88.1	83.4
Government fund income	9.7	12.3	11.1
Transfer payment	3.2	3.4	3.0
Aggregate revenue	19.9	23.7	23.3
Budgetary expenditure	10.6	10.2	11.2
Budget deficit ¹ (%)	-56.3	-32.0	-24.6

¹ Budget deficit = (1 - budgetary expenditure / budgetary revenue) * 100%

Source: Finance Bureau of Shuangliu and Lianhe Global's calculations

Ownership Structure and Profile

Full State Ownership with Strong Government Supervision

CAXIG, formerly known as Shuangliu Xingcheng Construction Investment Co., Ltd. [双流兴城建设投资有限公司], is a wholly state-owned company established by Finance Bureau of Shuangliu County [双流县财政局] in September 2005, with an initial registered capital of RMB50 million. Later in January 2007, the shareholder of CAXIG was changed from Finance Bureau of Shuangliu County to the Shuangliu SASAFB [成都市双流区国有资产监督管理和金融工作局] after Shuangliu County was changed into Shuangliu District in Chengdu. In June 2019, CAXIG's name was changed to the current name. After several capital injections and equity transfers, the registered capital of CAXIG became RMB15 billion, with the paid-in capital of RMB3.34 billion at end-2021. The registered capital is planned to be fully injected on or before December 2029. The Shuangliu SASAFB is the only shareholder with 100% ownership of CAXIG and the Shuangliu government is its ultimate controller.

Strategic Importance and Government Linkage

Strategic Importance of CAXIG to Shuangliu

CAXIG is the major LGFV carrying out urban infrastructure construction and operation in Shuangliu District, Chengdu. CAXIG is mainly responsible for the infrastructure construction business entrusted by the government. The business segments of CAXIG include but not limit to affordable housing, urban infrastructure construction and construction material sales. CAXIG is Shuangliu District's largest LGFV, accounting for c. 60% of the total assets of all Shuangliu District's LGFVs. We believe that the Shuangliu government is willing to extend support to CAXIG in view of its strategic important role as one of the most important developers in Shuangliu District to support the local economic and urban development.

Strong Linkage with the Shuangliu Government

CAXIG's linkage with the local government is strong as it is wholly owned by the Shuangliu government through the Shuangliu SASAFB.

The Shuangliu government has strong control and supervision over CAXIG, including control of the board of directors, senior management appointments, and major strategic, investment and financing planning. CAXIG's strategic planning and development have been aligned

with the local government's economic and social policies, aiming to develop Shuangliu District.

Ongoing Government Support

CAXIG has been receiving supports from the local government for its business operation, including capital injections, subsidies, allocation of land resources or assets and guidance from the government in its daily management.

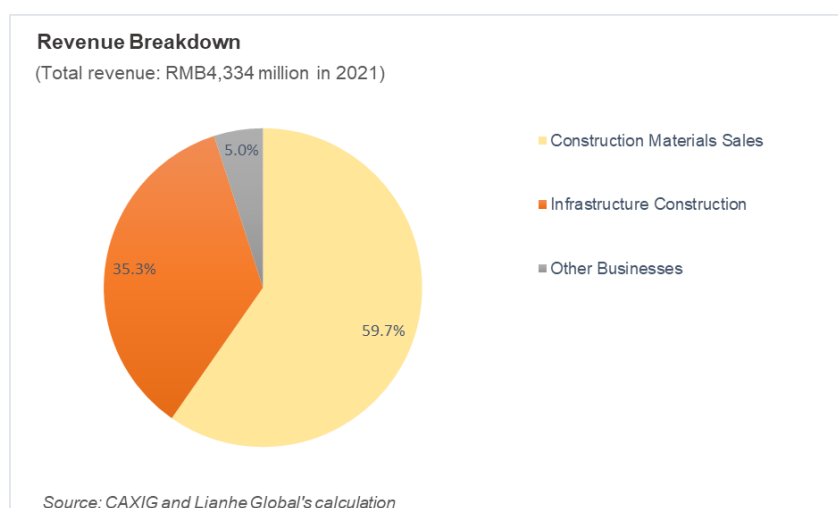
The Shuangliu SASAFB injected capital of RMB2.24 billion in 2018 and RMB6.54 billion in 2019 to CAXIG. In 2019, the Shuangliu SASAFB injected land resources to CAXIG, increasing its capital reserves by RMB6.06 billion. In June 2019, the Shuangliu SASAFB also enlarged CAXIG's registered capital to RMB15 billion, consolidating CAXIG's capital strength. In 2020, the Shuangliu SASAFB injected the 10-year ore mining operation franchise of the rivers in Shuangliu District into CAXIG, boosting its capital reserves by RMB 8.5 billion. In August 2021, the Shuangliu SASAFB contributed RMB257 million to CAXIG, increasing its paid-in capital accordingly.

CAXIG has received financial subsidies from the local government mainly for supporting projects related to public infrastructure or special projects. CAXIG received a total of c. RMB946 millions of government subsidies between 2018 and 2021. We believe CAXIG will likely receive timely government support in the form of operational and/or financial subsidies in the future.

Business Profile

The Major LGFV responsible for infrastructure construction and operation of Shuangliu District in Chengdu

CAXIG is the major LGFV carrying out urban infrastructure construction and operation in Shuangliu District, Chengdu. CAXIG is mainly responsible for the infrastructure construction business entrusted by the government. Due to differences in business fields or areas, CAXIG has certain franchises and does not constitute competitive relationships with other state-owned enterprises in Shuangliu District. CAXIG's operation has been relatively stable, and the income generated from infrastructure construction projects and construction material sales are the main sources of its revenue. CAXIG realized revenue of RMB3,779 million and RMB3,657 million and RMB4,334 million in 2019, 2020 and 2021, respectively. CAXIG is transforming itself into an integrated city operator from an urban developer providing public-service function, covering infrastructure development, industrial investment, healthcare and education.



Infrastructure Construction

CAXIG's infrastructure construction management business is divided into agent construction management projects, build-and-transfer projects ("BT projects"), affordable housing projects and the entrusted construction projects.

Majority of CAXIG's construction projects are carried out under the agent construction management model. CAXIG undertakes public facilities construction projects entrusted by the government every year in accordance with the planning of Shuangliu government. During the construction period, CAXIG manages the construction, progress and capital investment of the entire project. The construction period is generally one to three years and all the funds required for the project construction are borne by CAXIG. CAXIG determines the investment at the end of each year and 5% of the total amount (including the construction cost, various taxes and interest expenses incurred due to construction) is recognized as the commissioned construction management fee income. After the entrusted construction project is completed, the Chengdu Shuangliu District Planning and Construction Bureau will allocate the project construction cost and the management fee to CAXIG, and settle the full payment within five years from the date of completion.

CAXIG undertakes affordable housing construction projects entrusted by the government every year according to Shuangliu government's plan. The projects can be sorted by entrusted construction projects and self-operating projects. For entrusted construction projects, CAXIG's related responsibilities, revenue recognition, accounting treatment and other agreements are similar to the entrusted infrastructure construction businesses. For self-operating projects, CAXIG realizes profits through the sale of affordable housings and commercial housings, as well as the sale and lease of motor vehicle parking spaces. The affordable housings are sold to the incumbent residents at preferential prices, the commercial housings are sold at market price, while the motor vehicle spaces are sold and rented at market price as well.

CAXIG began to carry out the entrusted construction projects since 2019. It is operated by its subsidiaries Chengdu Construction Management and it undertakes projects in accordance with the Entrusted Construction Contract entered into with Chengdu Shuangliu Modern Agricultural Development Investment Co., Ltd. on 1 January 2019. CAXIG receives 120% of the final settlement amount after the project costs are audited. CAXIG receives payments annually and full payments are received within five years from the date of completion.

CAXIG has not entered into any BT agreements since the release of Cai Yu [2012] No.463 (财预[2012]463) by the Ministry of Finance in 2012. Per CAXIG, it has already completed all its BT projects and all the outstanding payments from the Shuangliu government had been collected.

CAXIG realized revenue of RMB3,400 million, RMB2,173 million and RMB1,531 million from the infrastructure construction segment in 2019, 2020 and 2021, respectively. Its contribution dropped significantly from 90.0% in 2019 to 35.3% in 2021, mainly due to cyclicalities (the construction output value in China reached its peak in 2019), withdrawal from BT projects and government purchase projects as well as the reposition of CAXIG from an urban developer to an integrated city operator.

Construction Materials Sales

The revenue generated from construction materials sales has increased significantly in recent years. This segment was newly added to CAXIG in 2019, and operated by its subsidiary Gangrui Construction Materials. It purchases raw materials such as sand, gravel and cement, then produces concrete through mixing plants, and finally sells them through its own sales chain. The top five suppliers accounted for 46.16% of CAXIG's total purchase amount in 2020. For its customers, it mainly targets large- and medium-sized state-owned construction enterprises and high-quality private enterprises in Chengdu and its surrounding areas. The top five customers accounted for 30.51% of the CAXIG's total revenue in 2020.

In 2020, CAXIG established its subsidiary Airport Construction Materials, who mainly engaged in sand and gravel sales, construction materials trading and construction waste disposal. This segment grew rapidly in the past few years, with realized revenue of RMB240 million, RMB1,197 million and RMB2,588 million, accounting for c. 6.3%, 32.7% and 59.7% of CAXIG's total revenue in 2019, 2020 and 2021, respectively. The gross margin for the construction materials sales segment was at c. 31.8%, 20.0% and 12.8% in 2019, 2020 and 2021, respectively. The gross margin is dragged by the newly established subsidiary as this segment is still in the start-up phase.

Other Businesses

Other businesses include property management, construction quality inspection and sewage treatment. For property management, CAXIG is responsible for managing the office spaces of its administrative departments and the business is expected to extend to the Shuangliu Free Trade Zone in the future. The contribution of other businesses was small, accounting for c. 3.5%, 6.4% and 3.1% of CAXIG's total revenue in 2019, 2020 and 2021, respectively.

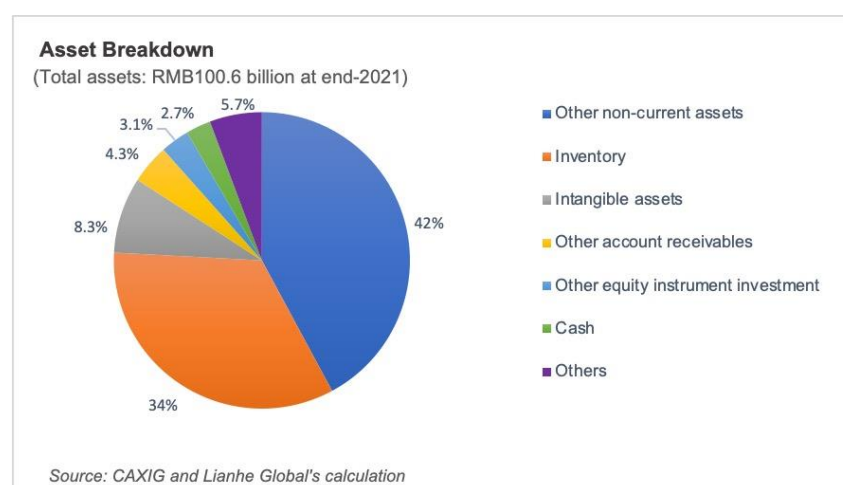
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality			
(RMB million)	2019	2020	2021
Total Asset	73,164	91,345	100,580
Equity	42,600	52,468	55,069
Debt	24,981	35,475	42,128
Debt / (Debt + Equity) (%)	36.9	40.3	43.5
LT Debt	21,457	29,419	32,465
LT Debt / (LT Debt + Equity) (%)	33.4	35.9	37.1

Source: CAXIG, CAXIG's financial reports and Lianhe Global's calculations

CAXIG's total assets have shown a continuous growth trend in the past few years, with growth rate of 24.8%, 10.11% in 2020 and 2021, respectively. The increase of total assets in 2021 was mainly due to the increase in inventories and other non-current assets which were mainly engineering-related assets. The asset structure was stable, with other non-current assets and inventories accounting for c. 75.8% of CAXIG's total assets at end-2021. The inventories reached RMB33.9 billion at end-2021, accounting for c. 33.7% of the total assets, which mainly included land to be developed and development costs. Other receivables reached RMB4.3 billion at end-2021, accounting for c. 4.3% of the total assets, with 成都西航港工业发展投资有限公司, a state-owned company 100% owned by Shuangliu SASAFB, accounting for 46.8% of the other receivables. Per CAXIG, the government plans to use some high-quality assets of 成都西航港工业发展投资有限公司 along with cash to offset the related other receivables of CAXIG in 2022.



CAXIG's financial leverage (total liabilities to assets) increased to 45.3% at end-2021 from 41.6% at end-2019. Total liabilities increased by 16.8% to RMB45.5 billion at end-2021 from end-2020, while its total equities increased by 5.0% to RMB55.1 billion with unchanged equity structure. CAXIG's total debt increased to RMB42.1 billion at end-2021, representing an increase of c. 19% compared with that at end-2020. Debt over capitalization ratio was 37.1% at end-2021. CAXIG mainly relies on external financing to support its capital expenditures.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021
Cash Inflows from Operation	8,900	13,309	5,522
Cash Outflows from Operation	8,716	11,845	4,853
Net CF from Operation	184	1,465	669
Cash Inflows from Investment	121	1,576	3,031
Cash Outflows from Investment	7,207	8,661	7,036
Net CF from Investment	-7,085	-7,086	-4,005
Cash Inflows from Financing	14,838	16,623	19,733
Capital Contribution	4,768	1,657	1,928
Borrowings	8,649	12,063	15,755
Others	-	-	-
Cash Outflows from Financing	7,469	10,054	17,498
Net CF from Financing	7,369	6,569	2,235
Net Increase in Cash and cash equivalent	441	938	-1,104

Source: CAXIG's financial reports

Debt Servicing Capability

At end-2021, CAXIG had a total credit line of RMB53.4 billion, of which approximately RMB24.0 billion was available, compared with its debt due within one year of RMB 7.9 billion. CAXIG has access to multiple financing channels including bank borrowings, bond issuances and other financing channels. At end-2021, bank loans accounted for 50.2% while bonds and non-traditional financings accounted for 43.7% and 6.0% of the total borrowings respectively. The average financing cost of CAXIG was c. 4.8% at end-2021.

Debt Maturity Profile at end-2021

(RMB million)	Amount	Percentage
2022	7,923	18.8%
2023	6,330	15.0%
2024	8,326	19.8%
2025	5,058	12.0%
2026 and thereafter	14,492	34.4%
Total	42,128	100.0%

Source: CAXIG and Lianhe Global's calculations

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