

Chengdu Xinjin City Industry Development Group Company Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	11 November 2022

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Xinjin City Industry Development Group Company Ltd. (“CXCID” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xinjin District (“Xinjin government”) would provide strong support to CXCID if needed, in light of its full ownership of CXCID, CXCID’s strategic position as the major LGFV participating in infrastructure construction and state-owned asset operation in Xinjin District (“Xinjin”) of Chengdu City, as well as the strong linkage between the Xinjin government and CXCID, including control of board of directors, management supervision, strategic alignment and ongoing operational and financial support. In addition, the Xinjin government may face significant negative impact on its reputation, business and financing activities should CXCID encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that CXCID’s strategic importance would remain intact while the Xinjin government will continue to ensure CXCID’s stable operation.

Rating Rationale

Xinjin Government’s Ownership and Supervision: CXCID is wholly owned by the Xinjin government through the State-owned Assets Supervision and Administration Bureau of Xinjin government (“Xinjin SASAB”). The Xinjin government has strong control and supervision over CXCID, including control of the board of directors, management supervision, decision on its strategic development and investment plan, supervision of its major funding decisions and daily operation, etc. In addition, the Xinjin government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financials on a periodic basis.

Strategic Importance and Strategic Alignment: As the largest and the major LGFV in Xinjin, CXCID is responsible for infrastructure construction, industrial park development, as well as resettlement housing construction, transportation operation and comprehensive development for Transit-Oriented Development (“TOD”) project with commercial nature to promote the development of urban community in Xinjin. The TOD project will generate more revenue and investment return for CXCID. With the implement of integration plan of state-owned assets under the Xinjin SASAB, the business and role of CXCID have expanded and improved. It mainly undertakes the management, investment, safeguard and increase the value of state-owned assets with a franchise advantage in the region. CXCID’s strategic planning and development have been aligned with the local government’s economic and social policies. It carries out the directions and policies of urban development by the Xinjin government to support the local economy growth.

Ongoing Government Support: CXCID has received several capital injections since its establishment. The paid-in capital increased from the initial of RMB3 million to RMB100 million at end-June 2022, mainly through cash injection from the Xinjin SASAB. Meanwhile, CXCID also received supports such as physical assets, mineral exploration right and state-

Key Figures of Xinjin and CXCID (RMB billion)	2020	2021
Xinjin		
GDP	40.1	44.4
GDP growth rate (%)	6.0	8.6
Budgetary revenue	3.0	3.3
Government fund	5.3	3.8
Transfer payment	2.1	1.3
Budgetary expenditure	4.3	4.3
CXCID		
Assets	62.4	67.4
Equity	36.7	37.9
Revenue	2.2	1.7

Source: Public information, CXCID and Lianhe Global’s calculations

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Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

owned equity transfers under government's approvals or announcements. In addition, CXCID has continued to receive financial subsidies from the local government. Given the franchise advantage in infrastructure construction, industrial park development and transportation projects construction in the region, CXCID and its subsidiaries have advantages to obtain land resources and major projects. We believe CXCID is likely going to receive government support in the form of operational and/or financial subsidies in the future.

Financials and Liquidity of CXCID: CXCID was the largest LGFV in terms of asset size in Xinjin, which had a total asset of RMB69.8 billion at end-June 2022. CXCID's financial leverage as measured by total liabilities/total assets decreased from 51.0% at end-2019 to 41.2% at end-2020, mainly due to the substantial increase in the total assets after the consolidation of subsidiaries in 2020, but it increased slightly to 45.2% at end-June 2022. CXCID has mostly relied on borrowings to fund its capital expenditure, and that the short-term and long-term borrowings accounted for the most (c. 40%) of its total liabilities at end-June 2022. The liquidity of CXCID was tight as it had a cash balance of approximately RMB1.7 billion and unused credit facilities of RMB863.9 million, compared with debt due within one year of c. RMB7.0 billion at end-June 2022. However, CXCID currently has a total onshore bond issuance quota of RMB8 billion under application. CXCID has access to various financing channels including bank loans, bond issuances and non-traditional financing etc., to support its debt repayment and business operation.

Economic and Fiscal Conditions of Xinjin: Xinjin is located in the south of Chengdu City. Xinjin realized GDP of RMB44.4 billion in 2021, representing a year-on-year growth rate of 8.6%. Xinjin's GDP was mostly fueled by secondary and tertiary industries in the past few years. The Xinjin government's aggregate fiscal revenue was mainly derived from budgetary revenue and government-managed fund. The tax revenue accounted for 56.5% of its budgetary revenue in 2021, down from 60.7% in 2020 and 65.4% in 2019. The fiscal self-sufficiency rate of the Xinjin government was insufficient, hence it continuously received a certain number of subsidies from higher government authorities. The Xinjin government's debt ratio (total debt outstanding/aggregate fiscal revenue) was relatively high in 2021, due to the increase of total debt outstanding from RMB7.2 billion at end-2020 to RMB7.9 billion at end-2021, which was mainly due to an increase in government special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Xinjin

Xinjin is located in the south of Chengdu and is one of the districts of Chengdu. Xinjin has jurisdiction over 4 streets and 4 towns, with a total land area of 330 square kilometers. As the main area designated as the New Material Industrial Functional Zone, International Railway Hub and Modern Logistics Functional Zone, an industrial system dominated by food processing, rail transit and new materials has been formed in Xinjin to facilitate the economy development. Xinjin realized GDP of RMB44.4 billion in 2021, representing a year-on-year growth rate of 8.6%. Xinjin's GDP was mostly fueled by secondary and tertiary industries, accounting for 42.5% and 53.1% of its total GDP in 2021, respectively. Xinjin's population reached c. 0.3 million with an urbanization rate of 53.2% in 2021.

Xinjin's GDP and Fixed Asset Investment

(RMB billion)	2019	2020	2021
GDP	37.5	40.1	44.4
-Primary industry (%)	5.7	5.8	4.4
-Secondary industry (%)	42.5	43.3	42.5
-Tertiary industry (%)	51.8	52.9	53.1
GDP growth rate (%)	8.6	6.0	8.6
Fixed asset investment	28.5	33.2	40.2
Fixed asset investment growth rate (%)	11.7	16.2	21.3
Population (million)	0.3	0.3	0.3

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Xinjin

The Xinjin government's aggregate fiscal revenue was mainly derived from budgetary revenue and government-managed fund. The Xinjin government's budgetary revenue increased steadily in the past three years with growth rates of 15.4%, 9.4% and 8.0% in 2019, 2020 and 2021, respectively, mainly due to the increase of non-tax revenue. The tax revenue accounted for 56.5% of the budgetary revenue in 2021, down from 60.7% in 2020 and 65.4% in 2019. The improvement of budgetary revenue has in turn helped to mitigate the budget deficit, which improved to -31.9% in 2021 from -40.5% in 2020. The fiscal self-sufficiency rate of the Xinjin government was insufficient, hence it continuously received a certain number of subsidies from higher government authorities.

As the most substantial component of the local fiscal revenue, the revenue from the government-managed fund was fluctuant and decreased sharply to RMB3.8 billion in 2021 from RMB5.3 billion in 2020 due to the recession in real estate market and more rigorous regulations. We believe the sustainability of government-managed fund and transfer payments is less predictable and is subject to changes in relevant policies. The Xinjin government's debt ratio (total debt outstanding/aggregate fiscal revenue) was relatively high in 2021, due to the increase of total debt outstanding from RMB7.2 billion at end-2020 to RMB7.9 billion at end-2021, which was mainly due to an increase in government special debt.

Xinjin's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	2.8	3.0	3.3
Budgetary revenue growth rate (%)	15.4	9.4	8.0
Tax revenue	1.8	1.8	1.9
Tax revenue (% of budgetary revenue)	65.4	60.7	56.5
Government fund income	4.4	5.3	3.8
Transfer payment	1.1	2.1	1.3
Aggregate revenue	8.3	10.4	8.4
Budgetary expenditure	3.4	4.3	4.3
Budget deficit ¹ (%)	-23.5	-40.5	-31.9

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

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

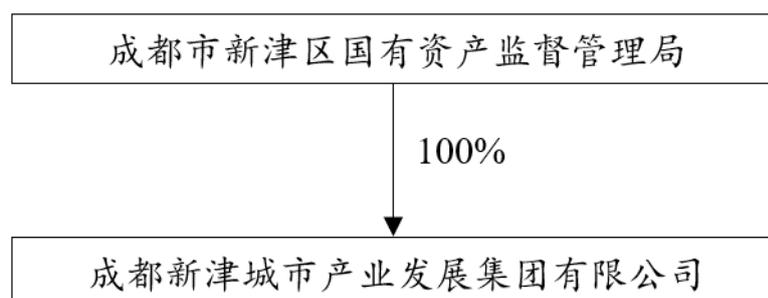
Ownership Structure and Profile

Government's Ownership and Supervision

CXCID (formerly known as: Chengdu Huazhiyuan Urban Construction Investment Co., Ltd.) was established in 2005 with an initial registered capital of RMB3 million in cash was fully contributed by the People's Government of Huayuan Town, Xinjin County. The controlling shareholder of CXCID was transformed to State-owned Assets Administration Bureau of Xinjin County in 2007, and then it increased CXCID's registered capital to RMB20 million in 2008. In 2019, CXCID's registered capital was increased to RMB100 million in the form of cash, physical assets and land use rights.

In June 2020, Xinjin was changed from a county to a district of Chengdu City under the approval of the State Council. CXCID's controlling shareholder was changed to the Xinjin SASAB and the company's name was changed to Chengdu Xinjin Urban Construction Investment Group Co., Ltd. in November 2020, and was later changed to CXCID in June 2022. The registered capital of CXCID was increased to RMB3 billion, while the paid-in capital was RMB100 million at end-June 2022.

The shareholding structure of CXCID at end-June 2022:



Source: The company



Strategic Importance and Government Linkage

Strategic Importance of CXCID to Xinjin

As the largest and the major LGFV in the region, CXCID is responsible for infrastructure construction, industrial park development, as well as resettlement housing construction, transportation operation and comprehensive development for TOD project to promote the development of urban community in Xinjin. With the implementation of integration plan of state-owned assets under the Xinjin SASAB, the business and role of CXCID have expanded and improved. It undertakes the management, investment, safeguard and increase the value of state-owned assets with a franchise advantage in the region. CXCID's strategic planning and development have been aligned with the local government's economic and social policies. It carries out the directions and policies of urban development by the Xinjin government to support the local economy growth.

Strong Linkage with the Xinjin Government

CXCID's linkage with the local government is strong as it is wholly owned by the Xinjin government through the Xinjin SASAB. The Xinjin government has strong control and supervision over CXCID, including control of the board of directors, management supervision, decision on its strategic development and investment plan, supervision of its major funding decisions and daily operation, etc. In addition, the Xinjin government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financials on a periodic basis.

Ongoing Government Support

CXCID has received several capital injections since its establishment. The paid-in capital increased from the initial of RMB3 million to RMB100 million at end-June 2022, mainly from the increase in cash injection from the Xinjin SASAB. Apart from capital injections, CXCID also increased its capital reserve by obtaining mineral exploration right, receiving physical assets and supplementary operating funds and acquiring state-owned equity transfers under government's approvals or announcements. CXCID has received state-owned equity transfers in the past few years, such as equity of Chengdu Xinjin Urban and Rural Construction Investment Co., Ltd. ("CXURC") and Chengdu Xinjin Transportation Construction Investment Co., Ltd. ("CXTCI") in 2020.

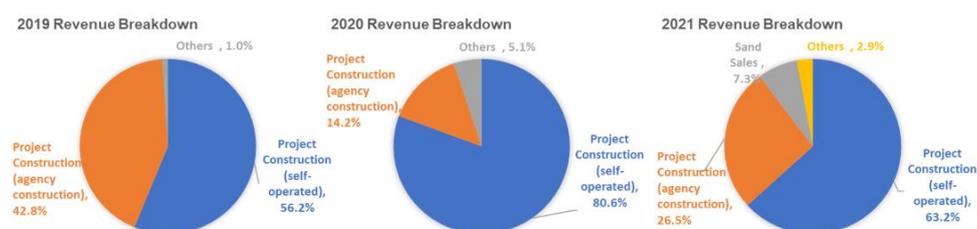
CXCID has continued to receive financial subsidies from the local government, including operational subsidies and policy supports, etc. CXCID received subsidies of approximately RMB584.3 million, RMB133.5 million, RMB285.1 million and RMB364.8 million in 2019, 2020, 2021 and the first six months of 2022, respectively. The Xinjin government will repurchase some infrastructure projects upon completion and provide policy supports to CXCID to ensure its business operation. Given the franchise advantage in infrastructures and transportation related projects construction in the region, CXCID and its subsidiaries have advantages to obtain land resources and major projects. We believe CXCID is likely going to receive government support in the form of operational and/or financial subsidies in the future.

Business Profile

The Largest and the Major LGFV Responsible for Infrastructure Construction and Industry Development in Xinjin

As the largest and the major LGFV in Xinjin, CXCID mainly undertakes infrastructure construction, resettlement housing construction, industrial development and other self-operating projects in the region. With the implementation of integration plan of state-owned assets and other LGFVs under the Xinjin SASAB, the business and role of CXCID have expanded and improved. CXCID mainly carries out businesses through itself and its subsidiaries, including infrastructure construction, resettlement housing construction, industrial and urban development, bus operation, sand sales, quality assurance business and other businesses such as leasing service, parking business and scenic business.

The total revenue of the company was approximately RMB2,086 million, RMB2,229 million, RMB1,723 million and RMB810 million in 2019, 2020, 2021 and for the first six months of 2022, respectively. The revenue generated from project construction segment, accounted for more than 90% of its total revenue, among which for period 2019 to 2021, 56%, 81% and 63% of its total revenue was from self-operated projects while 43%, 14% and 27% was from government agent construction projects. Thus, the performance of this business segment has highly affected its total revenue. The gross margin of CXCID decreased from c.12.5% in 2019 to 8.6% for the first half of 2022, mainly due to the increased contribution of non-profitable business.



Source: CXCID and Lianhe Global's calculations

Project Construction

Project construction is the most important business of CXCID as it was the biggest part of the total revenue in the past three years. It mainly conducts three business components: 1) infrastructure construction, 2) resettlement housing construction and 3) industrial park development and other commercial construction. Generally, the construction revenue is construction costs plus a percentage of markup (i.e. 12%-15%). The projects funds are generally obtained by the company through self-raising and financing, accounting for 30% and 70%, respectively. The entrust party repay the project according to the project schedule. The project collection cycle is mostly concentrated in three to five years. Infrastructure construction projects mainly include road engineering, bridge construction and urban reconstruction projects in the region. CXCID had completed a number of infrastructure construction projects and resettlement housing construction projects in Xinjin, such as Yingbin Avenue Comprehensive Project, Baihe Bridge, Urban Village Reconstruction Project and Tianfu intelligent manufacturing industrial park and digital economy industrial park. At end-June 2022, CXCID had several projects under construction and planning. Although there will be a certain amount of repayment in the future, the capital expenditure is still under pressure.

Bus Operation

CXCID, through its subsidiary, has obtained the road transport operation license issued by Transportation Bureau of Chengdu. The bus operation business has strong public role, and the ticket price is set by the government. In order to meet the public travel demand of the

vast majority of people, the ticket price has been low, which cannot cover the operating cost, so the gross profit margin of the bus operation business has been negative. Due to the strong public welfare nature of this business, it highly depends on government subsidies. The government subsidy can cover the loss-making to ensure the sustainable of this business segment.

Sand Sales

CXCID's sand and gravel operation has a franchise advantage in the region. The company mainly mines sand and stone resources within the land range of government investment projects and social investment projects in Xinjin, and processes sand and stone resources related to river activities in Xinjin into commercial concrete for sale. The customers are mainly local building materials and trading companies, with a high customer concentration.

Other Businesses

CXCID's other businesses mainly include quality assurance business, leasing, parking, catering and accommodation, scenic service and financial business. Although the quality assurance business has a high gross margin at c. 70%, the scale of this business was small in the past few years. The other businesses have limited impact and contribution to CXCID's total revenue due to their small business scales.

Financial Profile

Balance Sheet Structure and Quality

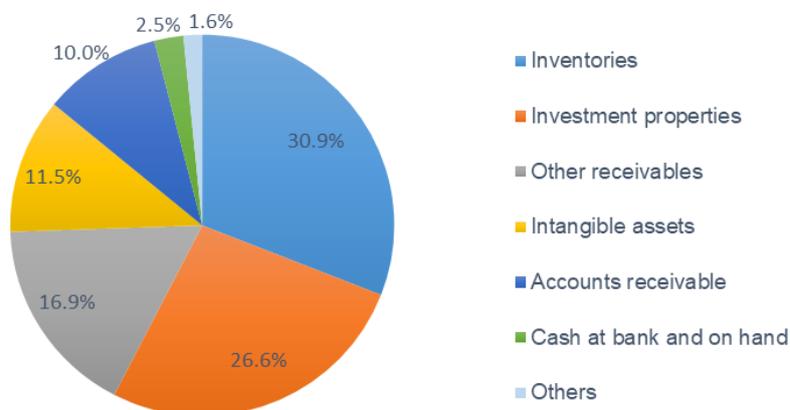
Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	June 2022
Total Asset	38,302	62,372	67,390	69,828
Equity	18,787	36,690	37,901	38,279
Debt	12,666	15,552	18,725	20,403
Debt / (Debt + Equity) (%)	40.3	29.8	33.1	34.8
LT Debt	9,051	11,047	11,720	13,379
LT Debt / (LT Debt + Equity) (%)	32.5	23.1	23.6	25.9

Source: CXCID's financial reports and Lianhe Global's calculations

CXCID's total assets increased from RMB38.3 billion at end-2019 to RMB69.8 billion at end-June 2022, mainly due to the consolidation of main subsidiaries of CXURC and CXTCl in 2020. The asset structure at end-June 2022 largely remained unchanged comparing with that at end-2020. Although the current assets contributed most of CXCID's total assets, the company's asset liquidity was moderately weak. The inventories, accounted for c. 31% of its total assets, mainly include land to be developed, completed but not yet settled projects as well as construction costs. Other receivables and accounts receivable mainly consisted of projects payment. The non-current assets mainly included investment properties and intangible assets, of which the land use rights accounted for the majority. Apart from the land use rights, the intangible asset included rights of sand resources given from the local government.

Asset Breakdown

(Total assets: RMB69.8 billion at end-June 2022)



Source: CXCID and Lianhe Global's calculations

CXCID has mostly relied on borrowings to fund its capital expenditure, and that the short-term and long-term borrowings accounted for c. 40% of its total liabilities at end-June 2022. The total debt of CXCID increased from RMB18.7 billion at end-2021 to RMB20.4 billion at end-June 2022, mainly due to the increase of long-term borrowings. The short-term and long-term debt accounted for 34.4% and 65.6% of its total debt, respectively, at end-June 2022. CXCID's financial leverage as measured by total liabilities/total assets decreased from 51.0% at end-2019 to 41.2% at end-2020, mainly due to the substantial increase in the total assets after the consolidation of subsidiaries, but it increased slightly to 45.2% at end-June 2022.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	6M2022
Cash Inflows from Operation	6,707	7,032	6,024	2,823
Cash Outflows from Operation	7,319	6,890	5,554	3,899
Net CF from Operation	-612	141	470	-1,075
Cash Inflows from Investment	0	68	211	0
Cash Outflows from Investment	65	219	39	5
Net CF from Investment	-65	-151	171	-5
Cash Inflows from Financing	4,690	6,743	9,577	3,468
Cash Outflows from Financing	4,492	5,892	10,063	3,244
Net CF from Financing	198	851	-486	223
Net Increase in Cash and cash equivalent	-479	842	155	-858

Source: CXCID's financial reports

Debt Servicing Capability

The liquidity of CXCID was tight. CXCID had a cash balance of approximately RMB1.7 billion and unused credit facilities of RMB863.9 million at end-June 2022, compared with debt due within one year of c. RMB7.0 billion at the same time. CXCID can apply for bank credit facilities on a case-by-case basis with a relatively high cap. In addition, CXCID currently has a total onshore bond issuance quota of RMB8 billion under application. CXCID has access to various financing channels including bank loans, corporate bonds and non-traditional



financing etc., to support its debt repayment and business operation. In terms of future financing plan, CXCID proposes that bank borrowing would account for c. 50%, while bond issuance and other non-traditional financing account for 35% and 15%, respectively.

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