

Chengdu Xiangcheng Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	11 April 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Xiangcheng Investment Group Co., Ltd. (“CXIG” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xindu District of Chengdu City (“Xindu government”) would provide very strong support to CXIG if needed, in light of its full ownership of CXIG, CXIG’s strategic importance as the only local investment and development company (“LIDC”) in Xindu District of (“Xindu”) of Chengdu City (“Chengdu”), and the linkage between the Xindu government and CXIG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Xindu government may face significant negative impact on its reputation and financing activities if CXIG encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: CXIG was established as a wholly state-owned entity under the approval of the Xindu government in March 2017. The Xindu government via the State-owned Assets Supervision and Administration and Finance Bureau (“Xindu SASAFB”) holds 100% ownership of CXIG and is the actual and ultimate controller of the company. The Xindu government has strong supervision over CXIG, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Xindu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: As the only LIDC responsible for infrastructure construction and urban development and operation in the region, CXIG undertakes important functions assigned by the local government, and it has a monopoly position in the construction of urban infrastructure and affordable housing in Xindu. In addition, it also carries out various functions to maintain urban operation such as bus operation, water business and water supply, industrial park development, parking lot operations and charging for street parking spaces within the region, etc. CXIG plays an important role in urban development and operation in Xindu, as well as improve people’s livelihoods. CXIG’s strategic planning and development have been aligned with the local government’s development plans and policies, aiming to strengthen urban and rural construction, as well as to support the economic and industrial development of Xindu.

Ongoing Government Support: CXIG continuously received support from the local government, including but not limit to capital injection, equity transfer and policies support, etc. The company also continuously received operational subsidies from the local government. The subsidies amount was c. RMB889 million, RMB996 million, RMB868 million and RMB461 million in 2019-2021 and nine months ended September 2022, respectively. Given the company’s function and importance, we believe that the company is

Key Figures of Xindu and CXIG

(RMB billion)	2021	2022
Xindu District		
GDP	100.0	103.3
GDP growth rate (%)	8.2	2.1
Budgetary revenue	7.2	6.4
Government fund	5.7	3.6
Transfer payment	2.3	3.4
Budgetary expenditure	10.2	9.3
CXIG	2021	2022.9
Assets	142.2	156.5
Equity	61.2	64.7
Revenue	5.8	4.8

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

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

CXIG's Financial and Liquidity Position: CXIG's total asset grew rapidly in the past few years, mainly due to assets injection and equity transfer from the local government. At end-September 2022, CXIG's assets were mainly composed of land, construction projects, receivables and investment properties. The financial leverage ratio (total liabilities/ total assets) of CXIG was 58.65% at end-September 2022. At end-September 2022, CXIG had a cash balance of c. RMB10.5 billion, unused credit facilities of c. RMB31.5 billion and unused onshore bonds issuance quota of RMB5.6 billion. CXIG has access to multiple financing channels, including bank loans, onshore and offshore bonds and non-traditional financing (such as trust loan and financial lease). The total outstanding debt of CXIG was c. RMB77.4 billion at end-2022. Bank loans accounted for 45.9% while bonds (including onshore and offshore) and non-traditional financings accounted for 38.9% and 15.1% of total debt, respectively, at end-2022.

Economy and Fiscal Condition of Xindu: Xindu is a district of Chengdu of Sichuan Province, and it is located in the north of Chengdu, bordering the main urban area of the city. Xindu maintained economic growth but slightly slowed down in 2022. Its GDP reached c. RMB103.3 billion in 2022, representing a year-on-year growth rate of 2.1%. Xindu's GDP amount was ranked 9th among in Chengdu in 2022 (out of 23 districts). In 2022, affected by the pandemic and power rationing policy in Sichuan that resulting in a shutdown of production, the budgetary revenue of Xindu was c. RMB6.4 billion, representing a year-on-year decrease of 8.5%. The government fund income was another important part of Xindu's aggregate fiscal revenue, but it was vulnerable to market and policy changes, which was c. RMB3.6 billion in 2022. At end-2022, the Xindu government's outstanding debt was c. RMB11.7 billion, including RMB1.6 billion of general obligations and RMB10.1 billion of special debt.

Rating Sensitivities

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

We would consider upgrading CXIG's rating if there is an upgrade in our internal credit assessment on the Xindu government.

Operating Environment

Economic Condition of Xindu

Xindu is a district of Chengdu of Sichuan Province, and it is located in the north of Chengdu, bordering the main urban area of the city. Xindu is a key area for the northward development of Chengdu. It has jurisdiction over 7 streets and 2 towns with a total land area of 496 square kilometers. Xindu has the highest residential population among all districts within Chengdu, which was c. 1.57 million in 2021.

Xindu maintained economic growth but slightly slowed down in 2022. Its GDP reached c. RMB103.3 billion in 2022, representing a year-on-year growth rate of 2.1%. Xindu's GDP amount was ranked 9th in Chengdu in 2022 (out of 23 districts). The economic structure of Xindu was stable, which was mainly fueled by the secondary and tertiary industries, accounting for 31.8% and 66.0% of its GDP in 2022.

Xindu's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	87.8	100.0	103.3
-Primary industry (%)	4.2	2.2	2.2
-Secondary industry (%)	31.3	30.7	31.8
-Tertiary industry (%)	64.5	67.1	66.0
GDP growth rate (%)	5.2	8.2	2.1
Fixed asset investment	50.1	58.6	63.8
Fixed asset investment growth rate (%)	10.9	17.0	8.8
Population (million)	1.6	1.6	1.6

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Xindu

The aggregate fiscal revenue of the Xindu was mainly derived from the budgetary revenue. In 2022, affected by the pandemic and power rationing policy in Sichuan that resulting in a shutdown of production, the budgetary revenue of Xindu was c. RMB6.4 billion, representing a year-on-year decrease of 8.5%. Xindu's financial self-sufficiency rate was insufficient and it recorded budget deficit of 45.1% in 2022. Nevertheless, Xindu continuously received subsidies from higher government. The government fund income was another important part of Xindu's aggregate fiscal revenue, but it was vulnerable to market and policy changes. The government fund income of Xindu was c. RMB3.6 billion, representing a year-on-year decrease of 37.2% in 2022, mainly due to the decline of land transfer income.

At end-2022, the Xindu government's outstanding debt was c. RMB11.7 billion, including RMB1.6 billion of general obligations and RMB10.1 billion of special debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased from c. 50.4% at end-2020 to c. 87.0% at end-2022.

Xindu's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	6.8	7.2	6.4
Budgetary revenue growth rate (%)	12.6	7.1	² -8.5
Tax revenue	4.5	4.9	4.8
Tax revenue (% of budgetary revenue)	66.6	68.1	75.4
Government fund income	7.6	5.7	3.6
Transfer payment	2.6	2.3	3.4
Aggregate revenue	17.0	15.3	13.4
Budgetary expenditure	10.4	10.2	9.3
Budget deficit ¹ (%)	-54.1	-40.9	-45.1

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

² Excluding the influence of value-added tax credit refund.

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CXIG was established as a wholly state-owned entity under the approval of the Xindu government in March 2017. The Xindu government via the Xindu SASAFB holds 100% ownership of CXIG and is the actual and ultimate controller of the company. The registered capital of CXIG was RMB5 billion, while the paid-in capital was c. RMB3.9 billion at end-September 2022.

Strategic Importance and Government Linkage

Strategic Importance of CXIG to Xindu

As the only LIDC responsible for infrastructure construction and urban development and operation in the region, CXIG undertakes important functions assigned by the local government, and it has a monopoly position in the construction of urban infrastructure and affordable housing in Xindu. In addition, it also carries out various functions to maintain urban operation such as bus operation, water business and water supply, industrial park development, parking lot operations and charging for street parking spaces within the region, etc. CXIG plays an important role in urban development and operation in Xindu, as well as improve people's livelihoods. CXIG's strategic planning and development have been aligned with the local government's development plans and policies, aiming to strengthen urban and rural construction, as well as to support the economic and industrial development of Xindu.

Strong Linkage with the Local Government

CXIG has a strong linkage with the local government as the Xindu government via the Xindu SASAFB holds 100% ownership of the company. The Xindu government has strong supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Xindu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Ongoing Government Support

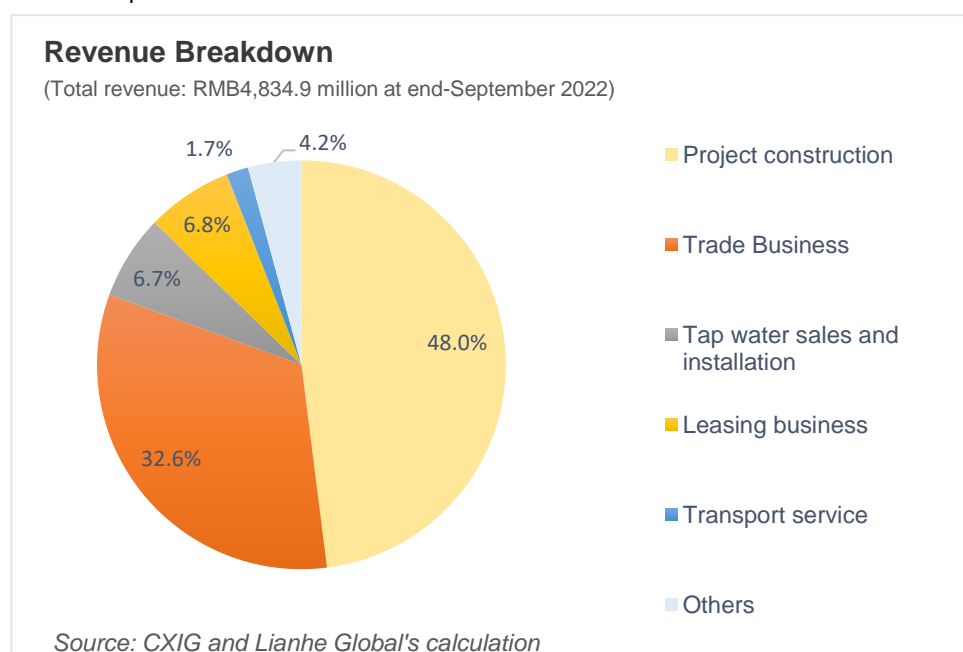
As the only state-owned entity in Xindu, CXIG continuously received support from the local government, including but not limit to capital injection, equity transfer and policies support,

etc. The registered capital of the company was RMB5 billion and the paid-in capital was RMB3.9 billion at end-September 2022. The Xindu government will increase the paid-in capital of the company in the near future. The government also transferred physical assets such as land, properties and buildings to the company. In terms of equity transfer, CXIG has received a number of equities transfer from the local government during the past few years. In addition, the local government has introduced various policies to support the company's operation and granted it franchise rights. The company also continuously received operational subsidies from the local government. CXIG carries out some public welfare business such as bus operation and sewage treatment and that it can receive subsidies from the government every year. The subsidies amount was c. RMB889 million, RMB996 million, RMB868 million and RMB461 million in 2019-2021 and nine months ended September 2022, respectively. Given the company's function and importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

Business Profile

The flagship LIDC in Xindu that carries various businesses to support the development and operation in the region

The company is the only LIDC in Xindu of Chengdu that undertakes various business through its subsidiaries, including but not limit to infrastructure construction, trade business, leasing business, bus operation business, water business and other state-owned assets operation in the region. The major revenue sources of the company were infrastructure construction income and trading business income, of which the percentage of trading business income increased year by year during the past three years. The profitability of the company was relatively weak as the gross margin of trading business was low and it conducted public welfare business.



Project Construction

The company is the most important entity for infrastructure construction in Xindu that mainly undertakes the investment and construction of major municipal infrastructure projects, resettlement housing construction, sewage treatment construction projects, roads

construction and other municipal facilities projects in the region. The company adopts agent construction mode and is entrusted by the Xindu government or government related parties. According to the agent construction agreement, the company is responsible for the construction of projects, and the entrusting party shall settle the construction fee plus a percentage (i.e., 8%-12%) as project returns with the company after the completion of projects. The company has completed a number of infrastructure construction projects in Xindu, and it is expected that can generate a certain repayment amount from the government in the near future. The company also has a number of projects under construction and planned, including construction of industrial park, resettlement housing, hospitals, schools, roads and property development, etc., indicating a certain capital expenditure needs of the company. Some of projects are CXIG's self-management projects that will use for renting in the future.

Trade Business

The company's trade business includes grain trading and commodity trading. The company mainly earns the price difference by purchasing agricultural and sideline products from various grain storage and state-owned grain reserve in Sichuan Province and wholesaling them to downstream grain processing manufacturers. On the other hand, the company has built a long-term relationship with many builders, and it carries out commodity trading business in 2021. The main trading products are building materials. The revenue from this business segment increased year by year during the past three years, with a relatively low margin that compressed the overall gross margin of the company.

Other Business

The company's other businesses mainly include bus operation, water business, property leasing business and guarantee business. The bus operation business has public welfare nature that loss every year. However, the company can receive operating subsidies from local government to offset its loss. The company also conducts people's livelihood business such as water business, sewage treatment and property management, etc. With the completion of self-operating projects, the leasing income of the company is expected to increase in the future. CXIG also provides guarantee to micro, small and medium-sized enterprises to support the local economic development.

Financial Profile

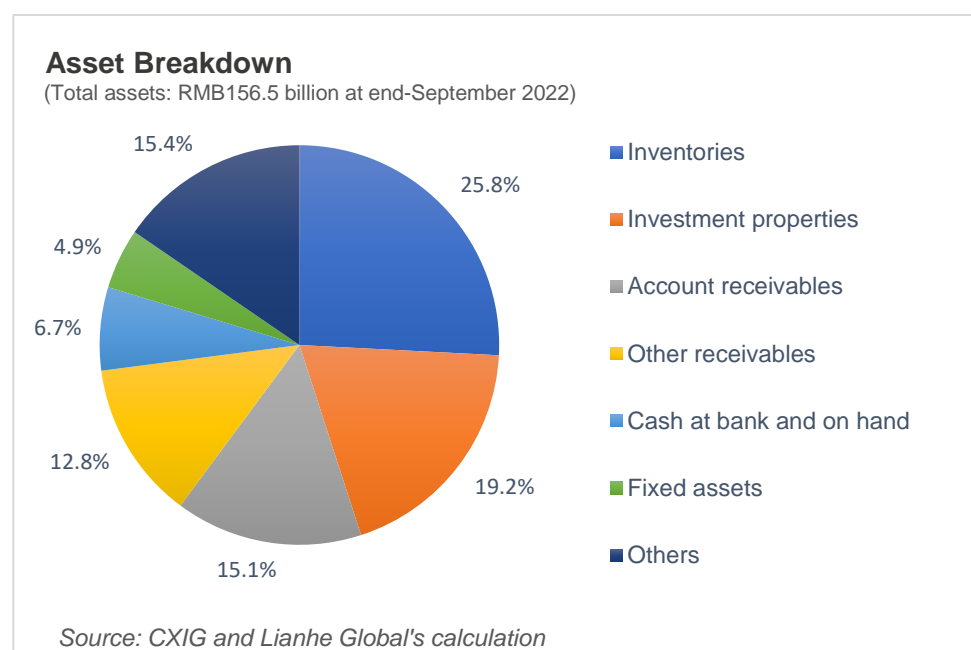
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality					
(RMB million)	2019	2020	2021	Sept 2022	Sept 2022 (Adjusted)
Total Asset	79,462	102,188	142,194	156,480	156,480
Equity	30,336	36,908	61,168	64,710	63,330
Debt	43,029	57,153	67,496	77,966	79,346
Debt / (Debt + Equity) (%)	58.7	60.8	52.5	54.6	55.6
LT Debt	26,254	36,113	44,755	60,641	62,021
LT Debt / (LT Debt + Equity) (%)	46.4	49.5	42.3	48.4	49.5

Source: The company's financial reports and Lianhe Global's calculations

The financial leverage ratio (total liabilities/total assets) of CXIG was at a level of c. 57%-64% in 2019-2021, which was 58.65% at end-September 2022. The company's liabilities were mainly consisted of long-term borrowings and debentures payable receivables. As the company adopts agent construction mode for project construction, the company mainly relies on external financing to support its capital expenditure, and mainly takes long-term

loans and project loans. The company's adjusted debt was c. RMB78.0 billion, of which short-term debt and long-term debt accounted for 22.2% and 77.8% of its total debt,



respectively, at end-September 2022.

CXIG's total asset grew rapidly in the past few years, mainly due to assets injection and equity transfer from the local government. At end-September 2022, CXIG's assets were mainly composed of land, construction projects, receivables and investment properties. The scale of inventory was large that mainly included land and construction project. The receivables of the company were mainly current accounts of the Xindu government and government departments, with a relatively low collection risk. The investment properties of the company were its own properties that used for rent. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, thus, the company's overall asset liquidity was moderately weak.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	8,338	9,928	8,544	5,981
Cash Outflows from Operation	9,192	9,581	9,063	7,312
Net CF from Operation	-855	-347	-520	-1,331
Cash Inflows from Investment	136	436	44	83
Cash Outflows from Investment	2,168	3,065	4,406	4,341
Net CF from Investment	-2,032	-2,629	-4,362	-4,258
Cash Inflows from Financing	20,736	32,481	34,922	32,930
Cash Outflows from Financing	16,610	24,571	29,863	26,402
Net CF from Financing	4,126	7,910	5,059	6,528
Net Increase in Cash and cash equivalent	1,233	5,639	163	939

Source: The company's financial reports

Debt Servicing Capability

The liquidity risk of CXIG was relatively low. The company's total adjusted debt was c. RMB78.0 billion at end-September 2022, of which short-term and long-term debt accounted for 22.2% and 77.8% of its total adjusted debt, respectively. The liquidity of CXIG was moderate. At end-September 2022, CXIG had a cash balance of c. RMB10.5 billion, unused credit facilities of c. RMB31.5 billion and unused onshore bonds issuance quota of RMB5.6 billion. CXIG mainly relied on external financing to support its capital expenditure and debt repayment. CXIG has access to multiple financing channels, including bank loans, onshore and offshore bonds and non-traditional financing (such as trust loan and financial lease). The total outstanding debt of CXIG was c. RMB77.4 billion at end-2022. Bank loans accounted for 45.9% while bonds (including onshore and offshore) and non-traditional financings accounted for 38.9% and 15.1% of total debt, respectively, at end-2022.

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