Press Release
9 August 2023

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Xi’an Chanba Development Group Co., Ltd.

HONG KONG, 9 August 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Xi’an Chanba Development Group Co., Ltd. (“XCDG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the de facto local government of Chanba Ecological District (“CBE”), Xi’an Chanba Ecological Area Management Committee (“CBE MC”), would provide strong support to XCDG if needed. This mainly considers CBE MC’s majority ownership of XCDG, XCDG’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure and affordable housing development in CBE, and the linkage between the local government and XCDG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if XCDG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: CBE MC holds 77.8% shares of XCDG. The local government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government has formulated a performance assessment policy for the company and conducts regular and special audits to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: XCDG is one of two LIDCs in CBE. It is mainly responsible for infrastructure and affordable housing development on the left bank of Ba River. XCDG’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provided ongoing support to XCDG. The company received multiple capital injections of RMB2.3 billion between 2020 and 2022. We expect XCDG to receive ongoing support from the local government in the coming years considering its strategic importance in CBE.

Economy and Fiscal Condition of CBE: CBE was established in 2004 and is located in the northeast of Xi’an City, Shaanxi Province. CBE’s GDP growth rate fluctuated in the past three years, which was 4.8%, 1.4% and 6.0% in 2020, 2021 and 2022, respectively, due to Covid's disruption. CBE has been focusing on the development of three pillar industries (modern finance, convention and exhibition, and eco-tourism), three leading industries (cultural creativity, eco-emerging industries, and trade and logistics), and two special industries (health and sports, and foreign-related business) in recent years.

The aggregate fiscal revenue of the CBE government was primarily derived from budgetary revenue and government fund income. The CBE government's budgetary revenue growth rate also fluctuated in the past three years. Yet the tax revenue's contribution stayed at a moderately high level of c. 77%-85% over the same period. In 2022 CBE's fiscal revenue reached RMB2.5 billion. The fiscal self-sufficiency capacity improved, with its budget deficit narrowing to -8.6% in 2022 from -19.5% in 2021. However, government fund income, mainly generated by land sales, dropped significantly to RMB1.8 billion in 2022 from RMB8.2 billion, owing to Covid's disruption and the local government's change in land planning.

The outstanding debt of the CBE government continued to grow in the past three years. At end-2022, the CBE's outstanding debt reached RMB13.1 billion, up from RMB9.6 billion at end-2020. This was mainly due to the large issuance of special debt to support CBE's project development in the past three years. With the significant drop in aggregate fiscal revenue, CBE's government debt ratio (total government debt/aggregate revenue) surged to 251.6% at end-2022 from 100.9% at end-2020. We expect the CBE's government debt ratio to stabilize as the government fund income is expected to rebound.

XCDG's Financial and Liquidity Position: XCDG's total asset grew steadily to RMB45.5 billion at end-March 2023 from RMB37.6 billion at end-2020, mainly due to the company's active participation in CBE's project development and investment in local SOEs. Over the same period, the company received multiple capital injections, enlarging its equity base to RMB12.1 billion from RMB10.1 billion. As XCDG started to control its debt scale and financial leverage, its total debt decreased slightly to RMB24.7 billion at end-March 2023 from RMB 25.9 billion at end-2021. The financial leverage, as measured by total debt/capitalization, decreased to 67.1% from 70.2%. Yet it still is at a moderately high level.

The liquidity of XCDG was tight. At end-March 2023, the company had cash of RMB1.2 billion (including restricted cash of RMB212 million) compared to debt due within one year of RMB11.5 billion. XCDG has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations. The company had unused facilities of RMB4.3 billion and bond issuance quotas of RMB1.6 billion. We also expect XCDG to roll over most of its short-term bank borrowings (c. 2.4 billion at end-March 2023). Nevertheless, XCDG is still need to obtain additional financing channels and receive government support timely to maintain its liquidity conditions.

High Contingent Liability: At end-March 2023, XCDG provided financial guarantees of RMB13.2 billion to SOEs and LIDCs in CBE, accounting for 108.9% of its net asset. The single largest guaranteed company was Xi'an Shiyuan Investment (Group) Company Ltd. ("XSIG"), another important LIDC in CBE, with a guarantee balance of RMB12.6 billion at end-March 2023. Considering the reciprocal holding and reciprocal guarantee structure between XCDG and XSIG, we believe the two companies' credit status is highly correlated.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 XCDG's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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