

# Xi'an Chanba Development Group Co., Ltd.

## Initial Issuer Report

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Xi'an Chanba Development Group Co., Ltd. ("XCDG" or "the company")

### Summary

The Issuer Credit Rating reflects a high possibility that the de facto local government of Xi'an 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.

### Rating Rationale

**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.

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	9 August 2023

### Key Figures of CBE and XCDG (RMB billion)

CBE	2021	2022
GDP	30.7	34.4
GDP growth rate (%)	1.4	6.0
Budgetary revenue	2.4	2.5
Government fund	8.2	1.8
Transfer payment	0.8	0.9
Budgetary expenditure	2.8	2.7
XCDG	2021	2022
Asset	43.3	45.5
Equity	11.0	12.1
Revenue	2.0	2.5

Source: Public information, XCDG and Lianhe Global's calculations

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### Applicable Criteria

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

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.

## Operating Environment

### Economic Condition of CBE

CBE was established in 2004 and is located in the northeast of Xi'an City, Shaanxi Province. CBE is China's first development zone named after ecology, and it is also a National Green Ecological Demonstration District. CBE has a total land area of 129 square kilometers, with a residential population of 550 thousand.

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's GDP amount reached c. RMB34.4 billion in 2022, and its economic growth was wholly fueled by the secondary and tertiary industries, which accounted for 39.7% and 60.3% of GDP, respectively. CBE focused 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.

#### CBE's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	30.1	30.7	34.4
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	36.9	40.3	39.7
-Tertiary industry (%)	63.1	59.7	60.3
GDP growth rate (%)	4.8	1.4	6.0
Fixed asset investment	48.9	40.2	40.2
Fixed asset investment growth rate (%)	12.7	-17.9	0.1
Residential population (million)	0.55	0.55*	0.55*

Source: Public information and Lianhe Global's calculations

\*Note: Estimated number due to lack of updated information

### Fiscal Condition of CBE

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, which was 3.8%, -3.0% and 6.7%, respectively. 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.

<b>CBE's Fiscal Condition (RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	2.4	2.4	2.5
Budgetary revenue growth rate (%)	3.8	-3.0	6.7
Tax revenue	1.9	2.0	1.9
Tax revenue (% of budgetary revenue)	78.6	85.4	77.2
Government fund income	5.9	8.2	1.8
Transfer payment	1.2	0.8	0.9
<b>Aggregate revenue</b>	<b>9.5</b>	<b>11.6</b>	<b>5.2</b>
Budgetary expenditure	2.9	2.8	2.7
Budget deficit <sup>1</sup> (%)	-18.1	-19.5	-8.6

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Full Government Ownership

XCDG, formerly known as Xi'an Chanba River Development Co., Ltd, was established in November 2004 with an initial registered capital of RMB250 million, funded by CBE MC.

After an array of capital injections and equity transfers, at end-March 2023, XCDG's registered and paid-in capital was enlarged to RMB10.8 billion and RMB8.7 billion, respectively. As the actual controlling shareholder, CBE MC holds 77.8% of the company's equity; XSIG holds the remaining 22.2% through its subsidiary. XCDG also aggregately has a 23.0% stake in XSIG through two subsidiaries.

## Strategic Importance and Government Linkage

### Strategic Importance of XCDG to CBE

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.

### Strong Linkage with the Local Government

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.

### Ongoing Government Support

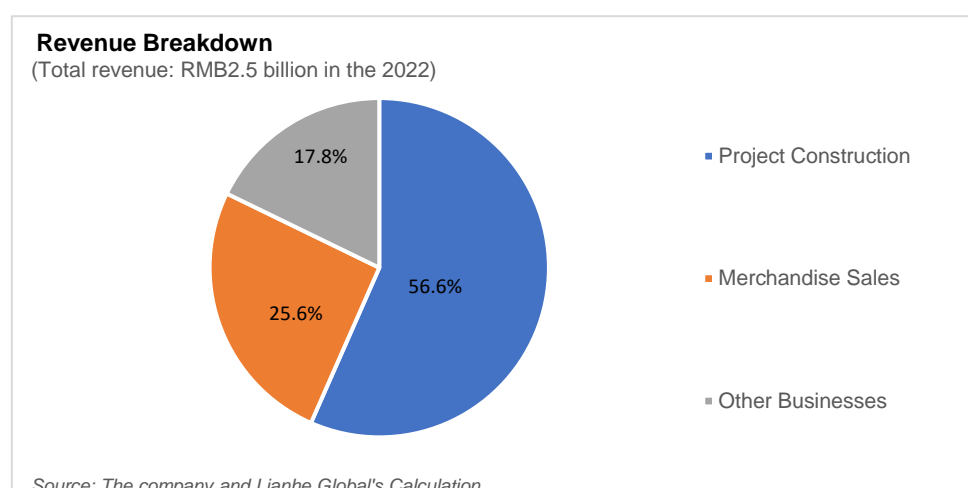
The local government provided ongoing support to XCDG. The company received multiple capital injections amounting to RMB800 million, 700 million and 850 million in 2020, 2021 and 2022, respectively. The local government also transferred parking lots valued at RMB71 million in 2021. Yet the operational subsidies received were small, amounting to RMB8.2 million 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.

## Business Profile

### An Important Development Entity in CBE

XCDG, as an important ecological park development entity in the CBE, is mainly responsible for the ecological park infrastructure construction and affordable housing development on the left bank of the Ba River within the CBE, while XSIG is responsible for the right bank. The company's strong franchise advantage enables it to undertake important ecological park development projects under the instruction of the CBE MC.

The primary source of operating revenue for XCDG is project construction, while it also engages in merchandise sales, park operations, property management and green maintenance, etc. The company realized total revenue of RMB1.7 billion, RMB2.0 billion and RMB2.5 billion in 2020, 2021 and 2022, respectively, representing an upward trend. However, the gross profit margin was downward in the past three years, decreasing to 10.4% in 2022 from 17.5% in 2020.



### Project Construction

The CBE MC designates XCDG to undertake projects, including infrastructure, affordable housing, schools and other public facilities within the region. The company mainly engages in agent construction agreements with CBE MC and Land Reserve Center ("LRC"). According to the agreement, XCDG is responsible for fundraising and constructing entrusted projects and recognizes construction costs incurred plus a certain percentage (usually 7%) of the management fee as revenue annually. The entrusting party should pay XCDG within three years. However, the actual payment schedule would be subject to the local government's fiscal conditions.

For affordable housing projects, in addition to agent construction, the company also adopts the government's purchasing of services model, in which the repayment period is as long as fifteen years, or directly sells to target residents at government guidance prices. XCDG also engages in self-management projects such as residential properties, hotels and office and commercial buildings, etc. Construction costs are supported by the company's own funds and bank borrowings; then, the company uses rental and sales incomes to cover the construction costs and generate returns.

The project construction segment's revenue demonstrated an upward trend over the past three years, which was RMB1.21 billion, RMB1.37 billion and RMB1.43 billion in 2020, 2021

and 2022, respectively, with gross profit margins fluctuating between 7% and 11%. At end-March 2023, XCDG had a large number of projects under construction and scheduled to be developed, which could support the segment's development in the next three to five years while bringing high capital expenditure pressure on XCDG.

### Other Businesses

Other businesses of XCDG include merchandise sales, park operations, property management, maintenance engineering and financial services, etc., with each segment accounting for a relatively small proportion of the company's total revenue. It is worth noting that the operating revenue of merchandise sales increased rapidly to RMB647 million in 2022 from RMB58 million in 2021, as the company booked the sales of several real estate projects on it. Other businesses mainly play the role of supplementing the revenue of the main business and making the revenue structure more diversified.

## Financial Profile

### Balance Sheet Structure and Quality

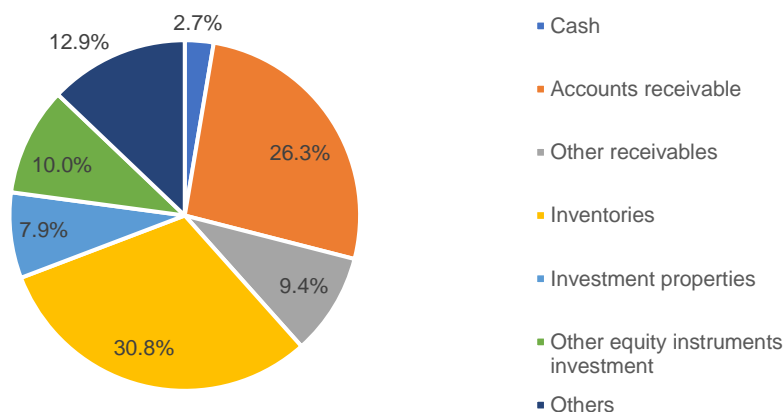
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	March 2023
Total Asset	37,602	43,320	45,526	45,522
Equity	10,123	11,007	12,100	12,115
Debt	21,912	25,907	25,220	24,689
Debt / (Debt + Equity) (%)	68.4	70.2	67.6	67.1
LT Debts	13,382	15,882	14,155	13,192
LT Debt / (LT Debt + Equity) (%)	56.9	59.1	53.9	52.1

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

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.

#### Asset Breakdown

(Total asset: RMB45.5 billion at end-March 2023)



*Source: The company and Lianhe Global's calculation*

XCDG's asset liquidity was moderate. The company's active participation in CBE's project development accumulated sizeable inventories, mainly construction costs, amounting to RMB 14.0 billion at end-March 2023. At the same time, its accounts receivable increased by 63.5% to RMB12.0 billion from RMB7.0 billion at end-2020. In addition, the company had other receivables of RMB4.3 billion, mainly project-related receivables due from LRC and CBE MC. We believe these assets would take a relatively long time to monetize due to extended construction, recognition and cash collection period.

XCDG's other assets mainly included investment properties and other equity instruments investments. The former primarily were self-management projects held for leasing. The latter comprised equity of local SOEs, including equity of XSIG amounting to RMB3.5 billion and Bank of Xi'an and Shaanxi International Trust valued at RMB400 million and RMB396 million, respectively.

### Debt Servicing Capability

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.

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