

## Xi'an Kingfar Holding (Group) Co., Ltd.

### Initial Issuer Report

#### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	27 November 2023

#### Key Figures of XETDZ and Xi'an Kingfar

(RMB billion)

XETDZ	2021	2022
GDP	103.2	112.5
GDP growth rate (%)	10.9	6.5
Budgetary revenue	4.7	3.7
Government fund	6.3	4.0
Transfer payment	3.6	3.4
Budgetary expenditure	5.9	4.7
Xi'an Kingfar	2021	2022
Asset	61.1	70.5
Equity	14.8	19.2
Revenue	7.1	9.6

Source: Public information, the company and Lianhe Global's calculations

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

#### Summary

The Issuer Credit Rating reflects a high possibility that the Management Committee of XETDZ ("XETDZ MC"), the de facto local government of Xi'an Economic and Technology Development Zone ("XETDZ"), would provide strong support to Xi'an Kingfar if needed, in light of its direct full ownership of Xi'an Kingfar, Xi'an Kingfar's strategic importance as the most important local investment and development company ("LIDC") responsible for city development and operation in XETDZ, and the linkage between the local government and Xi'an Kingfar, 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 Xi'an Kingfar encounters any operational and financial difficulties.

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

#### Rating Rationale

**Government's Ownership and Supervision:** XETDZ MC directly holds 100% ownership of Xi'an Kingfar. The local government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

**Strategic Importance to local and Strategic Alignment:** Xi'an Kingfar is the most important LIDC in XETDZ that engages in city development projects and operates the city's utilities. The company undertakes major municipal works such as construction of public facilities, infrastructures and schools, supplies heat and provides city sanitation, landscaping, property management and leasing services within the region. It also develops industrial parks to promote local economic development. The company's business operation and strategic planning have been aligned with the government's development plans.

**Ongoing Government Support:** Xi'an Kingfar receives ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. Between 2020 and the first nine months of 2023, the local government injected capital of RMB791 million into Xi'an Kingfar, enlarging its paid-in capital to RMB74.2 billion from RMB66.3 billion. The local government provided financial subsidies amounting to RMB404 million over the same period to Xi'an Kingfar to support its activities in relation to public interest. In addition, the company received project funds, equipment and equity of local SOEs from the local government. We believe that the government support will remain intact given the company's strategic importance in XETDZ.

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#### Applicable Criteria

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

**Economy and Fiscal Condition of XETDZ:** XETDZ, located in the North of Xi'an city ("Xi'an"), Shaanxi province ("Shaanxi"), was established in 1993 and has been approved national development zone in 2000. It is an advanced manufacturing base in Shaanxi, attracting many well-known manufacturers, such as Shacman, Geely, Longi, ABB, BOSCH and Siemens, etc. to build production plants within the region. XETDZ's GDP growth rate fluctuated in the past three years, which was 3.0%, 10.9% and 6.5% in 2020, 2021 and 2022, respectively, owing to the disruption of Covid. Benefited from its strong industrial base, XETDZ's GDP reached RMB112.5 billion in 2022, ranked 2nd among eight economic development zones in Xi'an.

The aggregate fiscal revenue of the XETDZ is mainly derived from budgetary revenue and government fund income. As the result of the value-added tax credit refund policy, the budgetary revenue decreased to RMB3.7 billion in 2022 from RMB4.7 billion in 2021. Yet it's the tax revenue's contribution and fiscal self-sufficiency rate remained relatively high. Over the same period, XETDZ's government fund income, mainly generated by the land concession revenue, dropped even more to RMB4.0 billion from RMB6.3 billion, owing to the property market downturn.

XETDZ's government debt was manageable. The outstanding showed a downward trend, decreasing from RMB7.1 billion in 2020 to RMB6.7 billion in 2022. However, the government debt ratio (total government debt outstanding/aggregate revenue) increased to 60.8% in 2022 from 46.6% in 2021, owing to the larger decline in aggregate fiscal revenue.

**Xi'an Kingfar's Financial and Liquidity Position:** Xi'an Kingfar's total assets showed a continuous growth between 2020 and the first nine months of 2023, owing to the company's active participation in XETDZ's development and investment. The company mainly relied on borrowings to fund its asset expansion. Its total debt increased to RMB40.7 billion at end-September 2023 from RMB24.1 billion at end-2020. Yet the company also received capital and assets injections from the local government. Therefore, Xi'an Kingfar's financial leverage, as measured by debt/capitalization, stayed at between 65% and 70%, a moderately high level.

Xi'an Kingfar's short-term debt repayment pressure was high. At end-September 2023, Xi'an Kingfar had cash balance of RMB5.5 billion (including restricted cash of RMB974 million), compared with its debts due within one year amounting to RMB19.7 billion. Nevertheless, it has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financing to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB34.1 billion.

## Rating Sensitivities

We would consider downgrading Xi'an Kingfar'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 Xi'an Kingfar, or (3) there is a downgrade in our internal credit assessment on the local government.

We would consider upgrading Xi'an Kingfar'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 XETDZ

XETDZ, located in the North of Xi'an, Shaanxi province, was established in 1993 and has been approved national development zone in 2000. XETDZ has a total area of c. 272 square kilometers, with a residential population of 0.55 million. It is an advanced manufacturing base in Shaanxi, attracting many well-known manufacturers, such as Shacman, Geely, Longi, ABB, BOSCH and Siemens, etc. to build production plants within the region. Benefited from its strong industrial base, XETDZ's GDP reached RMB112.5 billion in 2022, ranked 2nd among eight economic development zones in Xi'an.

XETDZ's GDP growth rate fluctuated in the past three years, which was 3.0%, 10.9% and 6.5% in 2020, 2021 and 2022, respectively, owing to the disruption of Covid. The fixed asset investment growth rate also dropped substantially to -36.2% in 2021 and then bounced back to 18.0% in 2022.

<b>XETDZ's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	89.5	103.2	112.5
-Primary industry (%)	0.0	0.0	0.0
-Secondary industry (%)	51.0	51.4	52.9
-Tertiary industry (%)	49.0	48.6	47.1
GDP growth rate (%)	3.0	10.9	6.5
Fixed asset investment	45.3	28.9	34.1
Fixed asset investment growth rate (%)	10.2	-36.2	18.0
Population (million)	0.55	0.55	0.55

*Source: Public information, the company and Lianhe Global's calculations*

### Fiscal Condition of XETDZ

The aggregate fiscal revenue of the XETDZ is mainly derived from budgetary revenue and government fund income. As the result of the value-added tax credit refund policy, the budgetary revenue decreased to RMB3.7 billion in 2022 from RMB4.7 billion in 2021. Yet it's the tax revenue's contribution and fiscal self-sufficiency rate remained relatively high. Over the same period, XETDZ's government fund income, mainly generated by the land concession revenue, dropped even more to RMB4.0 billion from RMB6.3 billion, owing to the property market downturn. Yet the transfer payments from higher government were largely stable over the same period.

XETDZ's government debt was manageable. The outstanding showed a downward trend, decreasing from RMB7.1 billion in 2020 to RMB6.7 billion in 2022. However, the government debt ratio (total government debt outstanding/aggregate revenue) increased to 60.8% in 2022 from 46.6% in 2021, owing to the larger decline in aggregate fiscal revenue.

<b>XETDZ 's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	4.1	4.7	3.7
Budgetary revenue growth rate (%)	0.8	12.9	6.0*
Tax revenue	3.6	4.4	3.2
Tax revenue (% of budgetary revenue)	86.3	93.6	87.0
Government fund income	3.1	6.3	4.0
Transfer payment	2.4	3.6	3.4
<b>Aggregate revenue</b>	<b>9.7</b>	<b>14.6</b>	<b>11.0</b>
Budgetary expenditure	3.8	5.9	4.7

Budget balance <sup>1</sup> (%)	7.6	-26.6	-27.7
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<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

\* Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

Xi'an Kingfar was established in May 2010 by the XETDZ MC with an initial registered capital of RMB160 million. After an array of capital injections, the company's registered capital and paid-in capital were increased to RMB10.0 billion and RMB7.4 billion, respectively, at end-September 2023. XETDZ MC holds 100% shares of Xi'an Kingfar and is the company's ultimate controller.

## Strategic Importance and Government Linkage

### Strategic Importance of Xi'an Kingfar to the Local Government

Xi'an Kingfar is the most important LIDC in XETDZ that engages in city development projects and operates the city's utilities. The company undertakes major municipal works such as construction of public facilities, infrastructures and schools, supplies heat and provides city sanitation, landscaping, property management and leasing services within the region. It also develops industrial parks to promote local economic development. The company's business operation and strategic planning have been aligned with the government's development plans.

### Strong Linkage with the Local Government

Xi'an Kingfar's linkage with the local government is strong as the XETDZ MC directly holds 100% ownership of Xi'an Kingfar. The local government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

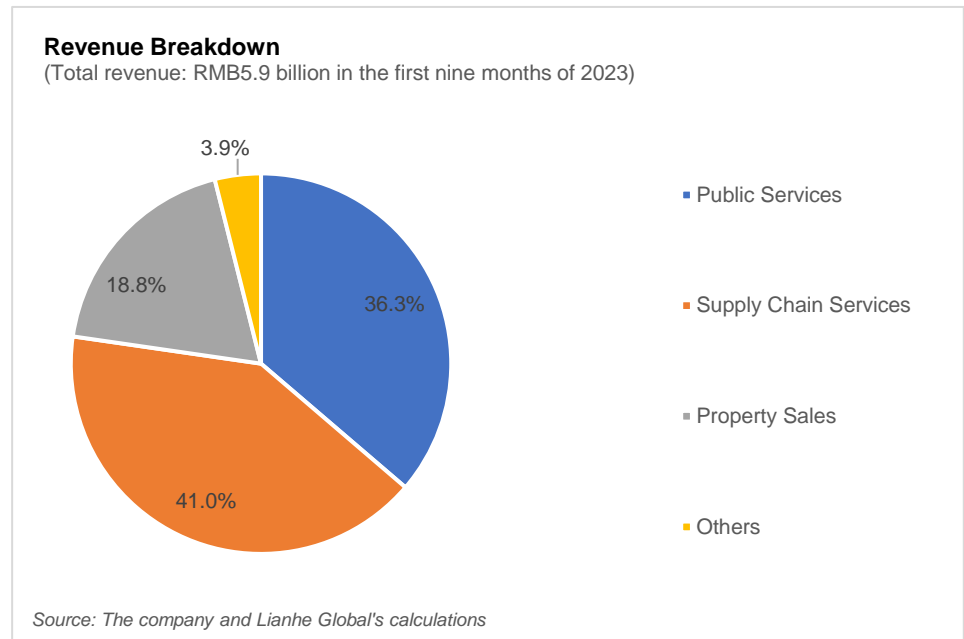
### Ongoing Government Support

Xi'an Kingfar receives ongoing government support in forms of capital/asset injections and financial subsidies to support its business operations. Between 2020 and the first nine months of 2023, the local government injected capital of RMB791 million into Xi'an Kingfar, enlarging its paid-in capital to RMB74.2 billion from RMB66.3 billion. The local government provided financial subsidies amounting to RMB404 million over the same period to Xi'an Kingfar to support its activities in relation to public interest. In addition, the company received project funds, equipment and equity of local SOEs from the local government. We believe that the government support will remain intact given the company's strategic importance in XETDZ.

## Business Profile

### The Most Important LIDC Responsible for City Development and Operation in XETDZ

Xi'an Kingfar is the most important LIDC that engages in city development projects and operates the city's utilities. The company also diversifies into property development, supply chain and other businesses. It realized total revenue of RMB6.0 billion, RMB7.1 billion, RMB9.6 billion and RMB5.9 billion in 2020, 2021, 2022, respectively, showing an upward trend. In the first nine months of 2023, the company recorded revenue of RMB5.9 billion. The gross profit margin varied between 12.5% and 17.5 % in the recent years.



### Public Services

Xi'an Kingfar undertakes major municipal works such as construction of public facilities, infrastructures, roads, pipelines and landscaping in XETDZ. Xi'an Kingfar usually receives a portion of upfront payments from entrusting parties, then settles with them based on the project progress. The company has required qualifications, and thus is able to carry out entrusted projects with its own workforce. It also outsources some projects to other construction companies. Municipal works were the most important revenue source of Xi'an Kingfar between 2020 and 2022, as a large amount of work was done to prepare for the 14<sup>th</sup> National Games.

Xi'an Kingfar runs the public utilities, including water supply and heat supply, and provides city sanitation, property management and leasing services within the region. In addition, Xi'an Kingfar built schools covering the whole education system, from primary schools to colleges in XETDZ. The company, as the largest shareholder, has 20.6% equity in Xi'an But'one Information Corporation (600455.SH), which holds 70% shares of Xi'an Jiaotong University City College. Nevertheless, the operation scale of these activities is relatively small as compared with municipal works, and 50.98% shares of Xi'an Kingfar Water Co., Ltd., the operating entity of water supply business, was transferred out gratuitously in June 2023. The company no longer operates water supply business after the equity transfer.

### Property Sales

Xi'an Kingfar develops residential, office and industrial properties in XETDZ. The company acquires land through a "tender, auction and listing" procedure, and carries out constructions

with its self-raised funds. The company's residential property projects recorded a good sell-through rate and relatively high gross margin of above 30% between 2020 and 2022, owing to projects' the low land costs and medium to high-end positioning. However, the selling progress for office buildings was slower. The company also builds social housing intended to be sold to target buyers at government guidance price. In addition, Xi'an Kingfar develops industrial property projects for target companies planning to settle in XETDZ. This is to coordinate with the government's strategy of inviting investment.

Xi'an Kingfar has a strong property development project pipeline. At end-March 2023, the company four residential projects, one social housing project and two industrial projects under construction, with total planned investment amounting to c. RMB9.8 billion, of which c. RMB7.2 billion was scheduled to be invested for the years to come. Moreover, Xi'an Kingfar had a considerable land bank and proposed projects. These projects could put high capital expenditure pressure on Xi'an Kingfar in the next two to three years. The high exposure to property sector with high concentration in XETDZ make the company to be susceptible to local property market conditions.

### Supply Chain Services

Xi'an Kingfar run its supply chain services business under the demand-driving mode. The company works as a trading platform, purchases specific products according to customers' demand and then sells to the downstream customers. The procurement includes medical equipment, semi-finished machinery, non-ferrous metals, steels, coals, cement and many other materials. This segment contributed 41.0% to Xi'an Kingfar's total revenue. However, its gross margin was low (c. 1.5%-1.8%).

## Financial Profile

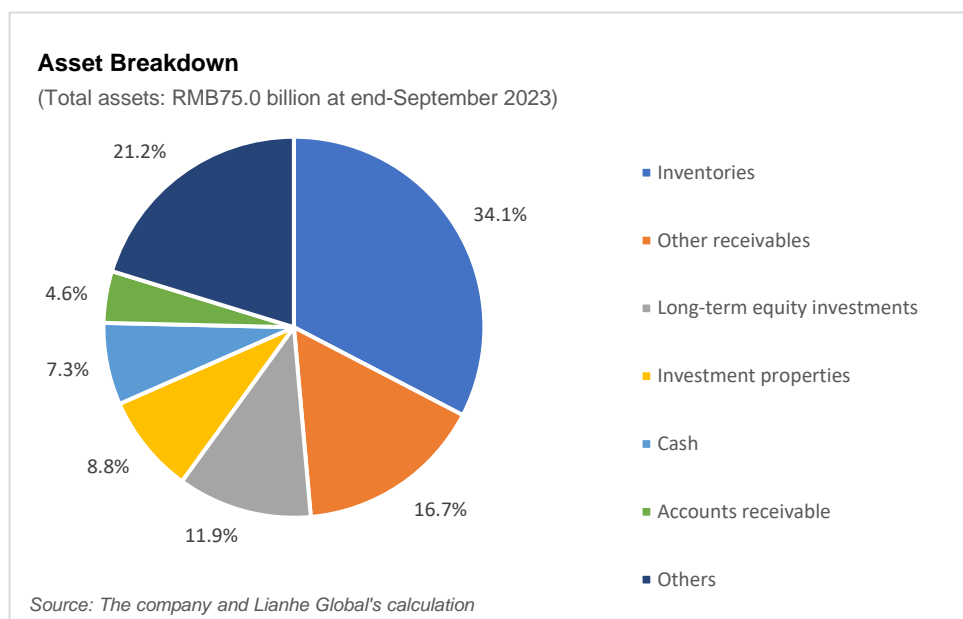
### Balance Sheet Structure and Quality

Balance Sheet Structure and Quality					
(RMB million)	2020	2021	2022	Sept. 2023	Sept. 2023 (Adjusted)*
Total Asset	49,224	61,084	70,492	74,962	74,962
Equity	13,058	14,712	19,242	19,342	18,942
Debt	24,052	33,027	35,223	40,697	41,097
Debt / (Debt + Equity) (%)	64.8	69.2	64.7	67.8	68.5
LT Debts	18,601	25,502	20,119	20,972	21,372
LT Debt / (LT Debt + Equity) (%)	58.8	63.4	51.1	52.0	53.0

*\*Adjusted numbers and ratios reflect the other equity instruments relocating to long-term debts and total debt from equity*

*Source: Company information and Lianhe Global's calculations*

Xi'an Kingfar's total assets showed a continuous growth between 2020 and the first nine months of 2023, largely due to the company's active participation in XETDZ's development. The company mainly relied on borrowings to fund its asset expansion. Its total debt increased to RMB40.7 billion at end-September 2023 from RMB24.1 billion at end-2020. Yet the company also received capital and assets injections from the local government, enlarging its equity to RMB19.3 billion from RMB13.1 billion over the same period. As a result, Xi'an Kingfar's financial leverage, as measured by debt/capitalization, stayed at between 65% and 70%, a moderately high level.



Xi'an Kingfar's asset liquidity was weak. At end-September 2023, the company accumulated sizeable inventories, mainly development costs for property development and agent construction, which usually takes a long time to monetize due to protracted construction and cash collection period. It also had considerable accounts receivable and other receivables, mainly due from government agencies and other LIDCs in XETDZ. These receivables usually have no specified collection schedule.

Xi'an Kingfar invested heavily in properties (commercial and industrial properties for leasing) and equity of manufacturing companies and financial institutions in XETDZ. We expect the company to hold these investments for a long run.

### Debt Servicing Capability

Xi'an Kingfar's short-term debt repayment pressure was high. At end-September 2023, Xi'an Kingfar had cash balance of RMB5.5 billion (including restricted cash of RMB974 million), compared with its debts due within one year amounting to RMB19.7 billion. Nevertheless, it has access to various financing channels, including bank borrowings, bond issuance and other non-traditional financing to support its debt repayments and business operations. At end-September 2023, the company had unused bank facilities of RMB34.1 billion.

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