

# Chengdu Aerotropolis City Development Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	28 December 2023

### Key Figures of Shuangliu and CACD

(RMB billion)	2021	2022
<b>Shuangliu</b>		
GDP	113.1	113.1
GDP growth rate (%)	8.7	0.6
Budgetary revenue	9.0	9.6
Government fund	11.1	14.2
Transfer payment	3.0	4.1
Budgetary expenditure	11.2	13.1
<b>CACD</b>		
	<b>2022</b>	<b>2023.9</b>
Assets	68.2	76.7
Equity	29.0	29.6
Revenue	2.4	2.3

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

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Aerotropolis City Development Group Co., Ltd. (“CACD” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Shuangliu District, Chengdu City (“Shuangliu government”) would provide very strong support to CACD if needed, in light of its majority ownership of CACD, CACD’s strategic importance as the sole local investment and development company (“LIDC”) that is responsible for transportation infrastructure construction in Shuangliu District, Chengdu City (“Shuangliu”) (“Chengdu”), construction development and industrial investment in the Chengdu International Airport Business District (“Airport BD”), and the linkage between the Shuangliu government and CACD, 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 Shuangliu government may face significant negative impact on its reputation and financing activities if CACD encounters any operational and financial difficulties.

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

### Rating Rationale

**Shuangliu Government’s Ownership and Supervision:** The Shuangliu government holds the majority ownership of CACD through Chengdu Shuangliu District State-owned Assets Supervision and Administration and Financial Work Bureau (“Shuangliu SASAFB”), the actual controller of the company. The Shuangliu 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 Shuangliu government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Shuangliu and Strategic Alignment:** CACD, as the sole LIDC for transportation infrastructure construction in Shuangliu and construction development and industrial investment in the Airport BD, is mainly responsible for construction of transportation infrastructure projects and state-owned assets operation in the region with regional advantages. It also engaged in service business and merchandise sales. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

**Ongoing Government Support:** CACD continued to receive financial subsidies and asset/capital injections from the Shuangliu government to support its business operations. We believe the government support will remain intact given the company’s strategic role in the economic development of Shuangliu. Between 2020 and the first nine months of 2023, the local government injected cash capital into CACD, enlarging its paid-in capital to RMB2.06 billion. Meanwhile, the company received RMB12.9 billion worth of assets, such

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### Applicable Criteria

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

as cash, equity transfers, lands, buildings, shops and other assets from the local government. The local government provided financial subsidies amounting to about RMB1.2 billion over the same period to CACD to support its activities in relation to business operation.

**CACD's Financial Matrix and Liquidity Position:** CACD's total assets grew moderately to RMB76.7 billion at end-September 2023 from RMB52.9 billion at end-2020, largely attributed to the increase of other non-current assets. Its overall asset liquidity was weak, primarily due to the large proportion of other non-current assets, inventories and other receivables.

CACD's financial leverage (total liabilities to assets) increased steadily in the past few years, which increased from 48.8% at end-2020 to 61.4% at end-September 2023. At end-September 2023, CACD had unrestricted cash balance and unused credit facilities of RMB4.5 billion and RMB12.4 billion, respectively, compared with its debt due within one year of RMB11.1 billion. In addition, CACD has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations.

**Economy and Fiscal Condition of Shuangliu:** Shuangliu is located in the southwest of the central of Chengdu. It is one of the 11 urban districts of Chengdu. Shuangliu recorded an economic growth in 2022, achieving a GDP of RMB113.1 billion, with a year-on-year growth of 0.6%. The growth rate has slowed down compared to previous years. The aggregate fiscal revenue of the Shuangliu government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Shuangliu government reached RMB9.6 billion, with a year-on-year increase of 11.7%. Having said that, tax revenue as a percentage of budget revenue declined slightly. At the same time, the government fund income was RMB14.2 billion, up 27.9% year-on-year. However, the Shuangliu government's debt ratio (total outstanding debt/ aggregate fiscal revenue) was relatively high at 90.7% in 2022. The special purpose debt constituted a high percentage of the total debt.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Shuangliu

Shuangliu is situated in the southwestern part of the central urban area of Chengdu, and is one of the 11 urban districts of the city. The total land area of Shuangliu is 1,065 square kilometers, with an actual administrative area of 466 square kilometers. Shuangliu is a key area of the Tianfu New Area in Sichuan province, and is the location of the Chengdu Shuangliu International Airport. It is also the central area for the southward expansion of Chengdu. The region contains several key development zones and industrial parks, among

which the Chengdu Shuangliu International Airport Economic Zone is the most important aviation logistics and commercial center in Sichuan province.

Shuangliu has jurisdiction over 5 streets, 4 towns, 106 communities and 28 villages as of end-2022. Its population reached 15 million with an urbanization rate of 78% at the same time. Shuangliu recorded an economic growth in 2022, achieving a GDP of RMB113.1 billion, with a year-on-year growth of 0.6%. The economic growth rate slowed down compared to the previous years. The economic growth of Shuangliu was mainly driven by the secondary and tertiary industries in the past few years, which accounted for 35.4% and 63.3% of the total economy in 2022, respectively. The fixed asset investment of Shuangliu has steadily increased over the past three years, and the GDP per capita of the area reached RMB 75,900 in 2022.

<b>Shuangliu's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	100.2	113.1	113.1
-Primary industry (%)	1.9	1.3	1.3
-Secondary industry (%)	33.0	34.1	35.4
-Tertiary industry (%)	65.1	64.6	63.3
GDP growth rate (%)	2.1	8.7	0.6
Fixed asset investment	54.6	62.1	67.1
Fixed asset investment growth rate (%)	9.1	13.7	8.2
Population (million)	1.5	1.5	1.5

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Shuangliu

The aggregate fiscal revenue of the Shuangliu government was mainly derived from the budgetary revenue and government fund income. The budgetary revenue of the Shuangliu government grew by 11.7% in 2022, reaching c. RMB9.6 billion. The tax revenue accounted for 78.1% of its budgetary revenue in 2022, which decreased compared to the previous years due to the value-added tax (VAT) credit refund policy. In addition, the government fund income, as another important part of its aggregate fiscal revenue, reached RMB14.2 billion in 2022, up 27.9% year-on-year.

The financial self-sufficiency rate of the Shuangliu government is insufficient, hence it continuously received a certain number of subsidies from higher government authorities. The debt balance of the Shuangliu government continued to increase in the past three years and the debt ratio (debt balance/total fiscal revenue) was high at 90.7% in 2022. The government debt balance of Shuangliu was RMB25.5 billion at end-2022, of which RMB2.0 billion was general debt and RMB23.5 billion was special purpose debt.

<b>Shuangliu's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Budgetary revenue	7.8	9.0	9.6
Budgetary revenue growth rate (%)	8.2	15.3	<sup>2</sup> 11.7
Tax revenue	6.8	7.5	7.5
Tax revenue (% of budgetary revenue)	88.1	83.4	78.1
Government fund income	12.3	11.1	14.2
Transfer payment	3.4	3.0	4.1
<b>Aggregate revenue</b>	<b>23.7</b>	<b>23.3</b>	<b>28.2</b>
Budgetary expenditure	10.2	11.2	13.1
Budget deficit <sup>1</sup> (%)	-32.0	-24.6	-37.1

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

<sup>2</sup> Excluding the influence of value-added tax credit refund.

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

CACD, was established in July 2008 with an initial registered capital of RMB60 million, funded by the Shuangliu State-owned Assets Supervision and Administration Office ("Shuangliu SASAO").

After an array of capital injections and equity transfers, CACD's the registered and paid-in capital reached RMB15.0 billion and RMB2.06 billion at end-September 2023, respectively. The Shuangliu SASAFB was the controlling shareholders and actual controller of the company, holding 90% of the company's equity, while the remaining 10% stake is held by the Sichuan Provincial Department of Finance.

## Strategic Importance and Government Linkage

### Strategic Importance of CACD to Shuangliu

CACD, as the sole LIDC for transportation infrastructure construction in Shuangliu and construction development and industrial investment in the Airport BD, is mainly responsible for construction of transportation infrastructure projects and state-owned assets operation in the region with regional advantages. It also engaged in service business and merchandise sales. It plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

### Strong Linkage with the Local Government

CACD's linkage with the local government is strong as the Shuangliu government holds the majority ownership of CACD through the Shuangliu SASAFB, the actual controller of the company. The Shuangliu 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 Shuangliu government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

### Government Support

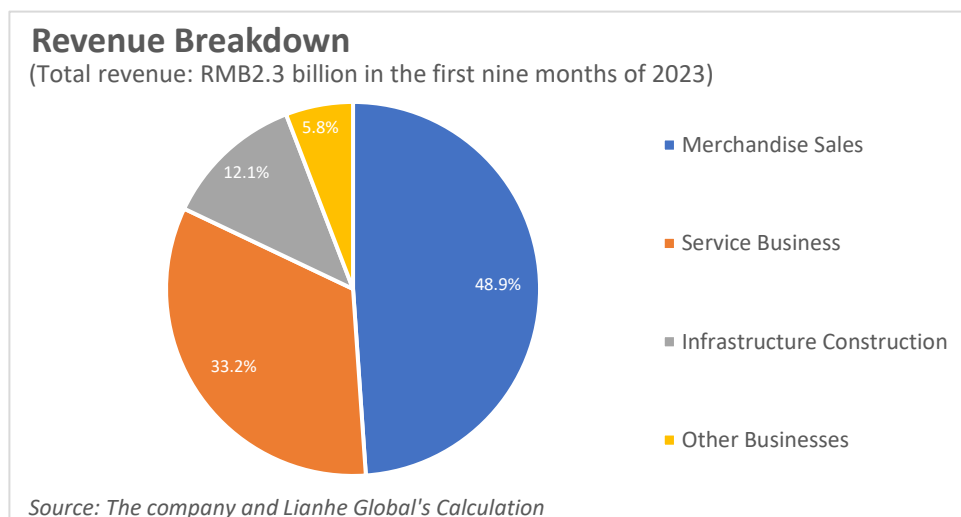
CACD continued to receive financial subsidies and asset/capital injections from the Shuangliu government to support its business operations. We believe the government support will remain intact given the company's strategic role in the economic development of Shuangliu. Between 2020 and the first nine months of 2023, the local government injected cash capital of RMB50.0 million into CACD, enlarging its paid-in capital to RMB2.06 billion from RMB2.01 billion. Meanwhile, the company received asset and capital injections in the form of cash, equity transfers, lands, buildings, shops and other assets, which reached RMB 2,740.4 million, RMB3,503.1 million, RMB3,342.7 million and RMB3,240.7 million in 2020, 2021, 2022 and the first nine months in 2023, respectively. The local government provided financial subsidies amounting to about RMB1.2 billion over the same period to CACD to support its activities in relation to business operation.

## Business Profile

### The Sole Entity Responsible for Transportation Infrastructure Construction in Shuangliu and Construction Development and Industrial Investment in the Airport BD

CACD, as the sole LIDC for transportation infrastructure construction in Shuangliu and construction development and industrial investment in the Airport BD, is mainly responsible for construction of transportation infrastructure projects and state-owned assets operation within the region. It also engaged in service business and merchandise sales. In addition, the business of construction development and industrial investment in the Airport BD is undertaken by its wholly-owned subsidiary, Chengdu Airport Industry and Finance Investment and Development Co., Ltd.

The primary sources of operating revenue for CACD are merchandise sales, service business, project management and project construction. It also engaged in rental, parking, bus service and vehicle inspection, etc. The company's total revenue was on an upward trend in the past few years, recording at RMB2.1 billion, RMB2.2 billion, RMB2.4 billion and RMB2.3 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin of the company is relatively low, staying below 9% over the same period.



### Infrastructure Construction

CACD, as the sole transportation infrastructure construction entity within Shuangliu, undertakes infrastructure construction business through four models--agent construction, self-operating, BT and PPP. Currently, the projects in this segment are mostly conducted under agent construction and self-operating models. Under the agent construction model, the company signs the agent construction agreements with the relevant government departments and is responsible for construction of entrusted projects (such as roads, bridges, etc.) The entrusting parties make advance payment according to the fund demand and project progress, and the rest is settled after the audit of the final account of the project. The payment includes construction costs plus a percentage (2%-5%) of management fees. The payment collection period is 3-5 years, and there is no case of failure to collect the payment.

Under self-operating model, construction costs are supported by the company's operating profit, and the company uses rental and commercial operations incomes to cover the construction costs and generate returns. Currently, the company is working on several large-scale projects under the self-operating model, thus, it incurs relatively high capital expenditure pressure.

### Merchandise Sales

As an important source of revenue for CACD, the merchandise sales segment makes the company's business more diversified and plays a complementary role to its main business. The company's merchandise sales business mainly consists of supply chain trading and the fuel sales. In terms of supply chain trading, the company's supply chain business is mainly engaged in the sales of copper cathode and mostly conducted in a "demand-driven" model, where it determines the number of materials to be procured strictly based on the actual purchase orders placed by customers. The fuel sales business is undertaken by a subsidiary of the company, mainly responsible for the operation of gas stations in Shuangliu.

### Service Business

The company's service business is mainly handled by Chengdu Airport Modern Service Industry Development Co., Ltd, a subsidiary of the company, which provides services including talent services, asset leasing, hotel services, property management services, media services, etc.

### Bus Services and Other Businesses

The company has a strong regional franchise in bus services business, but this segment had recorded losses in recent years due to its public welfare attributes, thus relying on government subsidies to make up for its losses.

CACD's other businesses include rental, parking, automobile inspection, etc., which accounting for a relatively small proportion of the company's total revenue. Other business mainly plays the role of supplementing the revenue of the main business and make the revenue structure more diversified.

## Financial Profile

### Balance Sheet Structure and Quality

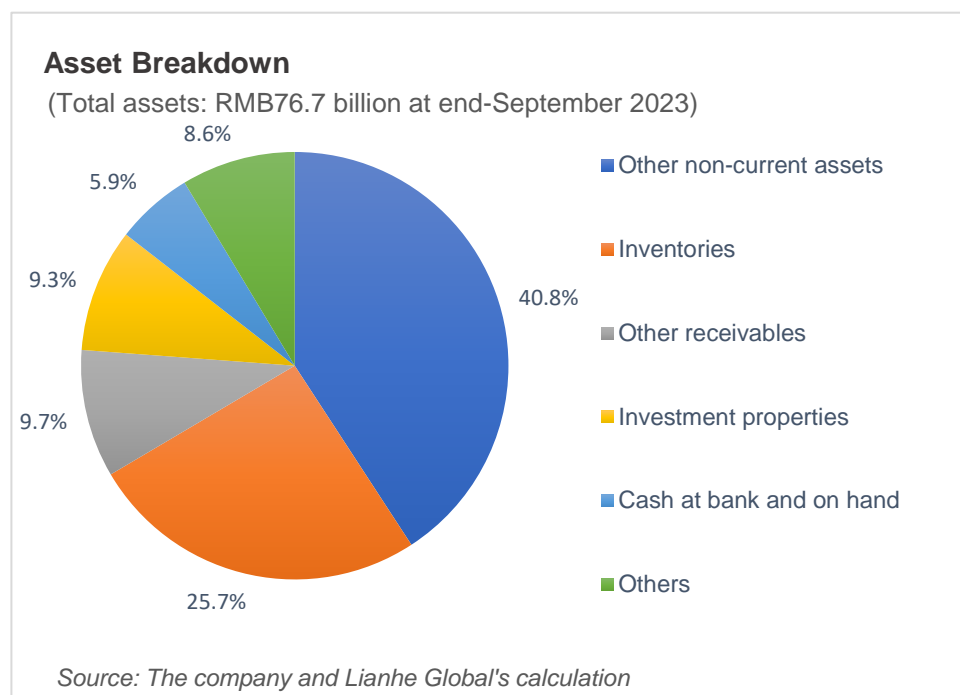
<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Total Asset	52,925	62,066	68,244	76,697
Equity	27,120	28,587	28,985	29,587
Debt	21,879	28,876	36,151	41,682
Debt / (Debt + Equity) (%)	44.7	50.3	55.5	58.5
LT Debts	18,258	22,369	27,606	30,606
LT Debt / (LT Debt + Equity) (%)	40.2	43.9	48.8	50.8

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

CACD's total assets grew moderately to RMB76.7 billion at end-September 2023 from RMB52.9 billion at end-2020, largely attributed to the increase of other non-current assets. Its overall asset liquidity was weak, primarily due to the large proportion of other non-current assets, inventories and other receivables. Other non-current assets primarily comprised of



agent construction projects, with rapid growth in the past few years. The company's project construction activities accumulated sizeable inventories (mainly land use rights and land development costs which associated with real estate development) and investment properties. These assets usually take a long time to monetize due to the protracted construction and payment collection period. Other receivables primarily included transactions with government departments and state-owned enterprises in Shuangliu, which had an aging period of mostly over 3 years, with controllable counterparty risk and low bad debt provision. Its size and proportion showed a downward trend in the past few years.



CACD's financial leverage (total liabilities to assets) increased steadily in the past few years, which increased from 48.8% at end-2020 to 61.4% at end-September 2023, mainly due to the increasing debt borrowings. Its total debt reached RMB41.7 billion at end-September 2023, more than doubled compared with RMB21.9 billion at end-2020. The short-term debt and long-term debt accounting for 26.6% and 73.4% of the total debt at end-September 2023, respectively. We expect CACD to continue to rely on external financing to support its capital expenditures and debt repayments, and the management of the company expects its leverage would be managed within 65% in the future.

### Debt Servicing Capability

The liquidity of CACD was weak. At end-September 2023, CACD had unrestricted cash balance and unused credit facilities of RMB4.5 billion and RMB12.4 billion, respectively, compared with its debt due within one year of RMB11.1 billion. In addition, CACD has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations.

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