

# Chengdu Airport Industry and Finance Investment and Development Co., Ltd.

## Issuer Rating Report

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	19 December 2023

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Airport Industry and Finance Investment and Development Co., Ltd. (“CAIFID” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Shuangliu District, Chengdu City (“the Shuangliu government”) would provide strong support to CAIFID if needed, in light of its indirect majority ownership of CAIFID, CAIFID’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Shuangliu District (“Shuangliu”), especially in the Chengdu International Airport Business District (“Airport BD”), and the linkage between the Shuangliu government and CAIFID, 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 negative impact on its reputation and financing activities if CAIFID encounters any operational and financial difficulties.

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

### Rating Rationale

**Shuangliu Government’s Ownership and Supervision:** The Shuangliu government indirectly holds the majority ownership of CAIFID through Chengdu Aerotropolis City Development Group Co., Ltd. (“CACD”), via the Chengdu Shuangliu District State-owned Assets Supervision and Administration and Financial Work Bureau (“Shuangliu SASAFB”), and is the actual controller of the company. The Shuangliu government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions, via the CACD. In addition, the Shuangliu government has assessment mechanism over the company via Shuangliu SASAFB, and appoints auditor to supervise the operating performance and financial position on a periodic basis via the Audit Bureau of Shuangliu District.

**Strategic Importance to Shuangliu and Strategic Alignment:** CAIFID, as an important LIDC in Shuangliu, especially in Airport BD, is mainly responsible for infrastructure construction, area development and urban function operation in the region. CAIFID is extending its responsibility for functional businesses such as transportation related infrastructure construction and area development in Airport BD, Jiujiang New City Future Park Community Area, West Ring Road Area and Shuangliu West Station Area, covering the core area of Shuangliu. CAIFID also undertakes self-supporting projects, merchandise sales, modern services, parking lot services and other commercial activities and plays an important role in local urban construction. As an important entity in the operation of state-owned assets in Shuangliu, especially in the Airport BD, CAIFID also plays an important role

### Key Figures of Shuangliu and CAIFID

(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>CAIFID</b>	<b>2022</b>	<b>2023.6</b>
Assets	21.1	32.1
Equity	20.3	19.9
Revenue	2.0	1.4

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

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### Applicable Criteria

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

in promoting the economic and social development of the region. CAIFID's business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** CAIFID received operational and financial support from the government. CAIFID had received a total subsidy amount of c. RMB24.4 million from 2020 to the first six months of 2023, mainly including daily operating subsidies. The Shuangliu government, through Shuangliu SASAFB and relevant departments, continued to inject cash, assets, infrastructure related projects, special purpose debt, general debt and other kind of assets into CAIFID to expand its asset size and diversify its business. Also, the Shuangliu government provides policy supports to CAIFID to ensure its business operation. Given the regional advantage in infrastructure construction and state-owned asset management in Airport BD, CAIFID has advantages to obtain land resources and major projects. We believe CAIFID is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**CAIFID's Financial Matrix and Liquidity Position:** CAIFID's total assets showed a continuous growth trend in the past years and reached RMB32.1 billion at end-June 2023, mainly due to the increase in other receivables resulting from capital lent to related parties and other non-current assets. The non-current assets of CAIFID accounted for c. 60.9% of the total assets at end-June 2023, and the overall assets were less liquid. CAIFID's financial leverage (total liabilities to total assets) was 37.9% and its adjusted debt increased to c. RMB10.4 billion at end-June 2023. The liquidity of CAIFID was sufficient. CAIFID had a cash balance and unused credit facilities of c. RMB653.3 million and RMB3.5 billion at end-June 2023, respectively, compared with its debt due within one year of c. RMB2.2 billion. Besides, CAIFID has access to various financing channels, including bank loans and non-traditional financing (e.g., finance leasing), to support its debt repayment 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 c. 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 c. 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 c. 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 CAIFID'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 CAIFID, or (3) there is a downgrade in our internal credit assessment on the Shuangliu government.

We would consider upgrading CAIFID's rating if (1) there is strengthened support from the Shuangliu government, or (2) 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 c. 1,065 square kilometers, with an actual administrative area of c. 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 at end-2022. Its population reached c. 15 million with an urbanization rate of c. 78% at the same time. Shuangliu recorded an economic growth in 2022, achieving a GDP of c. 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 c. RMB 75,900 in 2022.

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

(RMB billion)	2020	2021	2022
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 c. 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 c. RMB25.5 billion at end-2022, of which c. 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 balance <sup>1</sup> (%)	-32.0	-24.6	-37.1

<sup>1</sup> Budget balance = (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

CAIFID was established by CACD in 2019 with an initial registered capital of RMB2 billion. The Shuangliu SASAFB holds 90% of the equity of CACD, while the remaining 10% stake is held by the Sichuan Provincial Department of Finance. The registered capital and paid-in capital of CAIFID were RMB2 billion and RMB1.42 billion, respectively, at end-June 2023. The Shuangliu government is the actual controller of the company, while the Shuangliu SASAFB is the company's ultimate controlling shareholder through its majority holding of CACD.

## Strategic Importance and Government Linkage

### Strategic Importance of CAIFID to Shuangliu

CAIFID, as an important LIDC in Shuangliu, especially in Airport BD, is mainly responsible for infrastructure construction, area development and urban function operation in the region. CAIFID is extending its responsibility for functional businesses such as transportation related infrastructure construction and area development in Airport BD, Jiujiang New City Future Park Community Area, West Ring Road Area and Shuangliu West Station Area, covering the core area of Shuangliu. CAIFID also undertakes self-supporting projects, merchandise sales, modern services, parking lot services and other commercial activities and plays an important role in local urban construction. As an important entity in the operation of state-owned assets in Shuangliu, especially in the Airport BD, CAIFID also plays an important role in promoting the economic and social development of the region. CAIFID's business operation and development have been aligned with the government's development plans.

### Linkage with the Local Government

CAIFID's linkage with the local government is strong as the Shuangliu government indirectly holds the majority ownership of CAIFID through CACD, via the Shuangliu SASAFB. It is the actual controller of the company. The Shuangliu government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions, via the CACD. In addition, the Shuangliu government has assessment mechanism over the company via Shuangliu SASAFB, and appoints auditor to supervise the operating

performance and financial position on a periodic basis via the Audit Bureau of Shuangliu District.

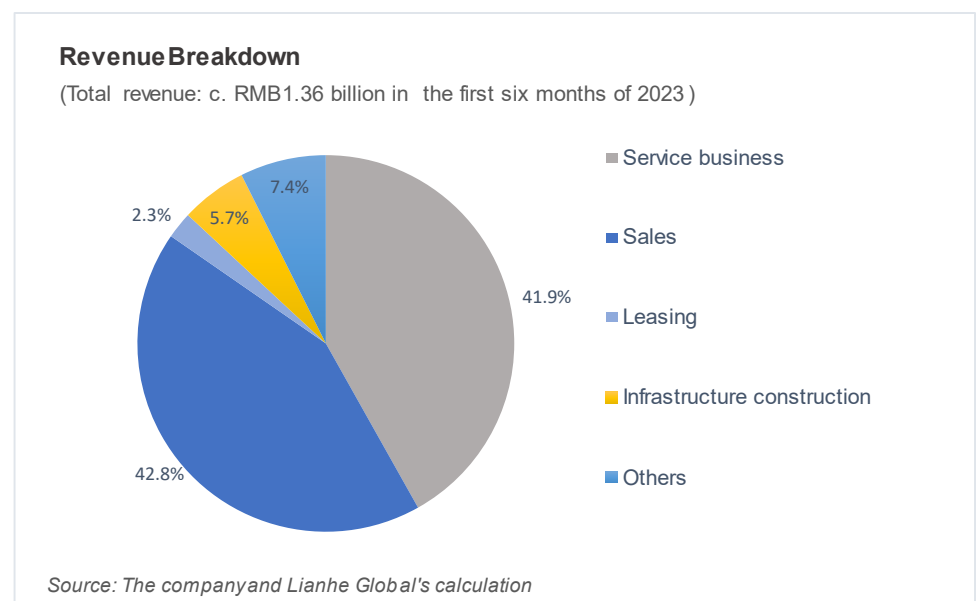
### Government Support

CAIFID, as an important LIDC in Shuangliu, especially in Airport BD, is mainly responsible for infrastructure construction, area development and urban function operation in the region. CAIFID is extending its responsibility for functional businesses such as transportation related infrastructure construction and area development in Airport BD, Jiujiang New City Future Park Community Area, West Ring Road Area and Shuangliu West Station Area, covering the core area of Shuangliu. CAIFID also undertakes self-supporting projects, merchandise sales, modern services, parking lot services and other commercial activities and plays an important role in local urban construction. As an important entity in the operation of state-owned assets in Shuangliu, especially in the Airport BD, CAIFID also plays an important role in promoting the economic and social development of the region. CAIFID's business operation and development have been aligned with the government's development plans.

### Business Profile

#### The Key Entity Responsible for Infrastructure Construction and State-owned Asset Operation in Shuangliu

CAIFID, as an important LIDC in Shuangliu, especially in Airport BD, is mainly responsible for infrastructure construction and state-owned assets operation in the region with regional advantages. The company's main business includes sales, service business, infrastructure construction, leasing, and parking services etc. Over the past years, its operating income steadily increased and reached c. RMB1.5 billion, RMB1.9 billion, RMB1.9 billion and RMB1.4 billion in 2020, 2021, 2022 and the first six months of 2023, respectively, with relatively stable gross profit margins of 7.1%, 6.5%, 6.1% and 4.5%, respectively.



### **Infrastructure Construction**

As the main entity for infrastructure construction in Shuangliu, especially in Airport BD, CAIFID is primarily responsible for the construction of roads, affordable rental housing and ecological restoration projects in the region. Given the company's important role as the sole infrastructure and state-owned asset operation entity in the Airport BD, this segment has certain franchised advantages in the region. The revenue generated from this segment reached RMB6.9 million, RMB6.4 million, RMB27.8 million and RMB3.2 million in 2020, 2021, 2022 and the first six months of 2023, respectively. The business model of the segment includes agent construction and self-operated construction. The former model involves signing relevant repurchase agreements with the Shuangliu government, while the latter generates cashflow through subsequent operation. Given the large investment scale of the company's projects under construction and their long repayment periods, the segment may face significant capital expenditure pressure in the future.

### **Sales**

As an important source of revenue for CAIFID, the sales segment makes the company's business more diversified and plays a complementary role to its public welfare business. CAIFID is mainly engaged in the sales of ethylene glycol and electrolytic copper, with a high concentration of customers. Most of the counterparties of the segment are third-party private enterprises, which brings certain counterparty risks. The revenue generated from this segment reached RMB697.9 million, RMB919.3 million, RMB738.1 million and RMB614.4 million in 2020, 2021, 2022 and the first six months of 2023, respectively. The segment's gross profit margin remained stable at 1.8%-2.8% over the past three years. Overall, the sales business of CAIFID has led to a significant increase in total revenue and a more diversified operation, but the high customer concentration and counterparty risk are the major concerns.

### **Services Business**

The service business of CAIFID is mainly talent service business, including labor dispatching, outsourcing business, talent recruitment and agency etc. The company holds a government-issued labor dispatching license and thus has certain franchised advantages in the region. Per government's guidelines, the outsourcing business of all authorities and institutions in Shuangliu will be unified by CAIFID. The revenue generated from this segment reached RMB635.3 million, RMB761.4 million, RMB1.1 billion and RMB601.1 million in 2020, 2021, 2022 and the first six months of 2023, respectively, with an overall upward trend. Its share in total revenue exceed 50% in 2022. The segment's gross margin, on the other hand, is on a downward trend, decreasing from 4.6% in 2020 to 1.7% in 2022. Overall, the service business is an important source of revenue for the company, providing it with more diversified revenue structure and regional advantages in the region.

### **Other Businesses**

Other businesses of CAIFID mainly include leasing business, parking business, car inspection business and bus business, which accounted for relatively small proportions of the total revenue and have limited impact or contribution to the total revenue of the company.



## Financial Profile

### Balance Sheet Structure and Quality

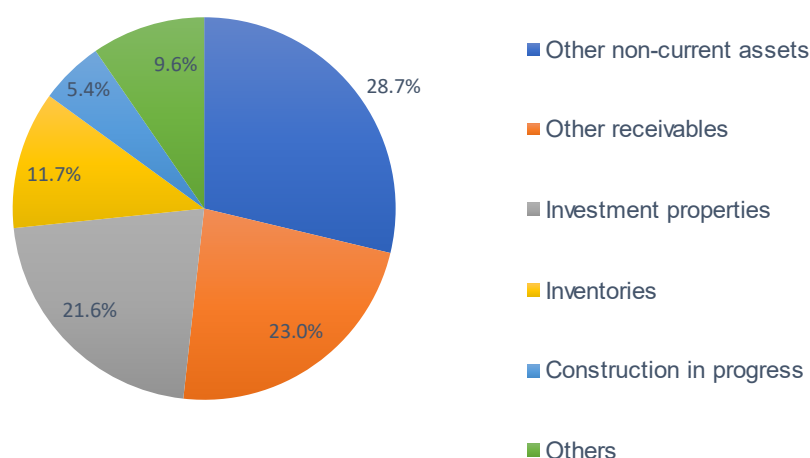
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June-2023
Total Asset	13,503	15,359	21,056	32,088
Equity	10,086	10,795	11,278	19,929
Debt	1,912	3,400	8,341	9,949
Debt / (Debt + Equity) (%)	15.9	23.9	42.5	33.3
LT Debt	1,472	2,109	6,165	6,925
LT Debt / (LT Debt + Equity) (%)	12.7	16.3	35.3	25.8

Source: Company Information and Lianhe Global's calculations

CAIFID's total assets showed a continuous growth in the past few years, with a growth rate of 13.7%, 37.1% and 52.4% at end-2021, end-2022 and end-June 2023, respectively, and reached RMB32.1 billion at end-June 2023. The increase of CAIFID's total assets in 2022 and 2023 was mainly due to the increase in other receivables resulting from capital lent to related parties, as well as the increase of other non-current assets. The asset structure of CAIFID has not changed significantly in recent years and was mainly composed of other non-current assets, other receivables, investment properties, inventories and construction in progress. At end-June 2023, the company's other non-current assets primarily comprised infrastructure construction projects, which saw a significant increase due to ongoing government injections of related projects. Other receivables were mainly related transactions with other state-owned enterprises in the region, with controllable counterparty risks and low bad debt provision. Having said that, the proportion of receivables aged over 3 years was relatively large. The investment properties mainly included residential housing for lease, community ground floor shops and markets, with a high comprehensive lease rate. Inventories mainly consisted of land to be developed, the vast majority of which was unencumbered commercial land. CAIFID's non-current assets accounted for 60.1% of the total assets and the overall assets were less liquid at end-June 2023, due to the large proportion of project related assets, receivables and investment properties.

#### Asset Breakdown

(Total assets: RMB32.1 billion at end-June 2023)



Source: The company and Lianhe Global's calculation

CAIFID's financial leverage (total liabilities to assets) was 25.3%, 29.7%, 46.4% and 37.9% at end-2020, end-2021, end-2022 and end-June 2023, respectively, maintaining at a relatively low level. The decrease of the financial leverage in the first half 2023 was mainly due to the large asset injections from the Shuangliu government. CAIFID's adjusted total debt increased significantly from c. RMB1.9 billion at end-2020 to c. RMB9.9 billion at end-June 2023, due to the increase in long-term borrowings, with long-term debt accounting for c. 69.6% of its total debt at end-June 2023. According to the government guidance, we expect the financial leverage of CAIFID to remain below 50% in the future. There was no significant change in the ownership equity structure of CAIFID at end-June 2023, compared with that at end-2020, of which capital surplus accounted for a relatively high percentage of total equity. CAIFID mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its infrastructure projects under construction and to be constructed in the future.

### Debt Servicing Capability

The liquidity of CAIFID was sufficient. At end-June 2023, CAIFID had a cash balance and unused credit facilities of c. RMB653.3 million and RMB7.8 billion, respectively, compared with its debt due within one year of c. RMB3.0 billion at the same time. Besides, CAIFID has access to various financing channels, including bank loans and non-traditional financing (mainly finance lease), to support its debt repayment and business operations.



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