

Chengdu Airport Industry Xingcheng Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	A-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	7 February 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘A-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chengdu Airport Industry Xingcheng Investment Development Co., Ltd. (“CAIXID” 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 CAIXID if needed, in light of its indirect majority ownership of CAIXID, CAIXID’s strategic importance as the major local investment and development company (“LIDC”) that is responsible for infrastructure construction in Shuangliu District (“Shuangliu”), Chengdu City (“Chengdu”), and the linkage between the Shuangliu government and CAIXID, 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 CAIXID encounters any operational and financial difficulties.

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

Rating Rationale

Shuangliu Government’s Ownership and Supervision: The Shuangliu government indirectly holds the majority ownership of CAIXID through Chengdu Airport Xingcheng Investment Group Co., Ltd. (“CAXIG”), via the Chengdu Shuangliu District State-owned Assets Supervision and Administration and Financial Work Bureau (“Shuangliu SASAFB”). The Shuangliu SASAFB is 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, via the CAXIG. In addition, the Shuangliu government has assessment mechanism over the company via the CAXIG and appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Shuangliu and Strategic Alignment: CAIXID, an important LIDC for infrastructure construction in Shuangliu, and as the largest and the most important subsidiary of CAXIG, is mainly responsible for core infrastructure construction projects, zone development and industrial investment in Shuangliu. Its business scope covers the core area of Shuangliu. It is also engaged in building materials sales and project construction. Overall, the company has strong business competitiveness and regional advantages. 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: CAIXID continued to receive financial subsidies and asset/capital injections from both the Shuangliu government and CAXIG to support its business operations. We believe the support from both the Shuangliu government and

Key Figures of Shuangliu and CAIXID

(RMB billion)	2021	2022
Shuangliu		
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
CAIXID	2022	2023.9
Assets	59.9	77.8
Equity	31.8	32.4
Revenue	3.2	2.3

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

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Applicable Criteria

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

CAXIG 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 RMB434.0 million into CAIXID through CAXIG, enlarging its paid-in capital to RMB2.0 billion from RMB1.6 billion. Meanwhile, CAIXID received financial subsidies amounting to RMB868.0 million from both the Shuangliu government and CAXIG to maintain CAIXID's business operation. The company also received asset and capital injections in the form of cash, equity transfers, buildings, sand and gravel mining rights, and other assets, which reached a total of RMB11.9 billion between 2020 and 2022, expanding its asset size and diversifying its business.

CAIXID's Financial Matrix and Liquidity Position: CAIXID's total asset increased rapidly to RMB77.8 billion at end-September 2023 from RMB32.4 billion at end-2020, as the company actively participates in the infrastructure development in Shuangliu. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. CAIXID's total debt reached RMB32.3 billion at end-September 2023, almost quadrupled compared with RMB7.7 billion at end-2020, mainly due to the increasing debt borrowings. The company's financial leverage, as measured by debt/capitalization, increased to 49.9% at end-September 2023 from 25.0% at end-2020.

The liquidity of CAIXID was weak. At end-September 2023, CAIXID had unrestricted cash balance and unused credit facilities of RMB5.0 billion and RMB18.4 billion, respectively, compared with its debt due within one year of RMB12.2 billion. Nevertheless, CAIXID 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 CAIXID'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 CAIXID, or (3) there is a downgrade in our internal credit assessment on the Shuangliu government.

We would consider upgrading CAIXID'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.

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 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.

Shuangliu's Fiscal Condition

(RMB billion)	2020	2021	2022
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Budgetary revenue	7.8	9.0	9.6
Budgetary revenue growth rate (%)	8.2	15.3	² 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
Aggregate revenue	23.7	23.3	28.2
Budgetary expenditure	10.2	11.2	13.1
Budget deficit ¹ (%)	-32.0	-24.6	-37.1

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

² Excluding the influence of value-added tax credit refund.

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

CAIXID was established in April 2018 with an initial registered capital of RMB100 million, funded by CAXIG.

After an array of capital injections, CAIXID's registered capital and paid-in capital were both RMB2 billion at end-September 2023. The company is now fully owned by CAXIG and actual controlled by the Shuangliu SASAFB.

Strategic Importance and Government Linkage

Strategic Importance of CAIXID to Shuangliu

CAIXID, as an important LIDC for infrastructure construction in Shuangliu, and as the largest and the most important subsidiary of CAXIG, is mainly responsible for core infrastructure construction projects, zone development and industrial investment in Shuangliu. Its business scope covers the core area of Shuangliu. It is also engaged in building materials sales and project construction. Overall, the company has strong business competitiveness and regional advantages. 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

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

Government Support

CAIXID continued to receive financial subsidies and asset/capital injections from both the Shuangliu government and CAXIG to support its business operations. We believe the support from both the Shuangliu government and CAXIG 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 RMB434.0 million into CAIXID through CAXIG, enlarging its paid-in capital to RMB2.0 billion from RMB1.6 billion. Meanwhile, CAIXID received financial subsidies amounting to RMB868.0 million from both the Shuangliu government and CAXIG to maintain CAIXID's business operation. The company also received asset and capital injections in the form of cash, equity transfers, buildings, sand and gravel mining rights, and other assets, which reached RMB 11,703.7million, RMB168.7 million, RMB37.5 million in 2020, 2021 and 2022, respectively, expanding its asset size and diversifying its business. In addition, the company received special purpose debt from the local government to support its infrastructure construction and project construction.

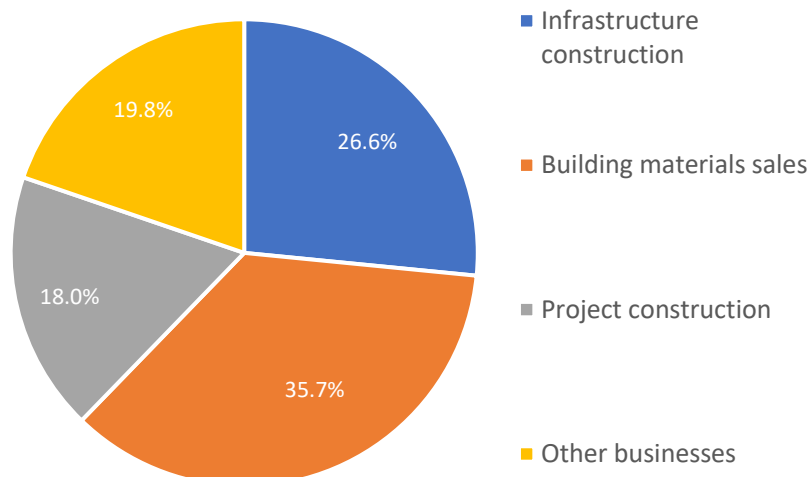
Business Profile

The Major Entity Responsible for Infrastructure Construction in Shuangliu

CAIXID, as an important LIDC in Shuangliu, is mainly responsible for the core infrastructure construction, zone development and industrial investment in Shuangliu. The primary sources of operating revenue for the company are infrastructure construction and building materials sales, while it also engaged in project construction, property management, leasing, etc. The company's total revenue reached c. RMB1.7 billion, RMB2.7 billion, RMB3.2 billion and RMB2.3 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The overall gross profit margin of CAIXID ranged from 12.3% to 21.7% over the same period. Overall, the company's business profile is diversified.

Revenue Breakdown

(Total revenue: RMB2.3 billion in the first nine months of 2023)



Source: The company and Lianhe Global's Calculation

Infrastructure Construction

CAIXID's infrastructure construction projects are generally conducted under three models, namely construction management model, government repurchase model and entrusted

construction model. At end-September 2023, projects under government repurchase model and entrusted construction model were completed. Under the construction management model, the company settles the construction costs plus 2-5% of management fees with the entrusting parties upon the completion of the entrusted projects. The revenue of this segment was on a downward trend in the past few years, recording at c. RMB1.2 billion, RMB0.9 billion, RMB0.8 billion and RMB0.6 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment ranged from 19.3% to 38.9% over the same period.

Building Materials Sales

Building materials sales business is another major source of revenue of the company. The company mainly trades building materials and sand and gravel. The company established a building material trading platform that provides one-stop online services for customers. Besides, the company owns the franchise rights of sand mining via government asset injection. The revenue of this segment reached RMB0.3 billion, RMB1.8 billion, RMB1.9 billion and RMB0.8 billion in 2020, 2021, 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment increased from 0.2% in 2020 to 16.8% in 2022, but dropped to 4.4% in the first nine months of 2023.

Project construction

The company diversified its business structure by adding project construction business in 2022. The company owns various qualification certificates in project construction. The revenue generated from this segment reached RMB314 million and RMB407 million in 2022 and the first nine months of 2023, respectively. The gross profit margin of this segment was relatively low, staying at below 5% over the same period.

Other Businesses

Other businesses of CAIXID mainly include property management, leasing, etc., which mainly play the role of supplementing the revenue of the main business and further diversify its revenue structure.

Financial Profile

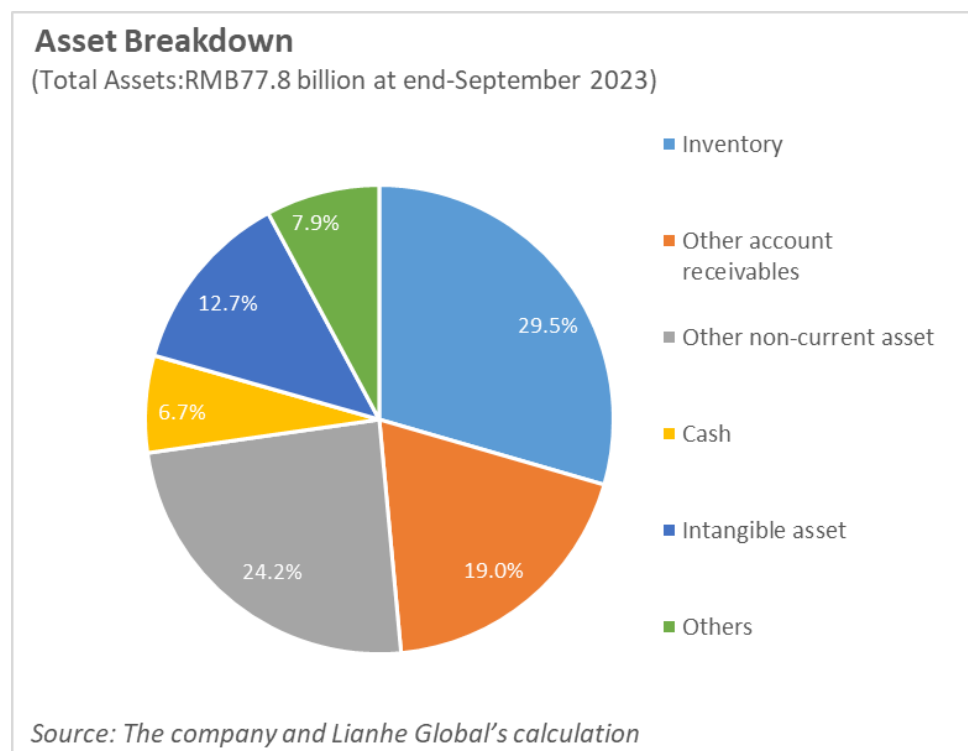
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	Sep 2023
Total Asset	32,448	36,475	59,924	77,802
Equity	23,039	25,464	31,756	32,393
Debt	7,677	9,553	20,657	32,264
Debt / (Debt + Equity) (%)	25.0	27.3	39.4	49.9
LT Debts	5,508	7,523	14,894	20,024
LT Debt / (LT Debt + Equity) (%)	19.3	22.8	31.9	38.2

Source: Company information and Lianhe Global's calculations

CAIXID's total asset increased rapidly to RMB77.8 billion at end-September 2023 from RMB32.4 billion at end-2020, as the company actively participates in the infrastructure development in Shuangliu. The company relied on both borrowings and capital injections from the local government to fund its asset expansion. CAIXID's asset liquidity was relatively weak. The company's infrastructure construction activities had accumulated sizable

inventories (mainly construction costs and land use rights) and other non-current assets (mainly construction costs of project construction projects), which added up to RMB41.8 billion and represented 54% of total asset. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large number of other account receivables (primarily due from local SOEs), which accounted for 19% of total asset.



CAIXID's total debt reached RMB32.3 billion at end-September 2023, almost quadrupled compared with RMB7.7 billion at end-2020, mainly due to the increasing debt borrowings. The company's financial leverage, as measured by debt/capitalization, increased to 49.9% at end-September 2023 from 25.0% at end-2020.

Debt Servicing Capability

The liquidity of CAIXID was weak. At end-September 2023, CAIXID had unrestricted cash balance and unused credit facilities of RMB5.0 billion and RMB18.4 billion, respectively, compared with its debt due within one year of RMB12.2 billion. Nevertheless, CAIXID 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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