

# Xingyang Urban Development Investment Group Co., Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	1 March 2024

### Key Figures of Xingyang and XUDI

#### (RMB billion)

	2021	2022
Xingyang		
GDP	55.4	55.9
GDP growth rate (%)	1.7	0.1
Budgetary revenue	4.9	5.0
Government fund	1.3	0.9
Transfer payment	3.3	2.7
Budgetary expenditure	6.7	6.8
XUDI	2022	2023.9
Asset	31.8	34.1
Equity	13.5	13.8
Revenue	0.69	0.48

Source: Public information, XUDI 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 Xingyang Urban Development Investment Group Co., Ltd. (“XUDI” or “the company”)

### Summary

The Issuer Credit Rating reflects the People’s Government of Xingyang City’s (“the Xingyang government”) indirect majority ownership of XUDI, XUDI’s strategic importance as the most important LIDC responsible for project development and city operation in Xingyang City (“Xingyang”), Zhengzhou, and the linkage between the local government and XUDI, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support, hence a high possibility that the local government would provide very strong support to XUDI if needed. In addition, if XUDI encounters any operational and financial difficulties, the local government could potentially face significant negative impact on its reputation and financing activities.

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

### Rating Rationale

**Xingyang Government’s Ownership and Supervision:** The Xingyang government, the actual controller of the company, indirectly holds the 99% ownership of XUDI. The Xingyang government has strong control 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 Xingyang government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance to Xingyang and Strategic Alignment:** XUDI is the most important LIDC in Xingyang responsible for project development and city operation. Its project scope includes municipal infrastructures construction, resettlement housing and industrial park construction. It also provides water supply and related installation, heat supply, sewage treatment and sanitation services. XUDI’s business operation and strategic planning have been aligned with the local government’s development plans, playing a significant role in promoting the economic and social development in Xingyang.

**Ongoing Government Support:** Due to the strategic importance of XUDI in Xingyang, the company continues to receive financial subsidies and asset/capital injections from the Xingyang government to support its business operations. Between 2020 and 2023, XUDI received financial subsidies amounting to RMB538 million and project funds amounting to RMB1,630 million from the Xingyang government to support XUDI’s business operation and project development. Over the same period, XUDI also received cash capital of RMB808 million from the government. We believe that the government’s willingness to support will remain intact given the company’s strategic importance in Xingyang.

**Economy and Fiscal Conditions of Xingyang:** Xingyang is a county-level city under the direct jurisdiction of Henan Province and administered by Zhengzhou City, the provincial

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### Applicable Criteria

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

capital. Renowned as the hometown of China's silk culture, Xingyang is a time-honored city with abundant tourism resources and cultural sites. Xingyang recorded a GDP of RMB55.9 billion in 2022. The value-added of the tertiary industry dropped by 0.9% year-over-year, dragging down the GDP growth rate of Xingyang from 1.7% in 2021 to 0.1% in 2022, compared with 1.0% of Zhengzhou City and 3.1% of Henan Province.

Xingyang's budgetary revenue had dropped significantly to RMB4.9 billion in 2021 from RMB5.3 billion in 2020, but slightly rebounded to RMB5.0 billion in 2022. The budgetary expenditure declined to RMB6.8 billion in 2022 from RMB7.8 billion in 2020, thus its budget balance had improved. However, Xingyang's government fund income shrunk dramatically to RMB0.9 billion in 2022 from RMB5.3 billion in 2020, mainly due to the decreased of land use right transfer income amid challenging property market.

At the same time, the outstanding debt of the Xingyang government continued to grow. Given the Xingyang government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 150.9% in 2022 from 98.7% in 2020.

**XUDI's Financial and Liquidity Position:** As XUDI actively participated in project development in Xingyang, the company's total asset grew rapidly to RMB34.1 billion at end-September 2023 from RMB18.3 billion at end-2020. Its total debt also increased to RMB10.4 billion from RMB4.3 billion over the same period. The company's financial leverage, as measured by debt/capitalization, fluctuated but was at a manageable level between end-2020 and end-September 2023. It was 43.1% at end-September 2023, down from 50.6% at end-2021, mainly due to the continuous government support in 2022 and the first nine months of 2023.

However, XUDI's assets liquidity was moderately weak. The company's project construction activities accumulated sizeable inventories (mainly lands to be developed and construction costs), fixed asset, construction in progress and investment properties representing 64.7% of total asset at end-September 2023. These assets usually take a long time to monetize due to the protracted construction and payment collection period.

XUDI's short-term debt servicing pressure was moderately high. At end-September 2023, the company had unrestricted cash balance of RMB1.6 billion, compared with its debts due within one year of RMB3.6 billion. Nevertheless, XUDI has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations. At end-September 2023, the company had unused credit facilities and bond issuance quota amounting to RMB5.0 billion.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Xingyang

Xingyang is a county-level city under the direct jurisdiction of Henan Province and administered by Zhengzhou City, the provincial capital. Renowned as the hometown of China's silk culture, Xingyang is a time-honored city with abundant tourism resources and cultural sites. Xingyang has jurisdiction over twelve towns, two streets and one scenic area, with a land area of 943 square kilometers. At end-2022, Xingyang had a resident population of 0.73 million, with an urbanization rate of 59.2%.

Xingyang recorded a GDP of RMB55.9 billion in 2022, of which 48.2% and 46.1% were contributed by the secondary industry and tertiary industry, respectively. The value-added of the tertiary industry dropped by 0.9% year-over-year, dragging down the GDP growth rate of Xingyang from 1.7% in 2021 to 0.1% in 2022, compared with 1.0% of Zhengzhou City and 3.1% of Henan Province. In contrast, Xingyang's fixed asset investment continued to grow in the past three years and surged by 25.9% year-over-year to RMB68.4 billion in 2022.

<b>Xingyang's GDP and Fixed Asset Investment</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GDP	54.6	55.4	55.9
-Primary industry (%)	5.2	5.9	5.7
-Secondary industry (%)	49.0	47.9	48.2
-Tertiary industry (%)	45.8	46.2	46.1
GDP growth rate (%)	3.1	1.7	0.1
Fixed asset investment growth rate (%)	12.5	1.3	25.9
Population (million)	0.73	0.73	0.73

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Xingyang

Xingyang's budgetary revenue had dropped significantly to RMB4.9 billion in 2021 from RMB5.3 billion in 2020, but slightly rebounded to RMB5.0 billion in 2022. The contribution of the tax revenue declined to 48.3% in 2022 from 70.0% in 2020, mainly due to tax advantage policies. The budgetary expenditure declined to RMB6.8 billion in 2022 from RMB7.8 billion in 2020, thus its budget balance had improved, recording at -48.0%, -37.1% and -35.5% in 2020, 2021 and 2022, respectively. In addition, the Xingyang government continuously received a certain number of subsidies from higher government authorities, and the transfer payment reached RMB2.7 billion in 2022.

However, Xingyang's government fund income shrunk dramatically to RMB0.9 billion in 2022 from RMB5.3 billion in 2020, mainly due to the decreased of land use right transfer income amid challenging property market. At the same time, the outstanding debt of the Xingyang government continued to grow. At end-2022, the Xingyang government's outstanding debt was RMB15.1 billion, up from RMB9.9 billion at end-2020. Given the Xingyang government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 150.9% from 98.7% over the same period.

<b>Xingyang's Fiscal Condition</b>			
<b>(RMB billion)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>

Budgetary revenue	5.3	4.9	5.0
Budgetary revenue growth rate (%)	5.3	-6.0	6.3*
Tax revenue	3.7	2.7	2.4
Tax revenue (% of budgetary revenue)	70.0	55.4	48.3
Government fund income	5.3	1.3	0.9
Transfer payment	2.7	3.3	2.7
<b>Aggregate revenue</b>	<b>13.3</b>	<b>9.4</b>	<b>8.8</b>
Budgetary expenditure	7.8	6.7	6.8
Budget balance <sup>1</sup> (%)	-48.0	-37.1	-35.5

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

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

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

XUDI was established in December 2003 with a registered capital of RMB30 million, funded by the Xingyang government. After a series of capital injections and equity transfers, at end-January 2024, XUDI's registered and paid-in capital were RMB3.0 billion and RMB1.1 billion, respectively.

The Xingyang government, as the actual controller of the company, holds 99.0% of the company's equity through the Zhengzhou Zhongxing Investment and Development Group Co., Ltd. ("ZZID"), a newly set up LIDC mainly serving equity holding function; the remaining 1.0% equity was held by the Department of Finance of Henan Province.

## Strategic Importance and Government Linkage

### Strategic Importance of XUDI to Xingyang

XUDI is the most important LIDC in Xingyang responsible for project development and city operation. Its project scope includes municipal infrastructures construction, resettlement housing and industrial park construction. It also provides water supply and related installation, heat supply, sewage treatment and sanitation services. XUDI's business operation and strategic planning have been aligned with the local government's development plans, playing a significant role in promoting the economic and social development in Xingyang.

### Linkage with the Local Government

XUDI's linkage with the local government is strong as the Xingyang government, the actual controller of the company, indirectly holds the 99% shares of XUDI through the ZZID. The Xingyang government has strong control 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 Xingyang government has formulated a performance assessment mechanism for the company and regularly appoints auditors to review the company's operating performance and financial position.

### Ongoing Government Support

Due to the strategic importance of XUDI in Xingyang, the company continues to receive financial subsidies and asset/capital injections from the Xingyang government to support its business operations. Between 2020 and 2023, XUDI received financial subsidies amounting

to RMB538 million and project funds amounting to RMB1,630 million from the Xingyang government to support XUDI's business operation and project development.

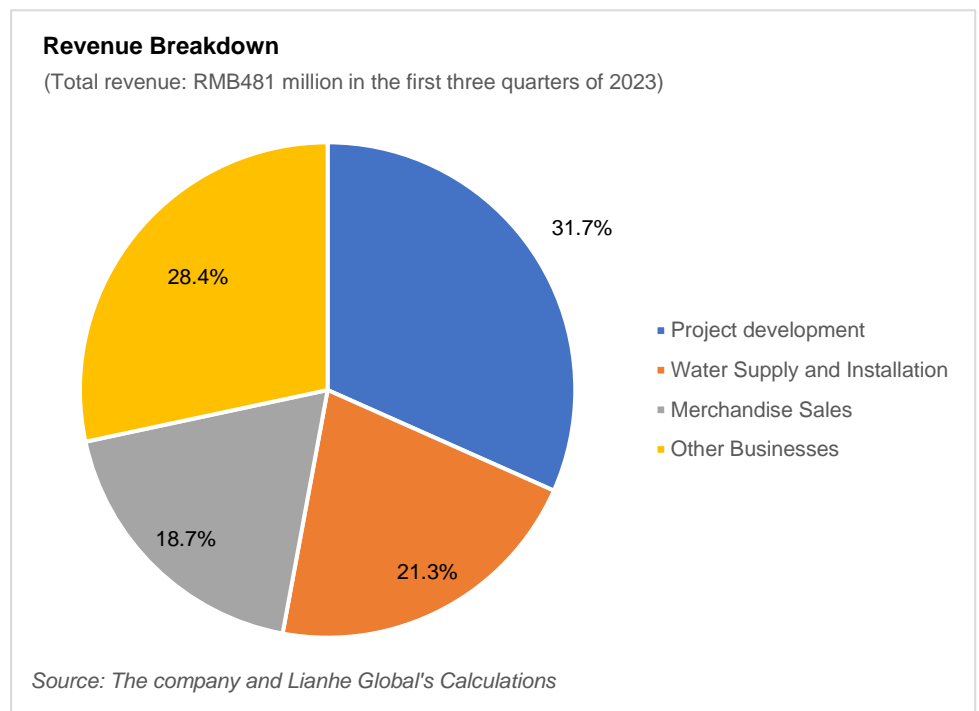
Over the same period, XUDI also received cash capital of RMB808 million from the government, enlarging its paid-in capital to RMB1.1 billion from RMB0.4 billion. In addition, the local government injected an array of assets, such as equity of local LIDCs and SOEs and pipe network, into the company, expanding its asset size. We believe that the government's willingness to support will remain intact given the company's strategic importance in Xingyang.

### Business Profile

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

XUDI, as the most important LIDC in Xingyang, is responsible for project development, including municipal infrastructures, resettlement housings and industrial parks, within the region with a strong franchise advantage. The company also provides water supply and related installation services within the region.

The primary sources of operating revenue for XUDI are project development and water supply, while it also engaged in merchandise sales, asset leasing, heat supply, sewage treatment and sanitation, etc. The company realized total revenue of RMB493 million, 1,009 million, 690 million and 481 million in 2020, 2021, 2022 and the first three quarters of 2023, respectively. The overall gross profit margin of XUDI fluctuated between 23.2% and 49.4% over the same period. In general, XUDI's business was well diversified, but it has regional advantages in its major businesses.



#### Project Development

XUDI engages in constructing various infrastructure projects in the Xingyang, including roads, resettlement housing, rural revitalization and industrial park projects as well as other public facilities. These projects are usually implemented under both the agent construction model and self-management model. Under agent construction model, the company signed agreements with government agencies and is responsible for fundraising and construction of entrusted projects. The company settles construction costs plus a percentage of management fees annually with the entrusting party according to the project's progress.

Under the self-management model, the company needs to construct the projects with its own funds, bank loans, bond issuance and project funds provided by the local government etc., and realizes revenue by targeted sales, leasing or sales. Currently, the company's projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

### Water Supply and Installation

XUDI provides water supply and related installation services in Xingyang. The company supplies water for urban area of Xingyang and neighboring villages and towns. Owing to the public welfare nature of the segment, it generated stable revenue but relatively low gross margin in recent years.

### Merchandise Sales and others

XUDI also engaged in the sales of steel, concrete, cable and air conditioner, etc. The segment's gross margin increased significantly to 7.8% in the first nine months of 2023 and 3.8% in 2020 from around 1% in the previous years. This was because the company gradually exited low margin products such as steel. Yet the segment's revenue also dropped to RMB90 million in the first nine months of 2023 from the peak, which was RMB585 million in 2021.

Other businesses of XUDI include asset leasing, heat supply, sewage treatment and sanitation, etc., with each segment accounted for a relatively small proportion of the company's total revenue. These businesses mainly play 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>Sep 2023</b>
Total Asset	18,321	23,041	31,833	34,115
Equity	6,943	7,570	13,522	13,772
Debt	4,296	7,767	9,090	10,436
Debt / (Debt + Equity) (%)	38.2	50.6	40.2	43.1
LT Debts	386	4,618	6,462	6,851
LT Debt / (LT Debt + Equity) (%)	5.3	37.9	32.3	33.2

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

As XUDI actively participated in project development in Xingyang, XUDI's total asset grew rapidly to RMB34.1 billion at end-September 2023 from RMB18.3 billion at end-2020. Its total debt also increased to RMB10.4 billion from RMB4.3 billion over the same period. The company's financial leverage, as measured by debt/capitalization, fluctuated but was at a manageable level between end-2020 and end-September 2023. It was 43.1% at end-

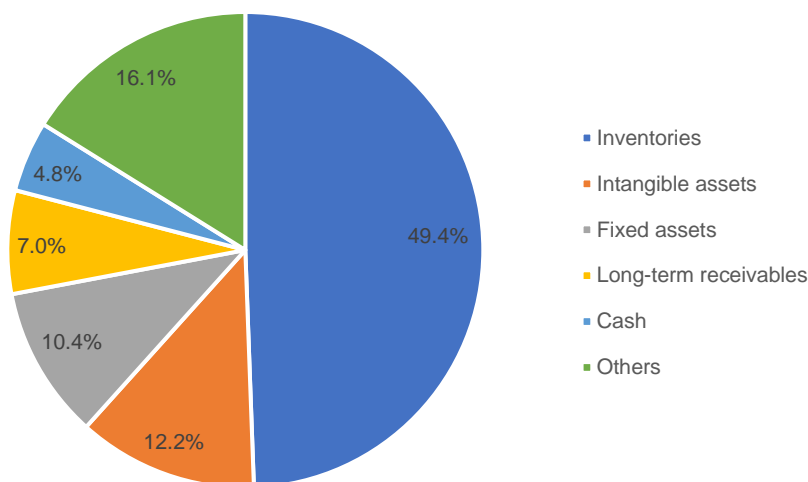
September 2023 down from 50.6% at end-2021, mainly due to the continuous government support in 2022 and the first nine months of 2023, enhancing the company's equity base. In addition, XUDI's debt structure was improving, with long-term debt's proportion rapidly increased to 65.6% at end-September 2023 from 9.0% at end-2020, thus the company's short-term debt pressure eased to some extent.

However, XUDI's assets liquidity was moderately weak. At end-September 2023, the company's assets mainly comprised of inventories, intangible assets, fixed assets and long-term receivables. The company's project construction activities accumulated sizeable inventories (mainly lands to be developed and construction costs), fixed asset, construction in progress and investment properties representing 64.7% of total asset at end-September 2023. 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 long-term receivables, and part of them were technically loans to local private enterprises (some has been listed on the list of dishonest persons subject to enforcement), indicating a certain counterparty credit risk. XUDI's intangible asset mainly comprised of land use right and franchise right injected by the local government.

#### Asset Breakdown

(Total asset: RMB34.1 billion at end-September 2023)



Source: The company and Lianhe Global's calculations

#### Debt Servicing Capability

XUDI's short-term debt servicing pressure was moderately high. At end-September 2023, the company had unrestricted cash balance of RMB1.6 billion, compared with its debts due within one year of RMB3.6 billion. Nevertheless, XUDI has accessed to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayments and business operations. At end-September 2023, the company had unused credit facilities and bond issuance quota amounting to RMB5.0 billion.



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