Chengdu Xiangcheng Investment Group Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	8 April 2024

Key Figures of Xindu and CXIG (RMB billion)

Xindu	**2022**	**2023**
GDP	103.3	108.6
GDP growth rate (%)	2.1	6.0
Budgetary revenue	6.4	7.1
Government fund	3.6	2.8
Transfer payment	3.4	2.7
Budgetary expenditure	9.3	9.5
CXIG	**2022**	**2023.9**
Asset	157.2	171.0
Equity	63.7	63.5
Revenue	7.6	5.2

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

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Applicable Criteria

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

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB+' global scale Long-term Issuer and Issuance Credit Rating of Chengdu Xiangcheng Investment Group Co., Ltd. ("CXIG" or "the company"); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Xindu District of Chengdu City ("Xindu government") would provide very strong support to CXIG if needed, in light of its full ownership of CXIG, CXIG's strategic importance as the most important local investment and development company ("LIDC") responsible for infrastructure construction and urban development and operation in Xindu District of ("Xindu") of Chengdu City ("Chengdu"), and the linkage between the Xindu government and CXIG, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support. In addition, the Xindu government may face significant negative impact on its reputation and financing activities if CXIG encounters any operational and financial difficulties.

Lianhe Global has also affirmed 'BBB+' global scale Long-term Issuance Credit Rating of senior unsecured CNY Bond issued by CXIG at the same time. A full list of affirmed issuance rating is included in this report.

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

Rating Rationale

Government's Ownership and Supervision: The Xindu government via the State-owned Assets Supervision and Administration and Finance Bureau ("Xindu SASAFB") holds 100% ownership of CXIG. The Xindu SASAFB is the sole shareholders and actual controller of the company. The Xindu government has strong supervision over CXIG, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Xindu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Strategic Importance and Strategic Alignment: As the most important LIDC responsible for infrastructure construction and urban development and operation in the region, CXIG undertakes important functions assigned by the local government, and it has a monopoly position in the construction of urban infrastructure and affordable housing in Xindu. In addition, it also carries out various functions to maintain urban operation such as bus operation, water supply, industrial park development and parking lot operations etc., within the region. Although in 2023, under the guidance of the Xindu government, CXIG's sewage treatment business was transferred to Chengdu Xindu Investment Group Co. LTD (" Xindu IG "), the other LIDC in Xindu, CXIG is still the largest (in terms of asset size) and the most important LIDC in the region.

CXIG plays an important role in urban development and operation in Xindu, as well as improve people's livelihoods. CXIG's strategic planning and development have been aligned with the local government's development plans and policies.

Ongoing Government Support: CXIG continued to receive financial subsidies and asset/capital injections from the local government to support its business operations. Between 2020 and the first nine months of 2023, the Xindu government injected cash capital of RMB0.7 billion into CXIG, enlarging its paid-in capital to RMB3.9 billion at end-September 2023 from RMB3.2 billion at end-2020. During the same period, CXIG received financial subsidies of totally about RMB3.3 billion from the local government. Between 2022 and the first nine months of 2023, CXIG continued to received asset injections in the form of cash, equity transfers, buildings, operation right, etc. of about RMB736.0 million. We expect the government support will remain intact given CXIG's function and strategic importance in Xindu.

Economy and Fiscal Condition of Xindu: Xindu's GDP reached RMB108.6 billion in 2023, representing a year-over-year growth rate of 6.0%, up from 2.1% recorded in 2022. Its GDP amount was ranked 9th among all jurisdictions of Chengdu. The economic structure of Xindu remained relatively stable, and its economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 29.7% and 67.9% of its GDP in 2023, respectively.

The aggregate fiscal revenue of the Xindu was mainly derived from the budgetary revenue and government fund income. In 2023, the Xindu government realized a budgetary revenue of RMB7.1 billion, representing a year-over-year increase of 9.8%. The financial self-sufficiency of Xindu improved in 2023 compared with that in 2022, with its budget deficit narrowing to 34.7% from 45.1% over the same period. The government fund income was another important part of Xindu's aggregate fiscal revenue, but it was vulnerable to property market and policy changes. The government fund income of Xindu decreased by 22.8% year-over-year to RMB2.8 billion in 2023, mainly due to the decline of land sales income. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, was lifted to 116.4% at end-2023 from 87.0% at end-2022, mainly due to the increase in special debt.

CXIG's Financial and Liquidity Position: As the company actively participated in Xindu's infrastructure development, CXIG's total assets expanded to RMB171.0 billion at the end of September 2023 from RMB157.2 billion at end-2022. The total debt of the company increased to RMB92.5 billion at the end of September 2023, compared with that at end-2022 (RMB79.2 billion), of which the short-term and long-term debt accounted for 26.5% and 73.5%, respectively, at end-September 2023. The reliance on external financing of CXIG was heavier at the end of September 2023 compared to that at end-2022, as CXIG's debt to capitalization ratio increased to 59.3% from 55.4%, and long-term debt to capitalization ratio rose to 51.7% from 47.6%. After we include perpetual debts in total debt and long-term debt, CXIG's debt to capitalization ratio and long-term debt to capitalization ratio was 60.3% and 52.9% at end-September 2023, respectively.

CXIG's liquidity was moderate. At end-September 2023, CXIG had unrestricted cash balance and unused credit facilities of RMB14.2 billion and RMB35.4 billion, respectively, compared with its debt to be due within one year of RMB24.5 billion. In addition, CXIG has access to various channels of financing, including bank loans, onshore and offshore bonds issuance and other non-traditional financing channels such as trust and finance lease, to support its debt repayments and business operations. At end-September 2023, the company had available onshore bond issuance quotas of about RMB5.9 billion.

Rating Sensitivities

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

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

Company Profile

CXIG was established as a wholly state-owned entity under the approval of the Xindu government in March 2017. In 2023, under the guidance of the Xindu government, the equity of 3 subsidiaries of CXIG and sewage pipe network assets were transferred to Xindu IG, the other LIDC in Xindu, without compensation, and 1 subsidiary's management right was transferred to Xindu IG as well. As a result of this change, CXIG's sewage treatment business was undertaken by Xindu IG. At end-September 2023, CXIG's registered and paid-in capital were RMB5.0 billion and RMB3.9 billion, respectively, after an array of capital injections.

Xindu IG was originally established in 2008 as a township enterprise, after this transformation, it had become the other LIDC in Xindu, whose sole shareholder and actual controller was Xindu SASAFB at end-September 2023.

CXIG remains the most important LIDC that is responsible for infrastructure construction and urban development and operation in Xindu. CXIG undertakes important functions assigned by the local government, and it has a monopoly position in the construction of urban infrastructure and affordable housing in Xindu. In addition, it also carries out various business through its subsidiaries, including but not limit to trade business, leasing business, bus operation business, water supply and other state-owned assets operation in the region.

Full List of Issuance Rating

A full list of affirmed Issuance rating is included below. Any rating action on CXIG's rating would result in a similar rating action on the bonds:

- CNY1,560 million 4.8% senior unsecured bonds due 2026 affirmed at 'BBB+'

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