

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>+ to Xi'an Kingfar Holding (Group) Co., Ltd., with stable outlook.**

Hong Kong, 9 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>+ to Xi'an Kingfar Holding (Group) Co., Ltd. (“XKFH” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of XKFH reflects (1) the government of Xi'an Economic and Technological Development Zone's (“Xi'an ETDZ”) strong capacity to provide support; and (2) the local government's extremely high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Xi'an ETDZ Government's capacity to provide support reflects Xi'an ETDZ's status as one of the national-level development zones with sound industrial fundamentals and good economic and fiscal stability, but constrained by its high debt burden and moderate refinancing environment.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) essential role as the comprehensive urban developer and operator in Xi'an ETDZ; (2) solid track record of receiving government support; and (3) good access to funding. However, the Company's rating is constrained by its (1) medium exposure to commercial activities with high proportion in the property development segment; and (2) high debt leverage and increasing refinancing pressure.

### **Corporate Profile**

Founded in 2010, XKFH is the most important local infrastructure investment and financing company (“LIIFC”) of Xi'an ETDZ, which is positioned as a comprehensive state-owned assets management entity. XKFH is mainly responsible for urban construction and management, and provision of public services in the core area of Xi'an ETDZ and has gradually expanded its businesses in recent years. The Company is also engaged in diversified commercial activities, such as property development, property leasing, property management, supply chain services, equity investment, as well as financial services. As of 31 March 2023, the Company was directly and wholly owned by the Management Committee of Xi'an ETDZ. Xi'an ETDZ Government is the ultimate controller of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Essential role as the comprehensive urban developer and operator in Xi'an ETDZ.** XKFH has become the most important LIIFC and plays an essential role in urban infrastructure and operation of public utilities in Xi'an ETDZ, after the consolidation of several subsidiaries since 2018. The Company is mainly responsible for urban construction and management, and provision of public services, such as urban municipal engineering operation and maintenance, water and heat supply, urban cleaning, as well as cultural education. We expect that the Company's monopoly position will be maintained in the foreseeable future given the sustainability of its policy-related business.

**Solid track record of receiving government support.** XKFH and its subsidiaries have a solid track record of receiving support from the local government, as the Company's public-policy projects are strategically important to local development. The Company has received ongoing support from the local governments of Xi'an ETDZ, in terms of capital injections, special funds, interest subsidies, and operating subsidies. The local government provided continuous operating subsidies with the total amount of more than RMB331.3 million over the same period. In terms of interest subsidies, the Company received the amount of RMB297.0 million, RMB350.1 million, and RMB467.8 million in 2020, 2021, and 2022, respectively.

**Good access to funding.** XKFH's large refinancing needs could be partially supported by its good refinancing ability. Most of the Company's increment debt consists of bank loan and it has maintained a good relationship with policy banks, large state banks and commercial banks. As of 31 March 2023, the Company has obtained total credit facilities of RMB119.3 billion, with an unutilized amount of RMB47.4 billion, reflecting sufficient liquidity buffer. Moreover, the Company and its subsidiary have participated in domestic debt capital market including corporate bonds and MTNs.

### Credit Challenges

**Medium exposure to commercial activities with high proportion in the property development segment.** XKFH is also engaged in diversified commercial activities, such as property development, property leasing, property management, supply chain services, equity investment, as well as financial services. While commercial activities generate supplemental income, they may also pose higher operational and business risks. We consider the Company's exposure to commercial businesses be medium, although accounting for more than 30% of its total assets as of 31 December 2022, as some businesses such as industrial property development, equity investment, and financial services are policy-driven and aim to promote local development.

**High debt leverage and increasing refinancing pressure.** With the continuous financing of construction projects, XKFH's debt leverage remains high, and also shows an increasing refinancing pressure. As of 31 March 2023, the Company's total debt increased to RMB39.8 billion from RMB24.5 billion at end-2020; while its total capitalization ratio maintained a relatively high level of 69.5%, increasing from 66.1%. Moreover, the Company's liquidity profile weakened, as its short-term debt accounted for 40.9% of total debt as of 31 March 2023, significantly increasing from 22.5% at end-2020.

### Rating Outlook

The stable outlook on XKFH's rating reflects our expectation that Xi'an ETDZ Government's capacity to provide support will remain stable, and the Company will maintain its essential role as the comprehensive urban developer and operator in Xi'an ETDZ over the next 12-18 months.

**What could upgrade the rating?**

The rating could be upgraded if (1) Xi'an ETDZ Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as improved debt management and liquidity position.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Xi'an ETDZ Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance, materially increased exposure to commercial activities, or further deteriorated liquidity position.

#### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

#### **Regulatory Disclosures**

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