

Credit Opinion

26 November 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

christy_liu@ccxap.com

Cherry Chau +852-2860 7128

Assistant Credit Analyst

cherry_chau@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Xianyang Urban Development Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Xianyang Urban Development Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Xianyang Urban Development Group Co., Ltd. ("XYUD" or the "Company") reflects Xianyang Municipal Government's very strong capacity to provide support, and very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the Xianyang Municipal Government's capacity to support reflects its increasing economic and fiscal strength, but constrained by relatively weak fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strategic importance to local economic and urban development; (2) dominant position in the provision of public services; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities in property development business; (2) ongoing debt growth driven by construction projects and weak asset liquidity; and (3) medium contingent liabilities risk associated with external guarantees.

The stable outlook on XYUD's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic importance to local economic and urban development in Xianyang City.

Rating Drivers

- Strategic importance to local economic and urban development
- Dominant position in the provision of public services
- Good track record of receiving government support
- Medium exposure to commercial activities in property development business
- Ongoing debt growth driven by construction projects and weak asset liquidity
- Medium contingent liabilities risk associated with external guarantees

Rating Sensitivities

What could upgrade the rating?

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

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance or deteriorated financing ability.

Key Indicators

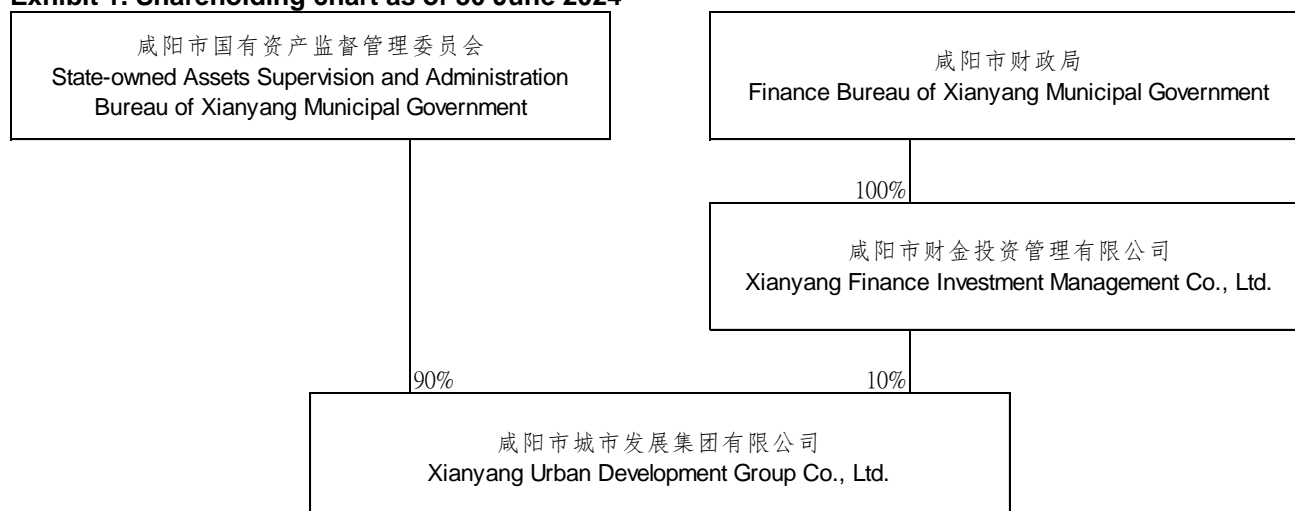
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	63.7	69.5	79.2	86.0
Total Equity (RMB billion)	24.0	23.4	27.3	26.5
Total Revenue (RMB billion)	2.9	2.6	3.9	2.1
Total Debt/Total Capital (%)	56.5	60.0	59.9	63.1

All ratios and figures are calculated using CCXAP's adjustments.

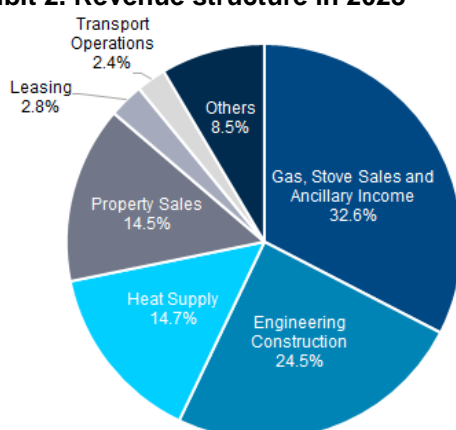
Source: Company data, CCXAP research

Corporate Profile

Founded in August 2022, XYUD is the largest local infrastructure investment and financing company ("LIIFC") for the urban construction and state-owned capital operation in Xianyang City after integrating local state-owned enterprises ("SOEs"), including Xianyang Urban Construction Investment Holding Group Company ("XYUC") and Xianyang Natural Gas Corporation ("XYNG") in 2022. The Company is primarily responsible for local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation. The Company also engages in commercial activities, such as property development and leasing, equity investment, trading, as well as engineering construction. As of 30 June 2024, the Xianyang Municipal Government held 90% of shares of XYUD through the State-owned Assets Supervision and Administration Bureau of Xianyang Municipal Government and 10% of shares through Xianyang Finance Investment Management Co., Ltd.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe that the Xianyang Municipal Government has very strong capacity to provide support for the Company, given its increasing economic and fiscal strength, but constrained by relatively weak fiscal metrics.

Xianyang City is located in the middle of the Guanzhong Plain of Shaanxi Province and is a strategic city in the west of China. Xianyang City has formed a large transportation pattern with highways, railways, and aviation, which is one of the cities with the most developed transportation in the west of China. Xianyang City has rich mineral resources, and its coal reserves are estimated to be the second largest in Shaanxi Province. As the important industrial base in China's western region, it has developed seven pillar industries, including energy and chemical, equipment manufacturing, food, building material, medicine, textiles and clothing, and electronic industries.

In 2023, Xianyang City recorded GRP of over RMB287.8 billion, representing a year-over-year ("YoY") growth of 4.3% and ranking 3rd in Shaanxi Province by GRP. Xianyang City recorded continuous economic growth in recent three years, and its general budgetary revenue increased from RMB10.8 billion in 2021 to RMB13.9 billion in 2023. However, the fiscal metrics of the Xianyang Municipal Government were relatively weak. In 2023,

the fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was around 26.2%, which requires the support from upper-tier government for fiscal balancing. The transfer income from upper-tier government was RMB36.1 billion in 2023, accounting for 68.2% of general budgetary expenditure. Moreover, the government fund revenue of Xianyang Municipal Government decreased from RMB11.2 billion in 2022 to RMB7.8 billion due the reduction of land transfer revenue. As of 31 December 2023, the outstanding government debt of Xianyang Municipal Government increased by RMB9.2 billion from previous year to RMB52.5 billion, accounting for 18.2% of its GRP. In the first three quarters of 2024, Xianyang City achieved a GRP of RMB2,478.1 billion, with a YoY growth of 4.6%.

Exhibit 3. Key economic and fiscal indicators of Xianyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	258.1	281.8	287.8
GRP Growth (%)	8.5	4.4	4.3
General Budgetary Revenue (RMB billion)	10.8	11.6	13.9
General Budgetary Expenditure (RMB billion)	42.9	49.3	53.0
Local Government Debt (RMB billion)	33.8	43.3	52.5

Source: Xianyang Municipal Government, CCXAP research

Xianyang High-tech Industrial Development Zone ("Xianyang HIDZ") was established in May 1992 and upgraded to national-level High-tech Industrial Development Zone in August 2012. Xianyang HIDZ is the only national-level display device industrial park in western China. Xianyang HIDZ is located in the west of Xianyang City, with an area of 123.39 square kilometers. Xianyang HIDZ focuses on the development of four leading industries, including electronic display, high-end equipment manufacturing, biomedicine, and new synthetic materials. In 2023, the total output value of industrial enterprises above designated size was RMB42.2 billion.

Government's Willingness to Provide Support

Strategic importance to local economic and urban development

As the most important LIIFC under the control of the Xianyang Municipal Government, the Company plays a dominant role in promoting local urban construction and state-owned capital operation. XYUD is responsible for various public activities, including local infrastructure construction, resettlement housing construction, gas supply, as well as bus operation.

The Company's infrastructure construction business mainly focuses on Xianyang HIDZ and districts and counties of Xianyang City such as Wugong County, Qian County, Yongshou County and Binzhou City. XYUD is in charge of fund raising and construction for the infrastructure projects and resettlement housing projects. Meanwhile, the Company signed the "*Regional Development Cooperation Framework Agreement*" with the Management Committee of Xianyang HIDZ, the land transfer income of industrial parks in Xianyang HIDZ would be repaid to cover the Company's investment costs. As of 31 December 2023, the invested amount of XYUD in Xianyang HIDZ was around RMB9.5 billion and government payment was only RMB1.2 billion. The Company also signed an agency construction contract or agreement with entrusting party for the infrastructure projects in districts and counties of Xianyang City. The entrusting party would pay the Company the construction cost plus a certain markup.

XYUD also engages in resettlement housing construction in Xianyang City, especially in Xianyang HIDZ. As of 31 March 2024, there were 5 key shantytown renovation projects under construction, with an invested amount of RMB11.6 billion. The fund balancing of shantytown renovation projects in Xianyang HIDZ would be achieved

by land transfer income or selling the remaining housing at market price. The Company also signs government purchase agreement with local government for some of the projects, the purchase price includes cost of demolition and resettlement, construction, and financing, with certain profits. The Company will also undertake urban renewal projects in Xianyang City with an estimated investment of more than RMB17 billion. Urban renewal projects would be supported by government special bond and bank special loans, which may mitigate the Company's expenditure pressure.

In addition, XYUD undertakes the policy role of promoting the stability of local economy and people's livelihood. For example, as the main entity responsible for investment and financing in Xianyang City's urban renewal development, the Company has assisted real estate developers in financing to ensure timely delivery of pre-sold housing in Xianyang City. The private-owned real estate developers in operating difficulties would apply the special fund support for reviving stalled property projects from policy banks. After successful approval, the policy bank would deliver the fund to XYUD. The Company would transfer the fund to the property developers according to the construction progress of stalled property projects. As of 30 June 2024, the outstanding loan amount to private-owned property developers was around RMB3.7 billion.

Dominant position in the provision of public services

XYUD provides essential public services in Xianyang City, including gas supply and bus service. The Company provide gas supply in urban area and majorities of counties in Xianyang City through franchising. The Company's medium and high voltage pipeline network in operation has basically covered the entire Xianyang City. It is the sole urban gas supplier in Xianyang City and the second largest municipal level gas supplier in Shaanxi Province. As of 31 March 2024, XYUD provided gas supply to residential and commercial customers with pipe network length of around 1,782 kilometers, serving over 717.4 thousand residential users and 4.8 thousand non-resident users.

Also, XYUD is the sole public transportation operator in Xianyang City, providing bus service via its subsidiary, Xianyang Public Transport Group Company. As of 31 March 2024, the Company had 815 public vehicles operating in 52 routes, servicing approximately 26.9 million passengers annually. However, due to the public nature of this business and relatively high labor and operating costs, the Company recorded successive losses in recent years. The local government provides subsidies for bus service annually to partially support its ongoing operation.

Medium exposure to commercial activities in property development business

XYUD has medium exposure to commercial activities which includes property development, equity investment, trading, engineering construction, as well as property leasing. The certain portion of equity investment in listed companies may bring more investment risks driven by the fluctuation of stock prices. Moreover, the Company is assisting the implementation of the local policy of ensuring timely delivery of pre-sold housing, which is exposed to certain recovery risk from on-lending to private-owned property developers.

The Company's equity investment business aims to promote industrial development in Xianyang City. The portfolio of equity investment mainly includes Irico Display Devices Co., Ltd. (Stock Code: 600707.SH, "Irico Display"). Irico Display is one of the most competitive companies in the field of display devices in China. Its main business is the research, development, production and sales of liquid crystal substrate glass. As of 30 June 2024, the Company held the stocks of Irico Display with book values of RMB2.5 billion. As of 31 October 2024, XYUD pledged 116 million shares of Irico Display for loans, accounting for 36.9% of its shareholding in Irico Display. The liquidity of shares of Irico Display is moderate. Moreover, the equity investment in listed companies

may bring more investment risks to the Company driven by the fluctuation of stock prices.

XYUD also engages in property development business. As of 31 March 2024, there were 4 major commercial housing projects under construction, with a total investment of RMB3.8 billion and invested amount of RMB2.0 billion. However, the selling rate of commercial houses was relatively low. The Company also adopts a cooperative development model for secondary land development. Under cooperative development model, the Company established project companies with other property development enterprise to conduct property development. XYUD has not yet received any investment income from the cooperative development projects. During the downturn of China's property market, investment in real estate projects would be exposed to more uncertainties and financial risks during construction, sales, and operation.

XYUD conducts engineering construction business with multiple construction qualifications. The Company has 3 Class A General Construction Contractor qualifications. The Company mainly engages in engineering construction of commercial housing and municipal projects such as affordable housing, road maintenance, schools through external bidding. In 2023, the value of the newly signed contract increased to RMB1.5 billion from RMB1.1 billion in 2022. As of 30 March 2024, the Company had contact on hand of RMB1.3 billion. The engineering construction business also provided supplementary income to the Company. In 2023, the revenue from this business sector increased to RMB962 million, accounting for 24.5% of the Company's total revenue. However, the profit level of this business stays relatively low due to the fierce competition in the construction industry. Meanwhile, the downturn of China's property market would bring more uncertainties to this business.

Good track record of receiving government support

XYUD has a good track record of receiving support from Xianyang Municipal Government in various forms, such as equity transfer, government subsidies, special funds, and capital injections. In 2022, the local government transferred the equity of major SOEs to the Company, such as XYUC and XYNG, which enlarged its business scope and capital strength. With the local government's injection of cash and assets, XYUD's paid-in capital and capital reserve increased to RMB10 billion and RMB8.5 billion as of 30 June 2024 from RMB9.1 billion and RMB7.0 billion as of 31 December 2022, respectively. In addition, from 2023 to 2024H1, XYUD received government subsidies with a total amount of RMB1.5 billion. The local government would also provide government payment to support the Company's infrastructure construction business. As the government payment is highly related to the land transfer market in Xianyang HIDZ, the payment would have more uncertainties especially during the downturn of land market.

Given its strong public policy role and dominant role in urban development and state-owned asset operation of Xianyang City, we expect government support for XYUD will remain good over the next 12 to 18 months.

Ongoing debt growth driven by construction projects and weak asset liquidity

XYUD demonstrated ongoing debt growth driven by continuous investment in construction projects. The Company's total debt increased from RMB35.1 billion as of 31 December 2022 to RMB45.3 billion as of 30 June 2024; while its total capitalization ratio is relatively high and increased from 60.0% to 63.1% during the same period. The Company also had large proportion of short-term debt, accounting for 39.1% of its total debt. Moreover, the non-restricted cash to short-term debt ratio was only around 0.3x, which could not fully repay the short-term debt. The relatively slow government payment would increase the Company's financial burden. According to the Company's business plan, XYUD will undertake urban renewal projects in Xianyang City with an estimated investment amount of more than RMB17 billion in the future. Although parts of urban renewal projects can be supported by government bonds, the Company still need external financing to fill the funding

gap. Considering the large uninvested amount of infrastructure projects and resettlement housing projects under construction and planning, we estimate the Company will continue to rely on external financing such as bank loans and its total debt burden would further increase over the next 12-18 months.

XYUD's asset liquidity is weak. The inventory, intangible assets, other receivables, investment properties, fixed assets, and construction in progress accounted for around 80% of its total assets as of 30 June 2024. Inventories were mainly the construction costs of resettlement housing projects, while intangible assets were mainly lands use rights transferred from local government. Other receivables were mainly special loans to shantytown renovation projects and private-owned property developers from policy banks. These assets are considered illiquid and may expose the Company to certain recovery risk and undermine its financial flexibility.

Access to different funding channels

XYUD has access to different funding channels, mainly in bank loans and direct issuances. The Company has established long-term borrowing relationships with large domestic banks, such as China Development Bank, Agricultural Development Bank of China, and Ping An Bank Co., Ltd. As of 30 June 2024, the Company held total bank facilities of RMB27.6 billion with available portion of RMB7.8 billion. The Company has high acceptance in domestic bond market. The Company relies on the debt capital market for refinancing. From January 2024 to September 2024, the Company and XYUC issued different bond products in the onshore capital market, raising around RMB9.9 billion, with coupon rates ranging from 2.02% to 3.6%. Bond financing accounted for more than half of its short-term debts as of 30 June 2024. Its exposure to non-standard financing was moderate, accounting for around 10% to 15% of total debt. The non-standard financing mainly included financial leasing and trust loans. However, the relatively high cost of non-standard financing channels may increase its financial burden.

Medium contingent liability risk associated with external guarantees

XYUD bears medium contingent liability risk resulting from its external guarantees for SOEs. As of 30 June 2024, the Company's external guarantees amounted to RMB10.4 billion, accounting for around 39.1% of its net assets. Some guaranteed enterprises have provided counter-guarantee measures, such as land, factory buildings, and equipment. The outstanding guarantees to Xianyang Caihong Optoelectronics Technology Co., Ltd. ("Xianyang Caihong") and Xianyang Financial Holding Group Co., Ltd. ("XYFH") accounted for 22.3% and 25.2% of its external guarantees as of the same date. Irico Display holds around 99.8% shares of Xianyang Caihong and XYFH is the major shareholder of Irico Display. The guarantee to Xianyang Caihong is used for the financing of Xianyang Caihong's LCD panel project, aiming to assist the transformation and upgrading of electronic information industry in Xianyang City. Xianyang Caihong's main business includes research, development, design and manufacturing of LCD panels, XYFH is state-owned capital investment company, which is established to raise fund and provide post-investment management for key industrial investment projects. In 2023, the net profit of Xianyang Caihong and XYFH were RMB651 million and RMB543 million respectively, which demonstrated significant increase from 2022. Relatively large guarantee exposure could increase the Company's contingent liability risks.

ESG Considerations

XYUD faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

The Company bears social risks as it implements public policy initiatives by building public infrastructure in Xianyang City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

XYUD's governance considerations are also material as the Company is subject to oversight by Xianyang Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656