

## Credit Opinion

17 October 2024

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub> -
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Chongqing Xiucheng Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Chongqing Xiucheng Investment Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Chongqing Xiucheng Investment Group Co., Ltd. ("XCIG" or the "Company") reflects the Xiushan County Government's (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of the Xiushan County Government's capacity to provide support reflects its fast economic growth, but is constrained by its relatively weak fiscal strength and self-sufficiency capability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) full and direct ownership by the Xiushan County Government; (2) status as one of the major development and construction entities in Xiushan County; and (3) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt burden with certain short-term debt repayment pressure; (3) weak asset liquidity; and (4) medium exposure to contingent risks.

The stable outlook on XCIG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its important role as one of the major infrastructure construction entities in Xiushan County.

## Rating Drivers

- One of the major development and construction entities in Xiushan County
- Medium exposure to commercial activities
- Solid track record of receiving government payments
- Increasing debt burden with certain short-term debt repayment pressure
- Weak asset liquidity
- Multiple access to funding with low exposure to non-standard financing
- Medium exposure to contingent risks

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance local government's willingness to provide support, such as reduced exposure to external guarantees or reduced exposure to commercial activities.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance and reduced government payments.

## Key Indicators

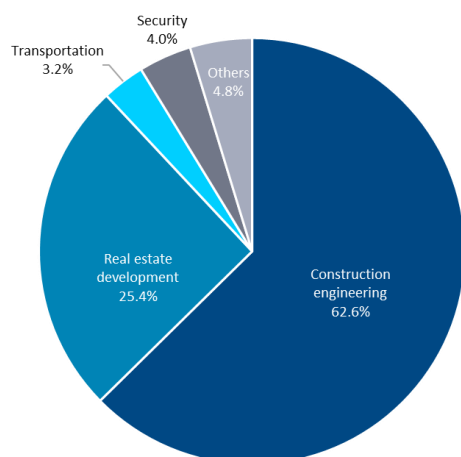
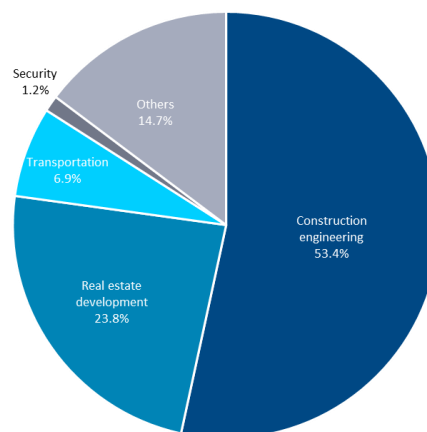
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	14.4	14.9	15.4	14.8
Total Equity (RMB billion)	6.0	6.4	6.4	6.5
Total Revenue (RMB billion)	1.3	1.4	1.6	0.8
Total Debt/Total Capital (%)	48.3	46.9	47.2	48.0

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2018, XCIG, formerly known as Xiushan County Xingtai Industrial Co., Ltd., became one of the most important development and construction entities in Xiushan County after a series of equity transfers in 2021. The Company is mainly engaged in infrastructure construction and resettlement housing construction in Xiushan County as well as commercial businesses including engineering construction, real estate development, transportation, security and leasing. As of 30 June 2024, the State-owned Assets Supervision and Administration Office of Xiushan Tujia and Miao Autonomous County ("Xiushan SASAO") was the ultimate controller of the Company, directly holding 100% stakes of the Company.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Xiushan County Government has a relatively strong capacity to provide support to the Company, given its fast economic growth, but constrained by its relatively weak fiscal strength and self-sufficiency capability.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2023, Chongqing City recorded a gross regional product ("GRP") of RMB3.0 trillion with a GRP growth rate of 6.1% year-on-year ("YoY"), ranking 5<sup>th</sup> among municipalities and prefecture-level cities in China, and becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. In the first half of 2024, Chongqing's GRP recorded RMB1.5 trillion, a YoY increase of 6.1%. Meanwhile, thanks to the economic recovery, key financial indicators of Chongqing City showed a restorative uptrend in 2023. Chongqing City's tax revenue increased from RMB127.1 billion in 2022 to RMB147.6 billion in 2023, resulting in the rising general public budget revenue from RMB210.3 billion in 2022 to RMB244.1 billion in 2023, with a growth rate of 16.1% YoY. In the first half of 2024, Chongqing's general public budget revenue reached RMB130.7 billion, an increase of 12.2%, of which tax revenue was RMB80.1 billion. We consider Chongqing City to bear a relatively high debt burden owing to its relatively large scale of direct government debt and the debt burden of local state-owned enterprises. As of end-2023, the outstanding direct government debt balance of Chongqing City amounted to RMB1.2 trillion, accounting for 40.7% of its GRP for that year.

**Exhibit 3. Key Economic and Fiscal Indicators of Chongqing City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	2,789.4	2,912.9	3,014.6
GRP Growth (%)	8.3	2.6	6.1
General Budgetary Revenue (RMB billion)	228.5	210.3	244.1
General Budgetary Expenditure (RMB billion)	483.5	489.3	530.4
Local Government Debt (RMB billion)	861.0	1,007.1	1,225.8

Source: Statistic Bureau of Chongqing City, CCXAP research

Xiushan County is located in the southeast part of Chongqing City. According to the ranking of Top 100 Counties in terms of Economic Strength in Western China released by CCID Consulting County Economic Research Center, Xiushan County ranks 77<sup>th</sup> in 2023, listed among the top 100 counties in the western region for 5 consecutive years. On the back of its geographical advantages and natural resources, it has formed 5 pillar industries of biomedicine, food processing, new materials, electronic information and automotive parts. Benefiting from rapid industrial growth, Xiushan County achieved a GRP of RMB37.0 billion with a YoY increase of 6.4% in 2023, ranked 27<sup>th</sup> among 38 districts or counties in Chongqing City. Xiushan County Government's fiscal strength has also improved in recent years. Its general budgetary revenue increased from RMB1.4 billion in 2021 to RMB2.0 billion in 2023. However, Xiushan County Government relies on the revenue from government funds and grants from the higher-tier government, reaching RMB1.8 billion and RMB5.0 billion in 2023, respectively, and causing certain uncertainties in its fiscal stability as land transfer income is susceptible to the volatility of land market activities and fluctuation of real estate market. It has a relatively weak fiscal self-sufficiency profile as its fiscal balance ratio was 28.8% in 2023. Xiushan County Government's outstanding debt has shown an increasing trend, with outstanding debts increasing from RMB8.8 billion in 2021 to RMB14.2 billion in 2023, accounting for 38.4% of its GRP.

**Exhibit 4. Key Economic and Fiscal Indicators of Xiushan County**

	2021FY	2022FY	2023FY
GRP (RMB billion)	34.1	35.8	37.0
GRP Growth (%)	8.0	3.5	6.4
General Budgetary Revenue (RMB billion)	1.4	1.7	2.0
General Budgetary Expenditure (RMB billion)	5.3	6.2	7.0
Local Government Debt (RMB billion)	8.8	11.1	14.2

Source: Statistic Bureau of Xiushan County, CCXAP research

**Government's Willingness to Provide Support****One of the major development and construction entities in Xiushan County**

There are three main state-owned enterprises ("SOEs") in Xiushan County, which are XCIG, Chongqing Xiuye Investment Group Co., Ltd. ("XYIG") and Chongqing Xiujing Investment Group Co., Ltd. ("XJIG"), each with clear positioning in the development of the region. XCIG undertakes local infrastructure construction and resettlement housing construction in Xiushan County outside Xiushan High-tech Industrial Development Zone ("Xiushan HTDZ"), while XYIG is responsible for infrastructure construction and land development and operation of Xiushan HTDZ and Xiushan Logistics Park. XJIG is mainly responsible for the construction and operation of scenic spots in Xiushan County. As XCIG's infrastructure construction projects are crucial to local social and economic development that benefits the general public and local employment, we believe that the Company's replacement cost is relatively high.

The Company undertakes infrastructure construction projects including municipal roads, park supporting facilities, and landscape engineering in the urban area of Xiushan County, mainly through an agency construction model. Under the agency construction model, XCIG enters into an agency construction agreement with the SOEs in Xiushan County and the SOEs will pay project costs plus a rate of return ranging from 10%-20% as revenue after completion and inspection of the projects. As of 30 June 2024, the Company had 4 infrastructure construction projects under construction or planning with a total investment of RMB1.2 billion and an uninvested amount of RMB367.5 million.

XCIG also develops affordable housing projects in Xiushan County through a government purchase model. The local government would repurchase the affordable housing and pay the project construction management fee to the Company after acceptance of the project. As of 30 June 2024, the Company completed 8 key affordable housing projects with a total investment of RMB3.6 billion and received repayment of RMB2.7 billion. At the same time, there were 3 affordable housing projects under construction, with a total estimated investment of around RMB2.2 billion and an uninvested amount of RMB1.2 billion, indicating certain capital expenditure pressure.

### **Medium exposure to commercial activities**

XCIG also engages in various commercial activities, such as engineering construction, real estate development, transportation, security and leasing. We consider XCIG's commercial business exposure to be medium, as its marked-driven business accounted for around 30% of its total assets as of the end of June 2024. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

The Company conducts engineering construction business in Xiushan County. Relying on its state-owned background, XCIG has become the main municipal engineering construction entity in Xiushan County, and its municipal engineering construction business has strong regional competitive advantages. Benefiting from regional competitive status, the engineering construction business serves as the main income driver of the Company, accounting for 62.6% of the Company's total revenue and 53.4% of its gross profit in 2023. Under the engineering construction model, the Company signs engineering construction contracts with the local SOEs in Xiushan County through open bidding, and the SOEs will pay the construction funds to the Company according to the construction progress. From 2023 to 2024H1, there were 71 newly signed contracts, as of 30 June 2024, the Company had 39 contracts in hand, with a total contract value of RMB2.1 billion, indicating good business stability. However, the engineering construction business has a relatively long construction period and slow repayment collection, which brings certain pressure on repayments during the downturn in the construction industry and on financial pressure on its counterparties which mostly are SOEs.

XCIG undertakes the development of commercial housing projects in Xiushan County, including residential commercial housing and shops. As of 30 June 2024, the Company had completed 4 commercial real estate housing projects, nearly half of which were sold out, with a total investment of RMB2.1 billion and contract sales of RMB1.6 billion. Meanwhile, the Company had no commercial housing real estate projects under construction or planning. We believe the Company will face certain destocking pressure as it is highly subject to the real estate market amid the downturn of China's property market.

Moreover, the Company is also responsible for operating other businesses such as transportation, security, leasing and guarantee. The transportation business includes urban bus transportation within the county, township bus transportation, and long-distance bus transportation outside the county. The security business mainly provides labor dispatch and security services to public institutions, state-owned enterprises, financial institutions and private enterprises in the county. For the leasing business, the occupancy rate was around 88.9%

as of 30 June 2024. The guarantee business mainly carries out financing guarantee business such as loan guarantees, bill acceptance guarantees and letter of credit guarantees. These businesses contribute less to the Company's overall revenue as each accounted for less than 5% of the Company's total revenue in 2023.

### **Solid track record of receiving government payments**

In recognition of its importance as a key state-owned assets operator in Xiushan County, XCIG has received recurring government support, including asset and capital injections from the Xiushan County Government. In 2021, the local government transferred its shareholdings of a number of local SOEs to the Company, diversifying the business scope of the Company. In addition, the Company received a capital injection of RMB76 million in 2021 and RMB91.8 million in 2023 from the Xiushan County Government. Given XCIG's important strategic role in the region, we expect the Company will continue to receive support from the government in the future.

### **Increasing debt burden and certain short-term debt repayment pressure**

Due to the continuous investment in agency construction projects and property development projects, XCIG's total debt has been growing over the past three years. As of 30 June 2024, the Company's total debt increased from RMB5.6 billion at end-2021 to RMB6.0 billion, with a total capitalization ratio of 48.0%. The Company is exposed to certain short-term debt repayment pressure as its short-term debt accounted for around 28.5% of total debt as of 30 June 2024 and its cash to short-term debt was 0.2x at the same time, indicating that its cash reserve could not fully cover the short-term debt. Given the Company's future capital expenditure pressure for its investment and construction projects, we expect the Company's debt level will continue to increase for the next 12-18 months.

### **Weak asset liquidity**

XCIG's asset liquidity is weak. As of 30 June 2024, its account receivables, other receivables and inventories accounted for a relatively high proportion, totaling around 57.9% of its total assets, which may undermine its financial flexibility. Inventories are mainly investment costs for construction projects and land-using rights while receivables are mainly from the local government and other local SOEs, both of which are considered low liquidity. Meanwhile, the long-term equity investment accounted for 20.9% of total assets, which are shares of Xiushan Huaxin State-owned Assets Management Co., Ltd., injected by the local government in 2021.

Besides, XCIG's asset liquidity is constrained by its relatively high portion of restricted assets. As of 30 June 2024, the Company's pledged inventories with a total restricted amount of RMB3.0 billion, accounting for 20.6% of its total assets.

### **Multiple access to funding with low exposure to non-standard financing**

The Company has access to various sources of funding, including bank loans, onshore bond financing and non-standard financing. As of 30 June 2024, about 90.7% of the Company's debt financing was provided by domestic banks. The Company has sufficient standby liquidity, given its relatively large amount of available credit facility. As of 30 June 2024, it held total bank credit facilities of RMB8.6 billion with available credit facilities of RMB3.1 billion. The Company is also able to access the onshore debt market as its subsidiary issued a tranche of seven-year corporate bonds to raise around RMB380 million in 2018. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for only 7.2% of its total debt. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities, and issuing offshore and onshore bonds.

## Medium exposure to contingent risks

The Company has certain exposure to external guarantees. As of 30 June 2024, the Company's external guarantees amounted to RMB1.7 billion, accounting for 26.7% of its net assets. All of the external guarantees were provided to other local state-owned enterprises. We believe that the credit risk of the guarantee is moderately controllable, taking into account the government's support of local state-owned enterprises. However, if a credit event occurs in Xiushan County, it may lead to large-scale cross-default.

However, as of 30 June 2024, the Company's subsidiary engaged in financing guarantee business had an amount of RMB387.8 million in guarantees and an amount of RMB36.5 million in payments receivables. Most of the guaranteed enterprises are private-owned enterprises. During the guarantee period, if the guaranteed party is unable to repay the loan and the value of its collateral is insufficient to repay the relevant debts, the Company will bear the risk of repaying the bank loan on its behalf.

## ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. XCIG assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

XCIG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Xiushan County. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. XCIG believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

## Structural considerations

XCIG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in the development of Xiushan County, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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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