

## **CCXAP assigns first-time BBB<sub>g</sub> rating to Yixing City Construction Culture Tourism Group Co Ltd, with stable outlook**

Hong Kong, 22 December 2021 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub> long-term credit rating to Yixing City Construction Culture Tourism Group Co Ltd (“YCCT” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of YCCT is underpinned by the Company’s key role in (1) regional infrastructure construction and urban services in Yixing City; and (2) operations of key tourism resources in Yixing City.

However, the rating is constrained by the Company’s (1) undermined tourism business, which is adversely affected by the COVID-19 pandemic; (2) high debt leverage and rapid debt growth; and (3) certain contingent risks given its sizable external guarantees.

The rating also incorporates our expectation that YCCT has a high likelihood of receiving support from the Yixing Municipal Government in times of need, given the Company’s (1) clear and important strategic position in urban and rural infrastructure construction and tourism operations in Yixing City; (2) close linkage with the local government; and (3) good track record of receiving government support.

### **Corporate Profile**

Established in 2002, YCCT is one of the key financing and investment companies in Yixing City, Jiangsu Province. It is wholly-owned by the State-owned Assets Supervision and Administration Commission of Yixing Municipal Government (“Yixing SASAC”), with a paid-in capital of RMB700 million. YCCT’s business covers infrastructure construction, urban services, tourism, and trading. It has undertaken major urban and cultural tourism infrastructure projects in Yixing City. It also manages and operates major local state-owned tourism resources in Yixing City, such as Shanjuan Cave Scenic Area and Zhuhai Scenic Area.

### **Rating Rationale**

#### **Credit Strengths**

**High likelihood of receiving support from the Yixing Municipal Government in times of need.** YCCT is positioned as the core entity of Yixing City’s tourism resource operation and management, infrastructure construction and greening, with a clear functional positioning differentiating from other financing and investment companies in Yixing City. The Company has close linkage with the local government and good track record of receiving government support. For example, it received financial subsidies of RMB 294.6 million from 2018 to 2020 and a cash injection of RMB200.0 million in December 2020.

**Undertaking major infrastructure construction projects and urban services.** YCCT has undertaken a lot of infrastructure construction projects over the past years, including building roads, bridges, greening, urban renewal, and public facility upgrades. YCCT also engages in

urban services, including inspection, lighting, parking management and garden engineering. These projects have greatly increased the social welfare of Yixing City.

**Possessing key tourism resources.** YCCT possesses high-quality tourism resources in Yixing City, and tourism revenue is a good supplement to its business mix. The Company's main tourism resources include Longbei Mountain Forest Park, Shanjuan Cave Scenic Area, Zhuhai Scenic Area, Tuangui Scenic Area and Yixing Yangxian Tea Culture Museum, with certain market competitiveness.

### Credit Challenges

**Tourism business is adversely affected by the COVID-19 pandemic.** As the pandemic heavily hit the domestic tourism flows, the Company's tourism revenue dropped from around RMB100.0 million in 2018 and 2019 to RMB59.0 million in 2020.

**High debt leverage and rapid debt growth.** With ongoing project investment and funded mainly by external financing, the Company's debt increased from RMB4.8 billion at end-2018 to RMB9.9 billion as of 30 September 2021. Its capitalization ratio, as measured by total debt to total capital, increased from 49.4% at end-2018 to 64.3% at end-2021Q3.

**Certain contingent risks given its sizable external guarantees.** The Company's outstanding external guarantees of RMB3.8 billion as of 30 September 2021, representing 69.6% of its net assets, which could potentially increase its repayment obligations. Nevertheless, we believe that the credit risk of the guarantee is moderately controllable, taking into account the government's support.

### Rating Outlook

The stable outlook on YCCT's rating reflects our expectation that the Company will maintain its strategic importance in Yixing City and receive ongoing government support over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal performance of Yixing City materially improves; (2) YCCT's role in Yixing City becomes stronger, with an increasing likelihood of support from the local government; and (3) the Company's stand-alone credit profile improves significantly, such as improvement in asset quality and reduction in debt leverage.

#### What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal performance of Yixing City deteriorates; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deterioration in business or financial performance.



## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

## Regulatory Disclosures

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The rating has not been disclosed to the rated entity or its related party prior to publication.

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