

CCXAP upgrades Yancheng City Assets Investment Group Company Limited's long-term credit rating to BBB_g+, with stable outlook

Hong Kong, 24 June 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Yancheng City Assets Investment Group Company Limited ("YCAI" or the "Company") to BBB_g+ from BBB_g, with a stable outlook.

The BBB_g+ long-term credit rating of YCAI is underpinned by the Company's (1) strong position in local infrastructure construction and primary land consolidation; and (2) growing importance in public services. However, the rating is constrained by the Company's (1) high debt leverage; and (2) weak balance sheet liquidity, which is moderated by its good refinancing ability.

YCAI's rating also reflects the high likelihood of receiving support from the government in times of need because of its (1) close linkages with the local government; and (2) good track record of receiving government support.

The rating upgrade is based our consideration of a high likelihood of support from the local government to YCAI, given its growing importance in local public services and strong presence in Yancheng City, as well as the ongoing business diversification that improves its business sustainability.

Corporate Profile

Founded in 2003, YCAI, previously known as Yancheng City Urban Assets Operation Co., Ltd., is wholly owned by the Yancheng Municipal Government and directly supervised by the Yancheng State owned Assets Supervision and Administration Commission ("Yancheng SASAC"). It is one of the key local state-owned enterprises in Yancheng City, specializing in infrastructure construction as well as state-owned asset operation and management. YCAI has undertaken major infrastructure construction and land development projects in Yancheng City. It also diversifies into utilities including water supply and sewage treatment, and commercial businesses such as property development, property leasing, hotel operations and security services. As of 31 March 2022, YCAI had total assets of RMB105.5 billion and total equity of RMB33.8 billion.

Rating Rationale

Credit Strengths

High likelihood of receiving support from the local government when needed. YCAI is the largest infrastructure investment and financing company by total assets in Yancheng City. The Yancheng Municipal Government holds 100% of the Company's shares and has full control of the Company's operations. YCAI has received ongoing support from the Yancheng Municipal Government, including capital injections, asset transfers, and financial subsidies. Since its establishment and until the end of 2021, the Company's paid-in capital has increased from RMB400 million to RMB5 billion.



The largest infrastructure construction and primary land consolidation company in Yancheng City. YCAI is the largest entity that provides infrastructure construction and land consolidation in the main district of Yancheng City, and plays a vital and irreplaceable role in the city. YCAI is primarily responsible for the infrastructure projects, as well as land consolidation and shantytown renovation in Yancheng City. YCAI is also engaged in the construction of resettlement housing, which is sold to target households at a designated price decided by the government.

Growing importance in public services of Yancheng City. YCAI has also diversified into utilities including water supply and sewage treatment, providing the Company with additional sources of income. YCAI is the sole water supplier in the central region of Yancheng City, except Dafeng District. Furthermore, the Company is responsible for the installation of water pipeline in its water supply area, which could provide auxiliary income.

Strong refinancing ability. The Company's refinancing pressure could be partly mitigated by its (1) strong refinancing ability given its important position in Yancheng City; (2) large amount of available credit facilities of RMB21.2 billion from domestic banks, as of end-2021; and (3) important position in Yancheng City, with a high likelihood of receiving strong support from the government when necessary.

Credit Challenges

High debt leverage. Due to long payback period from government, there is a sizeable funding gap for the pipeline projects. YCAI relies on external financing to raise funds for business development and project construction, which could increase its debt burden and undermine its credit profile. YCAI's debt leverage remained high. As of end-2021, the Company's total debt (including perpetual bonds) increased by 19.9% to RMB62.1 billion and its capitalization ratio was flat of 66.7%.

Weak balance-sheet liquidity. YCAI's standalone liquidity position weakened as its cash reserves was insufficient to fulfil its short-term debt obligations. As of end-2021, its short-term debt amounted to RMB21.4 billion, accounting for 34.4% of the total debt. The Company held RMB4.3 billion in cash and cash equivalents, around 0.2x of its short-term debt. We expect that the Company will need additional funding from external sources to repay its debt and invest in new projects.

Large external guarantees provided to other local SOEs. YCAI has provided large numbers of external guarantees to other state-owned enterprises ("SOEs") of RMB8.9 billion, accounting for 25.4% of the Company's net assets. Large exposure to guarantees will increase YCAI's contingent liability risk. Nevertheless, we believe that the credit risk of these guarantees is manageable, as most of them are provided to local SOEs and directed by the Yancheng Municipal government.

Rating Outlook

The stable outlook on YCAI's rating reflects our expectation that the Company will maintain its strategic position in local public services and infrastructure construction in Yancheng City 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 Yancheng City improves; (2) YCAI demonstrates a stronger role in Yancheng City, with an increasing likelihood of support for the Company; 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 Yancheng 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 deteriorated 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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