

## CCXAP affirms Jiangsu Yueda Group Co Ltd's ratings at BBB<sub>g</sub>-, with stable outlook

Hong Kong, 29 June 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Jiangsu Yueda Group Co Ltd ("Jiangsu Yueda" or the "Company")'s long-term credit rating and senior unsecured debt rating at BBB<sub>g</sub>-, with a stable outlook.

The BBB<sub>g</sub>- long-term credit rating of Jiangsu Yueda reflects the Company's (1) solid shareholder support as one of the largest state-owned enterprises under the Yancheng Municipal Government; (2) large investment portfolio in line with Yancheng City's development strategy; and (3) diversified lines of business and quality asset resources.

However, the rating is constrained by the Company's (1) exposure to business volatility from cyclical industries; (2) modest financial profile; and (3) high refinancing pressure, which could be mitigated by its diversified funding channels.

### Corporate Profile

Founded in 1991, Jiangsu Yueda is a local state-owned conglomerate in Yancheng City of Jiangsu Province. It focuses on four core business segments, namely (1) modern services, (2) energy and mineral resources, (3) industrial manufacturing, and (4) infrastructure investments. As of 31 March 2022, Jiangsu Provincial Department of Finance held 8.7% of the Company's shares, and Yancheng Municipal People's Government held 91.3% of the shares. The Company was directly supervised by Yancheng State-owned Assets Supervision and Administration Commission ("Yancheng SASAC").

### Rating Rationale

#### Credit Strengths

**Large investment portfolio in line with Yancheng City's development strategy.** As a leading conglomerate in Yancheng City, Jiangsu Yueda holds a large long-term investment portfolio covering multiple industries including automobile manufacturing, energy, mining, toll road, real estate, trading and financial services. The Company operates its wide range of businesses through over 50 subsidiaries and affiliates.

**Diversified lines of business and quality asset resources.** In line with its development planning, Jiangsu Yueda has established broad lines of business covering both financial and non-financial sectors. The diversification of its business portfolio could help mitigate its cyclical industry risks and increase the flexibility of its business adjustments. Furthermore, the Company holds a number of coal mines and infrastructure assets with high quality and good returns, which provide it with good sources of investment income.

**Solid government support from Yancheng Government.** Jiangsu Yueda receives solid support from the Yancheng Municipal Government, given its strategic and economic importance in industrial investment to the local government. The Company has a good track

record of receiving support from the Yancheng Municipal Government in terms of capital injection and asset transfer. In February 2022, the Company received a capital injection of RMB1.7 billion from the Yancheng Municipal Government.

### Credit Challenges

**Exposure to business volatility from cyclical industries.** Some of the Company's businesses face cyclical volatilities, such as coal and metal mining, commercial trading, real estate development and automobile sales. These industries are highly correlated with China's economic conditions and policy changes. The recent pressure on China's economic growth could weaken the growth prospects of these industries in recent years.

**Modest financial profile.** Its financial profile is constrained by its high debt leverage, weak profitability and low interest coverage. Despite that the Company has proactively lowered its debt level in 2021, it still recorded a high capitalization ratio of 58.8% at end-2021. The Company's ROE remained low of 1.5% in 2021 and its EBITDA interest coverage ratio was 0.9x in 2021, deteriorating from 1.5x in 2020.

**High refinancing pressure mitigated by its diversified funding channels.** Jiangsu Yueda's standalone liquidity is relatively weak given its substantial level of short-term debt of RMB25.7 billion as of 31 December 2021. The Company remained a low cash to short-term debt ratio of 0.2x at end-2021. Nevertheless, the high refinancing pressure could be alleviated by its diversified funding channels, with its strong state-owned background.

### Rating Outlook

The stable outlook on Jiangsu Yueda's rating reflects our expectation that the Company will continue to receive solid support from the Yancheng government. We also expect the Company's credit metrics to gradually recover as its business profile improves over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if the Company (1) improves its business profile with increase in operating profits; and (2) demonstrates better credit metrics, including a lower total capitalization ratio and a higher EBITDA interest coverage ratio.

#### What could downgrade the rating?

The rating could be downgraded if the Company's (1) likelihood of shareholder support significantly decreases; (2) business profile weakens; or (3) credit metrics materially deteriorates.

### Rating Methodology

The methodology used in this rating is the Rating Methodology for [Business and Customer Service Companies \(December 2019\)](#).



## Regulatory Disclosures

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