

CCXAP assigns first-time long-term credit rating of BBB_g+ to Yuyao Shuncaï Investment Holding Co., Ltd., with stable outlook.

Hong Kong, 22 November 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Yuyao Shuncaï Investment Holding Co., Ltd. (“Yuyao Shuncaï” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Yuyao Shuncaï reflects (1) Yuyao City Government’s very strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yuyao City Government’s capacity to provide support reflects Yuyao City’s relatively good comprehensive strength, fast economic growth and good fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong business position in Yuyao City; (2) essential policy role in the provision of public services in Yuyao City; (3) good access to fundings; and (4) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) high debt leverage and moderate asset liquidity; and (2) large exposure to contingent liabilities.

Corporate Profile

Established in 2015, Yuyao Shuncaï is the largest local infrastructure investment and financing company (“LIIFC”) in Yuyao City in terms of total assets. It consolidates most of the key LIIFCs controlled by the Yuyao City State-owned Asset Management Office (“Yuyao SAMO”). The Company engages in diversified businesses through its subsidiaries, mainly including public businesses such as infrastructure construction, land development and reclamation, resettlement housing development, as well as public services such as utilities and transportation. As of 30 September 2022, Yuyao Shuncaï was 90% directly owned by Yuyao SAMO, its ultimate controlling shareholder, and 10% owned by Zhejiang Financial Development Co., Ltd.

Rating Rationale

Credit Strengths

Strong business position in Yuyao City. Positioned as the largest state-owned capital operation entity in Yuyao City, Yuyao Shuncaï is mandated by the local government to control and manage most of the key LIIFCs and state-owned assets in the region. The Company’s businesses are mainly operated by its six first-level subsidiaries, each of whom has a strong business position in its operating areas. Given its important position in Yuyao City, we believe that the Company is unlikely to be replaced in the foreseeable future.

Essential policy role in the provision of public services in Yuyao City. Yuyao Shuncaï plays an essential and active role in managing state-owned assets and implementing the Yuyao City Government’s major strategic initiatives for urban planning and municipal development. It

is responsible for the provision of various public services, such as infrastructure construction, land development and reclamation, resettlement housing development, and provision of utilities and transportation services in Yuyao City.

Good access to fundings. Yuyao Shuncai has sufficient stand-by liquidity and diversified funding channels. As of 30 September 2022, the Company's total credit facilities from banks amounted to around RMB126.5 billion, of which the undrawn amount was around RMB66.8 billion. Furthermore, the Company has a proven track record of financing from both onshore and offshore debt markets. Yuyao Shuncai also has manageable non-standard financing exposure, which accounted for less than 10% of its total debts as of 30 September 2022.

Good track record of receiving government payments. Yuyao Shuncai has a good track record of receiving payments from the local government in terms of capital injections, asset injections, financial subsidies, and repayments for infrastructure, land development and social housing projects. Considering Yuyao Shuncai's important position and tight relationship with the local government, we expect the local government will continue to support Yuyao Shuncai over the next 12 to 18 months.

Credit Challenges

High debt leverage and moderate asset liquidity. Yuyao Shuncai has a high debt leverage because of ongoing fundings for the public policy projects, with a total capitalization ratio of 59.3% as of 30 September 2022. Given its large capital needs from ongoing public projects, we expect the debt leverage of the Company to remain at a relatively high level in the next 12 to 18 months. In addition, Yuyao Shuncai's asset liquidity is moderate, and its assets are mainly comprised of inventories and other non-current assets. As of 30 September 2022, its inventories and other non-current assets accounted for 48.8% of total assets, mainly consisting of development costs from the public policy businesses.

Large exposure to contingent liabilities. Yuyao Shuncai's external guarantee amount increased from RMB13.3 billion as of the end of 2021 to RMB19.2 billion as of 30 September 2022, accounting for 31.3% of its total equity (excluding perpetuals). After the subsidiary undertaking guarantee business being transferred out of the Company in November 2022, all guarantees of the Company are currently provided to other stated-owned enterprises in Yuyao City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on Yuyao Shuncai's rating reflects our expectation that Yuyao City Government's capacity to provide support will remain stable, and the Company will maintain its vital position in Yuyao City.

What could upgrade the rating?

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's



willingness to provide support, such as a substantial reduction in external guarantees or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Yuyao City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

Rating Methodology

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

Regulatory Disclosures

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http://www.ccxap.com/en/rating_services/category/6/

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