CCXAP assigns first-time long-term credit rating of BBBg- to Chengdu Yunlai Investment Group Co., Ltd., with stable outlook.

Hong Kong, 12 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BBB_g- long-term credit rating to Chengdu Yunlai Investment Group Co., Ltd. ("CYIG" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of Chengdu Chengdu Yunlai Investment Group Co., Ltd. ("CYIG" or the "Company") reflects Chengdu Qionglai City Government's relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of Qionglai City Government's capacity to provide support reflects Qionglai City's increasing economic growth, but constrained by relatively small economic scale.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) essential position in the development of Qionglai City; (2) solid track record of receiving government payments; and (3) access to funding from banks and bond markets. However, the Company's rating is constrained by its (1) high debt growth driven by a large number of construction projects; (2) medium exposure to commercial activities; and (3) contingent liability risk from external guarantees.

Corporate Profile

Established in 2005, formerly known as Qionglai City Development Co., Ltd., CYIG has become an important infrastructure construction entity in Qionglai City. CYIG is mainly responsible for infrastructure construction and land development in Qionglai City, as well as self-operated projects, such as resettlement housing construction and industrial park development. In addition, the Company is also involved in local public services such as bus operation. The Company is also engaged in commercial business, such as asset leasing, trading and labor dispatch. As of 30 June 2022, the Company is directly and wholly owned by the Qionglai City State-owned Assets Investment Supervision Service Centre ("Qionglai SASSC").

Rating Rationale

Credit Strengths

Essential position in the development of Qionglai City. CYIG is mainly responsible for the urban development of Qionglai City, including infrastructure construction such as roads, bridges, and schools, as well as land development. The Company is also engaged in the construction of self-operated projects such as resettlement housing and the development of Green Food Industrial Parks. In addition, as an important urban operation entity of Qionglai City, the Company is also responsible for public transportation operations in Qionglai City. Given the Company's important role in Qionglai City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Solid track record of receiving government supports. CYIG has a proven track record of receiving ongoing government support from Qionglai SASSC, including government subsidies, asset injections and equity transfers. The Company's capital reserve increased from RMB15.0 billion at end-2019 to RMB41.2 billion at mid-2022. In order to support the Company's business expansion, Qionglai SASAB has injected assets including land, green assets, street lights and gravel into the Company with total value of RMB22.4 billion from 2019 to 2022H1. From 2019 to 2022H1, CYIG also received government subsidies of approximately RMB289.0 million. Considering the important role of CYIG after consolidation, we expect the Company will continue to receive support from Qionglai City in the future.

Access to funding from banks and bond markets. The Company maintains good long-term relationships with several banks. As of 30 June 2022, the Company had total credit facilities of RMB14.2 billion and available credit facilities of RMB1.1 billion, In addition, the Company's subsidiary QCCI has 6 outstanding domestic bonds totaling RMB4.49 billion. CYIG had low exposure to shadow banking lending, as its proportion in non-standard products such as financial leasing was at around 5.2% of RMB580.0 million as of 30 June 2022.

Credit Challenges

High debt growth and moderate assets liquidity. CYIG has high debt growth due to its debt-driven business expansion over the past few years. The Company's total debt increased from RMB8.0 billion at the end of 2019 to RMB13.1 billion in mid-2022, but with the improving asset to liability ratio of 39.8% from the end of 2019 to 28.8% at mid-2022. In addition, CYIG's asset liquidity is moderate. As of 30 June 2022, the Company pledged a number of assets for loans, such as receivables and commercial properties, with a total amount of RMB8.8 billion, accounting for around 11% of its total assets; the Company's inventory amounted to RMB32.5 billion, accounting for 52.9% of the total assets.

Contingent liability risk from external guarantees. CYIG has a relatively large exposure to contingent liabilities. As of 30 June 2022, the Company's external guarantee amount was RMB11.1 billion, accounting for 25.4 % of its net assets. All the external guarantees are provided to local state-owned enterprises in Qionglai City. The state-owned enterprise has a strong ability to avoid liability risks. However, due to the regional concentration of guaranteed enterprises, the Company may face considerable contingent liability risk when a default event occurs, which is credit negative for its credit quality.

Rating Outlook

The stable outlook on CYIG's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its strategic role as the key investment and operating entity in Qionglai City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) changes in company's characteristics enhance local government's willingness to support, such as reducing exposure to risky commercial activities or improving debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) changes in company characteristics weaken the local government's willingness to support, such as reducing strategic significance or increasing exposure to commercial activities.

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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