

## **CCXAP affirms Yixing City Construction Culture Tourism Group Co Ltd's long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

Hong Kong, 29 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yixing City Construction Culture Tourism Group Co., Ltd.’s (“YCCT” or the “Company”) long-term credit rating at BBB<sub>g</sub>, with stable outlook.

The BBB<sub>g</sub> long-term credit rating of Yixing City Construction Culture Tourism Group Co., Ltd.’s (“YCCT” or the “Company”) reflects Yixing City Government’s very strong capacity and high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Yixing City Government’s capacity to provide support reflects Yixing City’s status as the third largest county-level city by gross regional product (“GRP”) in Wuxi City in 2021, with fast economic growth and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership and ultimate control by the Yixing City Government; (2) clear and important strategic position in urban and rural infrastructure construction and tourism operations in Yixing City; (3) good track record of receiving government payments. However, the Company’s rating is constrained by its (1) tourism business which has been affected by the continuous impact of the pandemic; (2) increasing exposure to commercial activities; (3) high level of external debt guarantees.

### **Corporate Profile**

Established in 2002, YCCT is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Yixing City, Wuxi City, Jiangsu Province. It is wholly-owned by the State-owned Assets Supervision and Administration Commission of Yixing City Government (“Yixing SASAC”), with a paid-in capital of RMB758.0 million as of 30 June 2022. 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**

**Clear and important strategic position in urban and rural infrastructure construction and tourism operations in Yixing City.** YCCT is positioned as the core entity of Yixing City’s tourism resource operation and management, infrastructure construction and greening (especially for rural road and bridge as well as urban cultural construction). YCCT has undertaken a large number of infrastructure construction projects over the past years, which have greatly increased the social welfare of Yixing City. YCCT also possesses high-quality tourism resources in Yixing City. We believe that the strategic role of YCCT to Yixing City’s economic development and public welfare is irreplaceable in the short-to-medium time period.

**Good track record of receiving government payments.** YCCT has received ongoing support from Yixing City Government, including capital injections, asset transfers, project grants, and financial subsidies. We believe that the Yixing City Government will provide YCCT with ongoing operational and financial support, given its high strategic importance in Yixing City.

#### **Credit Challenges**

**Tourism business which has been affected by the continuous impact of the pandemic.**

The Company's main national AAAA-level tourism resources include Longbei Mountain Forest Park, Shanjuan Cave Scenic Area, Zhuhai Scenic Area, Tuangui Scenic Area and Yixing Yangxian Tea Culture Museum. The operating income of these scenic spots mainly comes from ticket sales, ropeways, cultural and creative product sales, and others. However, the number of visitors to the Company's scenic spots has dropped significantly due to the continuous impact of the pandemic, resulting in an operating loss in the tourism segment during the year.

**Increasing exposure to commercial activities.** YCCT's main commercial businesses include tourism, trading and urban services. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We consider the Company's risk exposure to commercial activities to be increasing with expanding commercial businesses. For example, the Company's trading business has a high customer concentration risk and a certain amount of pressure on advancing funds.

**High level of external debt guarantees.** YCCT's credit profile is constrained by its large number of external guarantees, which could potentially increase its debt obligations. It is mainly the cross-guarantee with other state-owned enterprises in Yixing City. If a credit event occurs in the region, it may lead to large-scale cross-effects. However, we believe that the credit risk of the guarantee is moderately controllable, taking into account the local government's support. In addition, the Company plans to decrease its external guarantees and will not provide any new guarantees next year.

#### **Rating Outlook**

The stable outlook on YCCT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in Yixing City.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as reduction in exposure to commercial activities and reduction in the size of external guarantees.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decrease the local government's



willingness to provide support, such as reduced regional significance 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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