

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chongqing Yulong Asset Management (Group) Co., Ltd., with stable outlook.

Hong Kong, 7 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Chongqing Yulong Asset Management (Group) Co., Ltd. (“CYAM” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of CYAM reflects Chongqing Jiulongpo District Government’s strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics. Our assessment of the Jiulongpo District Government’s capacity to provide support reflects Jiulongpo District’s vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing by gross regional product (“GRP”) in 2022.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant position in land consolidation and infrastructure construction in Jiulongpo District; (2) important status as a leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City; (3) diversified access to funding; and (4) solid track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) rapid debt growth and moderate assets liquidity; and (3) medium contingent risks associated with external guarantees.

Corporate Profile

Founded in 2002, CYAM is the most important local infrastructure investment and financing company (“LIIFC”), with the largest asset size among local state-owned enterprises in Jiulongpo District. The Company is primarily responsible for infrastructure construction, land development, shantytown renovation, and state-owned asset operation in Jiulongpo District. Apart from public development projects, the Company also undertakes various commercial activities, such as self-operating projects, concrete trading, property leasing and management, security service and equity and fund investments. As of 30 September 2022, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing (“Jiulongpo SASAC”).

Rating Rationale

Credit Strengths

Dominant position in land consolidation and infrastructure construction in Jiulongpo District. CYAM is the most important infrastructure construction and state-owned assets operation entity in Jiulongpo district. The Company has the largest business scope and strongest comprehensive strength in Jiulongpo District as the Company is responsible for land consolidation and infrastructure construction in most areas of Jiulongpo District.

Leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City. According to the planning of the Jiulongpo District Government, CYAM is



responsible for the shanty town renovation projects and 2 major comprehensive development projects in Jiulongpo district, namely Jiulong Peninsula comprehensive development project and Zhongliang Yunfeng comprehensive development project.

Solid track record of receiving government payments. As the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District, CYAM has a track record of receiving payments from the Jiulongpo District government. These payments take various forms, such as government subsidies and capital injections. The Company also regularly receives repurchase payments for its public activities' projects.

Diversified access to funding. As of 30 September 2022, around 59.2% of the Company's debt financing was provided by domestic banks. The onshore debt capital market provides around 26.7% of the Company's debt financing, with interest rates from 3.21% to 5.3%. Around 14.1% of debt financing was provided by non-standard financing, including financial leasing and trust.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, CYAM is also involved in various commercial activities such as property sales, self-operating projects, concrete trading, property leasing and management, security service and equity and fund investments. We consider CYAM's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

Rapid debt growth and moderate asset liquidity. CYAM's total debt had increased from RMB24.4 billion at end-2019 to RMB40.8 billion as of 30 September 2022. The Company has a relatively high capitalization ratio of 59.9% as of 30 September 2022. The increase in debt was mainly attributable to the expansion of the construction of public activities projects. CYAM has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 59.2% of its total asset as of 30 September 2022.

Medium contingent risks associated with external guarantees. As of 30 September 2022, the total amount of external guarantees was RMB7.9 billion, which accounted for 29.0% of CYAM's net assets. All these external guarantees were provided to local state-owned enterprises in Jiulongpo District, and all guaranteed companies are subsidiaries of the Company. We consider that the Company's contingent liability risk is relatively controllable.

Rating Outlook

The stable outlook on CYAM's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in land consolidation and infrastructure construction in Jiulongpo District.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's



willingness to provide support, such as decreased exposure to commercial activities and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

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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