

CCXAP assigns first time long-term credit rating of BBB_g- to Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd., with stable outlook.

Hong Kong, 21 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd. (“YDSI” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of YDSI reflects Yidu City Government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Yidu City Government’s capacity to provide support reflects Yidu City’s good economic fundamentals ranking top among all county-level cities in Hubei Province but with moderate fiscal strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) crucial role in the local economic and social development as one of the most important state-owned enterprises (“SOEs”) in Yidu City; (2) good track record of receiving government support; and (3) diversified funding channels including bank loans and bond issuances. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate debt management with increasing debt levels; and (3) weak asset liquidity.

Corporate Profile

Established in 1997, YDSI is one of the most important SOEs and one of the largest SOEs in terms of total assets in Yidu City, Yichang City. It is mainly responsible for managing and operating state-owned enterprises and assets, as well as industrial development in Yidu City. YDSI plays an important role in the local economic and social development, undertaking various public projects and providing public services in the city, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply. The Company also engages in commercial activities, such as property development, trading, hotel service, property leasing, as well as equity investment. As of 30 September 2022, YDSI was wholly owned and controlled by the State-owned Assets Supervision and Administration Bureau of Yidu City Government (“Yidu SASAB”).

Rating Rationale

Credit Strengths

Crucial role in the local economic and social development as one of the most important SOEs. YDSI is the largest entity in terms of total assets and the most important one under the control of the Yidu SASAB in Yidu City. It is responsible for various public activities, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply, which are crucial to local economic and social development.

Good track record of receiving government support. The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset injection, and equity transfer. Considering the Company's status as one of the most important SOEs of Yidu City, we expect YDSI will continue receiving support from the local government.

Diversified funding channels including bank loans and bond issuances. The Company has diversified funding channels financing from policy and commercial banks as well as the domestic bond market, which may release the pressure on refinancing and capital expenditure. The Company also had manageable exposure to non-standard financing, which accounted for less than 15% of total debt as of 30 September 2022.

Credit Challenges

Medium exposure to commercial activities. YDSI participates in different commercial activities mainly including property development, trading, hotel service, property leasing, as well as equity investment. Based on our assessment, YDSI's exposure to commercial activities is medium with the assets of commercial activities accounting for less than 20% of total assets.

Moderate debt management with increasing debt levels. YDSI's debt continuously increased over the past three years mainly due to ongoing financing for construction projects. The total debt increased from RMB12.4 billion in 2019 to RMB19.7 billion in 2022Q3. As of 30 September 2022, the financial leverage, measured by the total capital ratio, remained at a moderate level of 50.1% and the cash to short-term debt ratio recorded 0.9x.

Weak asset liquidity. YDSI had weak asset liquidity and financial flexibility. As of 30 September 2022, there were around 12% of total assets restricted and were mainly cash or cash equivalent, land, and highway toll right. At the same time, the receivables and other receivables totally accounted for 20.6% of total assets, which mainly consist of government-related receivables. There were water area development rights within Qingjiang Gaobazhou Reservoir Area and Yidu Section of Yuyang River of around RMB3.3 billion granted by the local government that generated slight income.

Rating Outlook

The stable outlook on YDSI's rating reflects our expectation that Yidu City Government's capacity to provide support will remain stable, and the Company will maintain its crucial role in the economic and social development of Yidu City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Yidu City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?



The rating could be downgraded if (1) Yidu City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky 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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