

CCXAP upgrades Jiangsu Yueda Group Co., Ltd.'s long-term credit rating to BBB_g, with stable outlook

Hong Kong, 10 May 2023 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Jiangsu Yueda Group Co., Ltd. ("Jiangsu Yueda" or the "Company") to BBB_g from BBB_{g-}, with stable outlook; and its senior unsecured debt rating to BBB_g from BBB_{g-}. The upgrade reflected the improving quality of the Company's investment portfolio and our expectation of solid support from the Yancheng Municipal Government to be sustained.

The BBB_g long-term credit rating of Jiangsu Yueda is underpinned by the Company's (1) investment portfolio in line with Yancheng City's industrial development strategy; (2) good access to quality investments; and (3) diversified funding channels. However, the rating is constrained by the Company's (1) exposure to high volatility from its investments in cyclical industries; (2) modest financial profile with relatively weak profitability and high financial leverage; and (3) high refinancing needs in the near term.

The rating also reflects a high likelihood of government support from the Yancheng Municipal Government when needed, which is based on the Company's (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) high strategic and economic importance in Yancheng City as one of the largest local state-owned enterprises ("SOE"); and (3) solid track record of receiving ongoing government support, including subsidies and capital injections.

Corporate Profile

Founded in 1991, Jiangsu Yueda is a state-owned conglomerate that is owned by the Yancheng Municipal Government and supervised by the Yancheng State-owned Assets Supervision and Administration Commission ("Yancheng SASAC"). It is an important platform to manage the state-owned assets on behalf of the Yancheng Municipal Government, with the aim to securitize and maximize the value of the state-owned assets. Jiangsu Yueda has four key strategic investment segments, namely (1) automobile and intelligent manufacturing, (2) energy, (3) property development, and (4) supply chain and others.

Jiangsu Yueda's key operating subsidiaries include Jiangsu Yueda Investment Co., Ltd (600805.SH) ("Yueda Investment"), Yueda International Holdings Limited (00629.HK) ("Yueda Holdings"), Shanghai Yueda New Industrial Group Go., Ltd., Jiangsu Yueda South Holding Co., Ltd., Yue Da Group (H.K.) Co., Limited and Yueda Capital Co., Ltd. The Company is approximately 91.3% owned by the Yancheng Municipal Government and 8.7% by the Jiangsu Provincial Finance Bureau. As of 31 December 2022, Jiangsu Yueda reported a total asset of RMB79.4 billion and a net asset of RMB29.5 billion.

Rating Rationale

Credit Strengths

High likelihood of support from the Yancheng Municipal Government. Yancheng SASAC maintains a high degree of control over Jiangsu Yueda's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. Jiangsu Yueda receives solid support from the Yancheng Municipal Government, given its strategic and economic importance in industrial investment in Yancheng City. In 2022, the local government injected RMB1.7 billion cash as capital into the Company.

Investment portfolio in line with Yancheng City's development strategy. Jiangsu Yueda is initially entrusted by the government to cultivate the development of local industries, particularly automobile manufacturing, which is one of the pillar sectors of Yancheng City. Along with the ongoing economic development of Yancheng City, Jiangsu Yueda adheres to the "1+2+1" development strategy covering segments in automobile and intelligent manufacturing, energy and healthcare, and the supply chain.

Good access to quality investments. Jiangsu Yueda has good access to quality investments as underpinned by strong support from the Yancheng Municipal Government. The Company has obtained quality projects with strong dividend income over the past years, such as toll collection rights for the Beijing – Shanghai Expressway (Jiangsu section) and Xi'an-Tongchuan Expressway, and coal mines of Shaanxi No.2 Huangling Coal Mine Co., Ltd.

Diversified funding channels. Jiangsu Yueda has a good presence in the onshore capital markets. In the first 4 months of 2023, the Company also issued 4 tranches of SCPs with coupon rates ranging from 4.99% to 5.45%. The Company has established long-term financing relationships with reliable domestic banks and financial institutions. As of 31 December 2022, the Company had total credit facilities of RMB36.5 billion with an undrawn amount of RMB7.5 billion.

Credit Challenges

Exposure to high volatility from its investments in cyclical industries. Jiangsu Yueda's investment portfolio covers multiple industries or sectors, however, some of them face cyclical volatilities, such as coal and metal mining, commercial trading, real estate development and automobile sales. As most of Jiangsu Yueda's investments were located in China, they are correlated with China's economic conditions and policy changes.

Modest financial profile with relatively weak profitability and high financial leverage. The Company's profitability remains relatively weak as seen by its low ROE of 1.5% at holding company level and 3.2% at consolidated level in 2022. The low profitability of Jiangsu Yueda will weaken its ability to repay debts through its internal financial resources. It has a high asset-liability ratio of 72.2% at holding company level and 62.8% at consolidated level, as of the same date.

High refinancing needs in the near term. Jiangsu Yueda's refinancing need is high given its high level of short-term debt. As of 31 December 2022, the short-term debt was around RMB16.1 billion at holding company level, representing 67.0% of its total debt, and RMB27.9 billion at consolidated level, representing 68.7% of its total debt. The Company remained a low cash to short-term debt ratio of 0.1x at end-2022 at holding company level.

Rating Outlook

The stable outlook on Jiangsu Yueda's rating reflects our expectation that the Company will continue to receive solid support from the Yancheng Municipal Government. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Yancheng Municipal Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; and (3) the Company's credit metrics improve, for example, a lower debt-to-investment income ratio and a higher cash-to-short-term debt ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Yancheng Municipal Government decreases; (2) the Company's credit metrics deteriorate, such as a significant increase in debt-to-investment income ratio or a decrease in investment income-to-interest ratio; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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