

CCXAP assigns first time long-term credit rating of BBB_g- to Shaanxi Yushen Energy Development and Construction Group Co., Ltd., with stable outlook.

Hong Kong, 18 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g- to Shaanxi Yushen Energy Development and Construction Group Co., Ltd. (“YEDC” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of YEDC reflects the relatively strong capacity to provide support from the Management Committee of Yushen Industrial Zone (“Yushen Management Committee”) and the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects Yushen Industrial Zone’s status as the National Economic and Technological Development Zone. With its clear strategic position in industrial development of Yulin City, Yushen Industrial Zone also receives support from Yulin Municipal Government and Shaanxi Provincial Government.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) unique position in infrastructure construction and provision of essential public services; and (2) solid track record of receiving government payments. However, the Company’s rating is constrained by (1) medium and increasing exposure to commercial activities; (2) rising debt burden; and (3) limited credit facilities and relatively large scale of high-cost nonstandard financing.

Corporate Profile

Established in May 2009, YEDC is the most important local infrastructure investment and financing company (“LIIFC”) in Yushen Industrial Zone. The Company is designated by Yushen Management Committee to focus on infrastructure construction and the provision of essential public services in the region. YEDC has also developed a diversified portfolio of commercial activities such as coal sales, sand and stone sales, property management, services, as well as leasing of office buildings and pipes. As of 31 December 2022, the Company was wholly-owned and controlled by Yushen Management Committee, which acts on behalf of Yulin Municipal Government.

Rating Rationale

Credit Strengths

Unique position in infrastructure construction and provision of essential public services. YEDC is dominant in the development, construction, and operation of Yushen Industrial Zone which is primarily responsible for the infrastructure construction projects. The Company focuses on sewage diversion, water plant construction, public pipeline, and power trench, which are also beneficial to the local livelihoods. Additionally, it participates in policy mandates services that are essential to livelihoods, such as the supply of heat and gas.

Solid track record of receiving government payments. In recognition of the strategic importance of YEDC's business to the urban development of Yushen Industrial Zone, the Company has received comprehensive support from the local government, in terms of capital injections, project repayments, operating subsidies, and financial allocation. For example, the local government has injected large-scale of state-owned assets to YEDC, such as land and shares of three major local enterprises, which greatly increase capital strength and overall competitiveness of the Company.

Credit Challenges

Medium and increasing exposure to commercial activities. After years of development, YEDC has divested some of its low-income-generating social welfare businesses such as agency construction, and expanded to higher-income-generating commercial activities such as coal sales, sand and stone sales, property management, services, as well as leasing of office buildings and pipes. These commercial activities generate supplementary income but pose higher operational and business risks than public-policy businesses. Based on our estimation, the Company had medium risk exposure to commercial activities.

Rising debt burden. YEDC shows rising debt burden owing to its debt-driven business expansion in the construction of public-policy projects over the past few years. As of 31 December 2022, the Company's total debt increased to RMB9.1 billion from RMB6.2 billion at end-2020. However, the growth rate of the total debt is in line with the local development, as compared to the growth rate of Yushen Industrial Zone's gross industrial output value.

Limited credit facilities and relatively large scale of high-cost nonstandard financing. YEDC has established cooperative relationship with various commercial banks and financial institutions. However, the Company demonstrated limited outstanding credit facilities which may constrain its liquidity position over the short to medium term. It also tapped into high-cost non-standard financing channels such as financial leasing, accounting for approximately 25% of its total debt as of 31 December 2022.

Rating Outlook

The stable outlook on YEDC's rating reflects our expectation that local government's capacity to provide support will remain stable, and the Company will maintain its unique position in infrastructure construction and provision of essential public services in Yushen Industrial Zone.

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 lower exposure to high-risk commercial activities or reduced reliance on high-cost non-standard financing.

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 decreases the local government's willingness to provide support, such as decrease in its strategic significance, material increase in commercial activities exposure, 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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