

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Yinchuan Tonglian Capital Investment Operation Group Co., Ltd., with stable outlook.**

Hong Kong, 31 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Yinchuan Tonglian Capital Investment Operation Group Co., Ltd. (“YCTL” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of YCTL reflects Yinchuan Municipal Government’s (1) very strong capacity to support; and (2) high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Yinchuan Municipal Government’s capacity to provide support reflects its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, but constrained by its relatively weak fiscal balance and high debt burden.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in local infrastructure construction projects; (2) sole public utility services provider with high sustainability; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) small reserves in public projects and high exposure to commercial activities; (2) mismatched debt structure with large refinancing pressure; and (3) moderate exposure to contingent risk.

### **Corporate Profile**

Founded in 2008, YCTL is a local infrastructure investment and financing company (“LIIFC”) with the largest total assets in Yinchuan City. The Company plays a dominant role in implementing the local government’s blueprint for urban planning and municipal construction. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, public transportation, and gas supply. Meanwhile, the Company has commercial operations, including fixed assets operation, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, as well as financial services. As of 31 March 2023, the Company was direct and wholly owned by the State-owned Assets Supervision and Administration Commission of Yinchuan City.

### **Rating Rationale**

#### **Credit Strengths**

**Dominant role in local infrastructure construction projects.** YCTL is the largest LIIFC in Yinchuan City in terms of asset size as of year-end 2022 and the most primary government-authorized infrastructure constructor in the region. According to Yinchuan Municipal Government’s restructuring plan of “2+7+2+N” for state-owned enterprises in Yinchuan City, the Company acts as one of the two most important platforms to promote local social and economic development. YCTL is primarily responsible for the infrastructure construction



projects such as construction of municipal roads, affordable housing projects, water facilities, and educational institutions.

**Sole public utility services provider with high sustainability.** YCTL is the sole public transportation operator in Yinchuan City, covering the downtown area of Yinchuan City and nearby counties and representing approximately 60% of the urban public passenger transportation (buses, vans, and taxis) in the region. The Company also offers a comprehensive set of gas supply services in Yinchuan City. Additionally, the Company engages in heat supply in some residential communities with a heating area of more than 2 million square meters.

**Good track record of receiving government payments.** YCTL has received strong support from Yinchuan Municipal Government, including subsidies, capital injections, asset injections and government payments for previous construction projects. From 2020 to 2023Q1, the local government injected cash, operating assets, and gratuitously transferred share of several companies to the Company, driving the capital reserves increased to RMB5.4 billion as of 31 March 2023 from RMB3.2 billion as of 31 December 2020 while the paid-in capital increased to RMB16.2 billion from RMB15.7 billion. Meanwhile, the Company has received different types of government subsidies of approximately RMB2.2 billion.

#### Credit Challenges

**High exposure to commercial activities.** YCTL's major commercial activities include fixed assets operation, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, and financial services. We estimate the Company's risk exposure to commercial business is high, accounting for more than 30% of total assets as of end-2022. We expect that YCTL's commercial activities will continue to expand instead of concentrating on public-policy projects due to the Company's business restructuring plans guided by the local government.

**Mismatched debt structure with large refinancing pressure.** The Company had an unbalanced debt structure in which short-term debt accounted for more than 50% of its total debt as of 31 March 2023. Meanwhile, the cash or cash equivalent of the Company was RMB870 million which could only cover around 10% of short-term debt. Moreover, the Company reported more than RMB7.1 billion in outstanding debts due within 2023 in the public bond markets, including onshore and offshore debt capital markets. Under the deteriorated financing condition of China's northwestern cities including Yinchuan City, the Company's financing ability has become weak as compared to previous years. Therefore, there is still unclear in YCTL's refinancing process from capital market in the short to medium term.

**Moderate exposure to contingent risk.** As of 31 March 2023, YCTL's outstanding amount of external guarantees was RMB2.7 billion, accounting for 11.7% of its net assets. The external guarantees are all provided to state-owned enterprises but some entities are involved in multiple litigation disputes, with higher operating risk. If a credit event occurs, the Company may face certain contingent risks, which could inversely impact its reputation, operations, and financial conditions.

## Rating Outlook

The stable outlook on YCTL's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will continue to play an essential role in local infrastructure projects and public service delivery in Yinchuan City.

### What could upgrade the rating?

The rating could be upgraded if (1) Yinchuan Municipal Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and increases its public policy status.

### What could downgrade the rating?

The rating could be downgraded if (1) Yinchuan Municipal Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, further weakened funding ability, or decreased government supports.

## 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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