

## **CCXAP affirms Yancheng City Assets Investment Group Company Limited's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 29 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Yancheng City Assets Investment Group Company Limited (“YCAI” or the “Company”) at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of YCAI reflects the Yancheng Municipal Government's very strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company's characteristics. Our assessment of the Yancheng Municipal Government's capacity to support reflects Yancheng City's growing economic and fiscal strengths as well as sustainable industrial development.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong position as the largest LIIFC in Yancheng City, specializing in local infrastructure construction and primary land consolidation; (2) solid track record of receiving government support; and (3) good access to different financing channels. However, the Company's rating is constrained by its (1) moderate level of commercial business risks; (2) high debt leverage with large investment needs; and (3) large exposure to external guarantees.

### **Corporate Profile**

Founded in 2003, YCAI, previously known as Yancheng City Urban Assets Operation Co., Ltd., is wholly owned by the Yancheng Municipal Government and directly supervised by the Yancheng State-owned Assets Supervision and Administration Commission (“Yancheng SASAC”). It is one of the key local state-owned enterprises in Yancheng City, specializing in infrastructure construction as well as state-owned asset operation and management. YCAI has undertaken major infrastructure construction and land development projects in Yancheng City. It also diversifies into utilities including water supply and sewage treatment, and commercial businesses such as property development, property leasing and security services.

### **Rating Rationale**

#### **Credit Strengths**

**The largest LIIFC in Yancheng City, with growing importance in public services.** YCAI is the largest and most important entity that provides infrastructure construction and land consolidation in the main district of Yancheng City, and plays a vital and irreplaceable role in the city. YCAI also engages in utility services including water supply and sewage treatment in Yancheng City with strong franchise advantages. Its business scope covers most of the areas in Yancheng City.

**Solid track record of receiving government support.** YCAI has received ongoing support from the Yancheng Municipal Government, including capital injections, asset transfers, and financial subsidies. In 2022, the Yancheng Municipal Government and Finance Bureau of Yancheng City injected around RMB2.5 billion of houses and land into YCAI, enhancing its

capital strength. From 2020 to 2022, the local government provided a total of around RMB53 million in operating subsidies.

**Good access to different financing channels.** YCAI's refinancing pressure could be partly mitigated by its strong financing ability from banks and debt capital market. As of 31 March 2023, it obtained total bank credit facilities of RMB72.2 billion with an available portion of RMB19.9 billion. In 2022, the Company issued different kinds of bond products such as PPNs, MTNs, asset-backed securities, and corporate bonds. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

### Credit Challenges

**Moderate level of commercial business risks.** YCAI has moderate exposure to commercial activities in terms of scale. These activities mainly include property development, security services, property leasing and some construction projects under the self-operation model in Yancheng City. We consider that the risks of YCAI's commercial activities remain controllable as we expect such scale will remain at a medium level relative to its public activities.

**High debt leverage with large investment needs.** YCAI relies on external financing to raise funds for business development and project construction, which could increase its debt burden and undermine its credit profile. YCAI's debt leverage remained high. YCAI's current projects under construction include infrastructure construction projects, self-operated projects, land consolidation projects and property development with an outstanding investment of approximately RMB15.9 billion. We expect the Company's debt leverage will remain at a high level, considering its large construction pipelines in the next 12 to 18 months.

**Large exposure to external guarantees.** YCAI has provided large numbers of external guarantees of RMB14.0 billion as of 31 March 2023, accounting for 36.8% of the Company's net assets. Large exposure to guarantees will increase YCAI's contingent liability risk. Nevertheless, we believe that the credit risk of these guarantees is manageable, as most of them are provided to local state-owned enterprises ("SOEs").

### Rating Outlook

The stable outlook on YCAI's rating reflects our expectation that the Company will maintain its strategic position in local public services and infrastructure construction in Yancheng City over the next 12 to 18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Yancheng Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as a material decrease in its exposure to external guarantees or improved debt management.

#### What could downgrade the rating?



The rating could be downgraded if (1) the Yancheng Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as the decrease in the importance of its policy role, material decrease in government payments, or deteriorated refinancing ability.

### **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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