

CCXAP assigns first-time long-term credit rating of BBB_g to Yizheng City State-owned Assets Investment Development (Group) Co., Ltd., with stable outlook.

Hong Kong, 26 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g to Yizheng City State-owned Assets Investment Development (Group) Co., Ltd. (“YSAI” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of YSAI reflects (1) Yizheng City Government’s strong capacity to provide support; and (2) the local government’s extremely high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yizheng City Government’s capacity to provide support reflects Yizheng City’s important status in Yangzhou City, ongoing economic growth, and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role in infrastructure construction in Yizheng City; (2) high sustainability of public policy businesses; and (3) good track record of receiving government support. However, the Company’s rating is constrained by the Company’s (1) high debt leverage due to reliance on external financing; (2) relatively weak asset liquidity and (3) high exposure to external guarantees, with manageable contingent liabilities risk.

Corporate Profile

Established in 2008, YSAI is the most important infrastructure construction and state-owned assets operation entity in Yizheng City, with largest asset size among all local state-owned enterprises. The Company is mainly engaged in public policy business segments, including infrastructure construction, primary land development, public transportation, and water supply. It has also participated in diversified commercial activities, such as commercial property development, building materials trading, and property leasing. As of 31 December 2022, the Company was directly and wholly owned by the Yizheng City State-owned Assets Management Center and ultimately controlled by Yizheng City Government.

Rating Rationale

Credit Strengths

Key role in infrastructure construction in Yizheng City. There are three primary LIIFCs in Yizheng City, namely YSAI, Yangzhou New Material Investment Group Co., Ltd and Yizheng Yangzi Culture and Tourism Holding Group Co., Ltd, each with clear positioning in the development of the region. YSAI is the most important infrastructure construction and state-owned assets operation entity, mainly responsible for primary land development and agency construction in Yizheng City. It plays a key role in promoting the social and economic development of Yizheng City. Considering YSAI’s dominant position in undertaking public policy projects and essential role in public utility services in Yizheng City, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of public policy businesses. As the largest state-owned enterprise in Yizheng City by asset size, YSAI is designated to undertake key public policy projects in the region, such as land development and agency construction. It also provides transportation and utility services in Yizheng City. At present, the Company has considerable construction projects in the pipeline, ensuring its business sustainability, but exerting high capital expenditure pressure.

Good track record of receiving government payments. YSAI has regularly received support from Yizheng City Government in the form of operating subsidies, project payments, special bond funds, capital injection, and asset transfers. The operating subsidies and special bond funds have been provided to support the development of its public welfare businesses. In addition, the Company's capital strength has been enhanced by the capital injections and asset transfers. The Company has also received payments for agency construction and land development projects from the local government, totaling RMB8.7 billion at end-2022. Given its important position in undertaking public policy projects in Yizheng City, we believe that the local government will continue to provide support to the Company.

Credit Challenges

Manageable exposure to commercial activities. In addition to public activities, YSAI is also engaged in diversified commercial businesses such as commercial property development, building materials trading, and property leasing businesses. We consider the Company's exposure to commercial businesses to be small, accounting for less than 10% of its total assets.

High debt leverage due to reliance on external financing. With the ongoing financing for the construction projects, YSAI's debt burden has continued to grow over the past three years, resulting in a high debt leverage. The Company's total debt increased from RMB22.3 billion at end-2020 to RMB30.3 billion at end-2022, with a high total capitalization ratio of 62.8%. With large number of construction projects, we expect that the Company will continue to rely on external financing to meet its future capital needs, and its debt leverage will remain relatively high in the next 12 to 18 months.

Relatively weak asset liquidity. YSAI's asset liquidity is relatively weak, which may undermine its financial flexibility. The Company's assets mainly consist of inventories and receivables, both with relatively low liquidity. The inventories are development costs from infrastructure construction and primary land development projects, the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 76% of total asset at end-2022FY.

Rating Outlook

The stable outlook on YSAI's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Yizheng City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as a reduction in the exposure to external guarantees.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity 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 reduced regional significance or weakened access to funding.

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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