

CCXAP assigns first-time long-term credit rating of BBB_g+ to Yueyang City Operation Investment Group Co., Ltd., with stable outlook.

Hong Kong, 13 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g+ to Yueyang City Operation Investment Group Co., Ltd. (“YCOG” or the “Company”) with stable outlook.

The BBB_g+ long-term credit rating of Yueyang City Operation Investment Group Co., Ltd. (“YCOG” or the “Company”) reflects Yueyang Municipal Government’s (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yueyang Municipal Government’s capacity to provide support reflects Yueyang City’s economic importance in Hunan Province, with its economic and fiscal strengths continuing to grow.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in transportation infrastructure construction of Yueyang City and its increased importance following the injection of local state-owned enterprises; (2) good track record of receiving government support; and (3) good access to funding from banks and the bond market. However, the rating is constrained by the Company’s (1) large future capital expenditure for self-operated projects; (2) fast debt growth and modest asset liquidity; and (3) moderate exposure to external guarantees.

Corporate Profile

Founded in April 2012, YCOG is an important infrastructure construction and state-owned asset operation and management entity in Yueyang City. The Company mainly engages in local transportation infrastructure construction, land development, shantytown renovation and affordable housing construction projects. It is also involved in other commercial activities such as engineering construction, trading, and fuel oil sales. As of 31 March 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Yueyang Municipal People’s Government.

Rating Rationale

Credit Strengths

Strong position in transportation infrastructure construction of Yueyang City. YCOG is the most important LIIFC with the largest assets in Yueyang City. It is mainly responsible for infrastructure construction, social housing development and bus operations projects in Yueyang City. YCOG is the second largest LIIFC in Yueyang City by asset size. It is mainly responsible for transportation infrastructure construction, land development, shantytown renovation, and affordable housing construction in the region. The Company has a strong market position in undertaking transportation infrastructure projects in Yueyang City and has made great contributions to local economic and social development.

Good track record of receiving government support. YCOG regularly receives support from the local government in the form of operating subsidies, special funds, capital injections, and asset transfers. Given the Company's important role in undertaking infrastructure construction projects and providing public services in Yueyang City, we believe the local government will continue to provide strong support to the Company.

Good access to funding from banks and the bond market. YCOG has good access to funding, as reflected by its sufficient standby liquidity and track record of bond issuance. The Company has approved lines of credit from many commercial and policy banks. As of 31 March 2023, it had obtained total credit facilities of RMB23.1 billion, with available credit facilities of RMB7.0 billion. The Company also has access to the bond market. From 2020 to mid-2023, the Company and its subsidiaries raised RMB7.1 billion via issuance of 13 domestic bonds, including corporate bonds, MTNs, and PPNs.

Credit Challenges

Large future capital expenditure for self-operated projects. In addition to public activities, YCOG is also engaged in commercial businesses, mainly including engineering construction, trading, and fuel oil sales. We consider the Company's current exposure to commercial businesses to be low, accounting for about 15% of its total assets. However, self-operated construction projects will put great pressure on the Company's future capital expenditures.

Fast debt growth and modest asset liquidity. YCOG's debt has grown rapidly over the past three years. The Company's total debt increased from RMB13.1 billion at end-2020 to RMB26.6 billion at end-2023Q1, with a total capitalization ratio of 56.6%. The increase in debt was mainly attributable to the ongoing financing of construction projects. YCOG has modest asset liquidity, which may undermine its financing flexibility. The Company's total assets mainly consist of inventories, other non-current assets, and construction in progress, all with low liquidity, accounting for 65.8% of total asset as of 31 March 2023.

Moderate exposure to external guarantees. YCOG has moderate exposure to external guarantees, which limits its credit rating. As of 31 March 2023, the Company had outstanding external guarantees of about RMB3.3 billion, accounting for 16.2% of its net assets. However, we consider the Company's contingent liability risks to be manageable, as all of the external guarantees are provided to local state-owned enterprises with stable business operations.

Rating Outlook

The stable outlook on YCOG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will continue to play an important role in transportation infrastructure of Yueyang City.

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 the local

government's willingness to provide support, such as decrease in exposure to commercial activities and decrease in exposure to external guarantees.

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 reduced regional significance or material increase in exposure to external guarantees.

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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