

Credit Opinion

7 March 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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Chongqing Yulong Asset Management (Group) Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g+ to Chongqing Yulong Asset Management (Group) Co., Ltd., with stable outlook.

Summary

The BBB_g+ long-term credit rating of Chongqing Yulong Asset Management (Group) Co., Ltd. (“CYAM” or the “Company”) reflects Chongqing Jiulongpo District Government’s strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of the Jiulongpo District Government’s capacity to provide support reflects Jiulongpo District’s vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing by gross regional product (“GRP”) in 2022.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant position in land consolidation and infrastructure construction in Jiulongpo District; (2) important status as a leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City; (3) diversified access to funding; and (4) solid track record of receiving government payments.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) rapid debt growth and moderate assets liquidity; and (3) medium contingent risks associated with external guarantees.

The stable outlook on CYAM’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its dominant position in land consolidation and infrastructure construction in Jiulongpo District.

Rating Drivers

- Dominant position in land consolidation and infrastructure construction in Jiulongpo District
- Solid track record of receiving government payments
- Medium exposure to commercial activities
- Rapid debt growth and moderate asset liquidity
- Diversified access to funding
- Medium contingent risks associated with external guarantees

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

Key Indicators

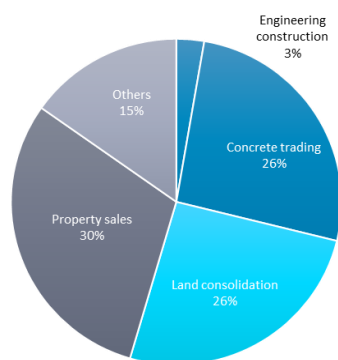
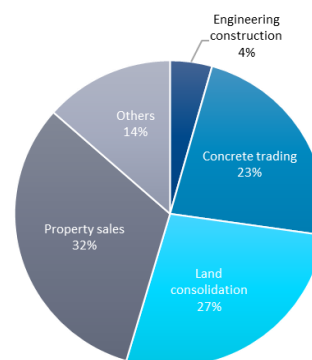
	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	50.8	64.7	70.7	80.1
Total Equity (RMB billion)	17.5	22.3	25.0	27.3
Total Revenue (RMB billion)	2.4	3.0	3.3	2.7
Total Debt/Total Capital (%)	58.2	59.7	59.2	59.9

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Founded in 2002, CYAM is the most important local infrastructure investment and financing company ("LIIFC"), with the largest asset size among local state-owned enterprises in Jiulongpo District. The Company is primarily responsible for infrastructure construction, land development, shantytown renovation, and state-owned asset operation in Jiulongpo District. Apart from public development projects, the Company also undertakes various commercial activities, such as self-operating projects, concrete trading, property leasing and management, security service and equity and fund investments. As of 30 September 2022, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing ("Jiulongpo SASAC").

Exhibit 1. Revenue Structure in 2021**Exhibit 2. Gross profit Structure in 2021**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Jiulongpo District Government has a strong capacity to provide support to the Company, given its good industrial foundation and economic strength.

Jiulongpo District is a municipal district of Chongqing City, while Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing. Thanks to the vigorous development of the industrial sector, Chongqing's economy has demonstrated a growth trend. In 2021, Chongqing recorded a GRP of RMB2.8 trillion, ranking 5th among municipalities and prefecture-level cities in China, with a GRP growth rate of 8.3% year on year ("YoY"). In 2022, Chongqing recorded a GRP of RMB2.9 trillion, surpassing Guangzhou and ranking 4th among municipalities and prefecture-level cities in China, with a GRP growth rate of 2.6% YoY. In 2021, Chongqing recorded a public budget revenue of RMB228.5 billion. Affected by the pandemic and tax refund, the general public budget revenue of Chongqing decreased to RMB210.3 billion in 2022. The direct government debt balance of Chongqing amounted to RMB861 billion in 2021, accounting for 30.9% of its GRP for that year. We expect that Chongqing City will continue to serve as an important strategic city for the development of Western China, as well as a connecting point between the Belt and Road Initiative and the Yangtze River Economic Belt, and will play a unique and important role in China's regional development and opening-up policy.

Exhibit 3. Key Economic and Fiscal Indicators of Chongqing City

	2019FY	2020FY	2021FY
GRP (RMB billion)	2360.6	2500.3	2789.4
GRP Growth (%)	6.3	3.9	8.3
General Budgetary Revenue (RMB billion)	213.5	209.5	228.5
General Budgetary Expenditure (RMB billion)	484.8	489.4	483.5
Local Government Debt (RMB billion)	560.4	679.9	861.0

Source: Statistic Bureau of Chongqing City, CCXAP research

Jiulongpo District is one of the nine core districts in Chongqing City, located in the western part of the Chongqing main district. Jiulongpo District is an important industrial town in Chongqing and even in western China, relying on its pillar industries such as automobile and motorcycle manufacturing, non-ferrous metal smelting and

processing, electrical machinery and equipment manufacturing, electronic information and computer communication equipment. Jiulongpo District has continued to grow and develop in recent years. In 2021, the GRP of Jiulongpo District increased by 9.2% YoY to RMB173.6 billion, while it further increased by 2.7% YoY to RMB176.4 billion in 2022, ranked 2nd among 38 districts and counties in Chongqing City. With the support of industrial development, Jiulongpo District Government has a relatively good fiscal self-sufficiency and debt profile. The general budgetary revenue of Jiulongpo District was RMB5.5 billion in 2021, of which tax revenue accounted for 69.0%. In 2021, Its fiscal balance ratio was 66.1%. During the same period, Jiulongpo District had an outstanding debt of RMB23.6 billion, accounting for 13.6% of the Jiulongpo District's GRP and 98.3% of its total budgetary revenue.

Exhibit 4. Key Economic and Fiscal Indicators of Jiulongpo District

	2019FY	2020FY	2021FY
GRP (RMB billion)	146.3	153.3	173.6
GRP Growth (%)	6.3	3.9	9.2
General Budgetary Revenue (RMB billion)	6.4	5.2	5.5
General Budgetary Expenditure (RMB billion)	11.9	8.9	8.3
Local Government Debt (RMB billion)	19.7	22.5	23.6

Source: Statistic Bureau of Jiulongpo District, CCXAP research

Government's Willingness to Provide Support

Dominant position in land consolidation and infrastructure construction in Jiulongpo District

CYAM is the most important infrastructure construction and state-owned assets operation entity in Jiulongpo district. The Company has the largest business scope and strongest comprehensive strength in Jiulongpo District as the Company is responsible for land consolidation and infrastructure construction in most areas of Jiulongpo District. Considering the Company's high strategic significance to the development of Jiulongpo District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

CYAM acts as a contractor to conduct its infrastructure construction projects. The Company signs construction contracts with external construction companies and pays construction fees according to the contract agreement and construction progress. Since 2019, its infrastructure construction projects are funded in advance by the local government through special funds, the entrusting parties would pay the management fee upon project completion. The Company had successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, schools, bridges, and water conservancy Infrastructure. As of 30 September 2022, the Company had 17 infrastructure construction projects under construction or planning, with a total investment amount of RMB8.3 billion and an outstanding amount of RMB1.6 billion.

As the most important land consolidation entity in Jiulongpo district, the Company is responsible for the land development in the main area of Jiulongpo district, including demolition and land leveling. After demolition and land leveling, the land will be sold in the open market and the local government will make payments to the Company. From 2019 to 2022Q3, the Company completed 434 mu of land consolidation, with an invested amount of RMB3.1 billion and a received repurchase payment of RMB1.2 billion. As of 30 September 2022, the Company had 2,611 mu of lands under consolidation or planning, with a total investment amount of RMB6.2 billion and an outstanding amount of RMB5.0 billion. However, the income from land development is subject to the prosperity of the land market and government policies.

Leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City

According to the planning of the Jiulongpo District Government, CYAM is responsible for the shanty town renovation projects and 2 major comprehensive development projects in Jiulongpo district, namely Jiulong Peninsula comprehensive development project and Zhongliang Yunfeng comprehensive development project.

Jiulong Peninsula comprehensive development project is one of the top ten area renovation projects in Chongqing City, with a long-term planning scope of covering around 15 square kilometers. The government plans to develop Jiulong Peninsula into a dynamic cultural and creative tourism area and a national-level smart city demonstration area. As a leading developer of Jiulong Peninsula, the Company is responsible for land consolidation, as well as industrial incubation in Jiulong Peninsula. The construction period of the Jiulong Peninsula development projects is around 10-15 years, with an estimated investment amount of RMB30.6 billion. In addition, Zhongliang Yunfeng comprehensive development project is another major local development project in Jiulongpo District. The Company is entrusted by the government to undertake land leveling, urban renewal and infrastructure construction in Zhongliang village and Yunfeng village. The total planned construction area is about 0.7 million square meters ("sqm"), and the estimated construction period is 5 years.

The Company conducts shanty town renovation projects and 2 major comprehensive development projects through the government purchase service model. The government will buy back the construction upon project completion. The buyback period of Zhongliang Yunfeng comprehensive development project is 7 years, and the others are 25 years. As of 30 September 2022, the projects under the government purchase service model had a total investment amount of RMB21.0 billion and an outstanding amount of RMB1.6 billion. Given the large initial investment amount on Jiulong Peninsula development project and Zhongliang Yunfeng development project, coupled with relatively long construction and payback periods, we believe the Company will face large capital expenditure pressure and debt repayment pressure.

Medium exposure to commercial activities

In addition to public activities, CYAM is also involved in various commercial activities such as property sales, self-operating projects, concrete trading, property leasing and management, security service and equity and fund investments. We consider CYAM's commercial business exposure to be medium, as its market-driven businesses account for around 30% of its total assets.

CYAM's property sales business is market-oriented. The Company obtained the resettlement housing supporting shops and factories through purchase and self-build, then sells it at market prices. As of 30 September 2022, the Company had a total saleable area of 16,063 sqm, with a total saleable amount of RMB206.9 million. In addition, the Company is constructing several self-operating commercial property projects, such as Southwest Plastic City and Tencent Innovation and Entrepreneurship Community. After these projects are completed, the Company will receive income through property leasing or sales. As of 30 September 2022, the Company had 7 self-operating projects under construction or planning, with a total investment amount of RMB5.8 billion and an outstanding amount of RMB4.1 billion. However, since the Company's property sales and self-operated projects are affected by the market conditions, and the initial investment is large, there is uncertainty in the cash collection and investment return.

CYAM conducted concrete trading business through its subsidiary Chongqing Weiguan Construction Technology (Group) Co., Ltd. ("Weiguan"). Weiguan is the largest concrete producer and seller in Jiulongpo District and mainly sells concrete to other construction companies. The upstream and downstream of the concrete trading business are relatively diversified. As of 30 September 2022, the top 5 customers accounted

for 33.2% of the sales and the top 5 suppliers accounted for 26.4% of the supply. However, the concrete industry is a traditional competitive industry and its business scale is prone to saturation, there may be bottlenecks in future development.

The Company is also involved in the property leasing business, including office buildings and factories. As of 30 September 2022, the Company had a total leasable area of approximately 0.7 million sqm and an unleased area of 0.1 million sqm, with an occupancy rate of 86.0%. In addition, the Company provides security services to local enterprises. However, the small operating scale limits its contribution to the Company's overall income. The Company also participated in fund and equity investment through its subsidiaries Chongqing West Securities Yufu Equity Investment Fund Management Co., Ltd. ("Yufu Equity") and Chongqing Yulong Equity Investment Fund Management Co., Ltd. ("Yulong Equity"). As of 31 December 2021, Yufu Equity invested 23 funds and mainly invested in SME enterprises outside Jiulongpo District, with a total investment amount of RMB12.7 billion. Yulong Equity invested 5 funds and mainly invested in cultural creativity, high technology and intelligent manufacturing fields, with a total investment amount of RMB3.6 billion as of the same date.

Solid track record of receiving government payments

As the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District, CYAM has a track record of receiving payments from the Jiulongpo District government. These payments take various forms, such as government subsidies and capital injections. In 2021, the Company received sewerage network from the government, and increased its capital reserve of RMB2.7 billion. The Company also regularly receives repurchase payments for its public activities' projects. Projects under the government purchase service model are included in fiscal government fund expenditure, so the repurchase payments are more stable. Given CYAM's important strategic role, we expect the Company will continue to receive support from the Jiulongpo District Government in the future.

Exhibit 5. Government Support from 2019 to 2021

(RMB million)	2019FY	2020FY	2021FY
Government Subsidies	81	69	19
Capital Injections	2,382	3,418	2,680
Asset Injection	470	346	658
Repurchase Payments			
-Land Consolidation	350	350	80
-Infrastructure Construction	-	-	-
Total	3,283	4,183	3,437

Source: CCXAP research

Rapid debt growth and moderate asset liquidity

CYAM's total debt had increased from RMB24.4 billion at end-2019 to RMB40.8 billion as of 30 September 2022. The Company has a relatively high capitalization ratio of 59.9% as of 30 September 2022. The increase in debt was mainly attributable to the expansion of the construction of public activities projects. As of 30 September 2022, the Company had 41 projects under construction or planning, with an expected investment of RMB41.3 billion and an outstanding amount of RMB12.3 billion. Given the Company's large capital expenditure pressure, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months.

Furthermore, CYAM has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 59.2% of its total asset as of 30 September 2022. Inventories were mainly

land use rights and investment costs for infrastructure construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity.

Diversified access to funding

As of 30 September 2022, around 59.2% of the Company's debt financing was provided by domestic banks. It held a total credit facility of RMB54.9 billion and available credit facilities of RMB21.6 billion, indicating a sufficient liquidity buffer. The onshore debt capital market provides around 26.7% of the Company's debt financing, with interest rates from 3.21% to 5.3%. Around 14.1% of debt financing was provided by non-standard financing, including financial leasing and trust. The Company has a low refinancing pressure for its short-term debt. As of 30 September 2022, the Company had short-term debt of RMB12.1 billion, which can be covered by its available credit facilities. We consider the Company's diversified funding channel can fulfill its future capital expenditure.

Medium contingent risks associated with external guarantees

As of 30 September 2022, the total amount of external guarantees was RMB7.9 billion, which accounted for 29.0% of CYAM's net assets. All these external guarantees were provided to local state-owned enterprises in Jiulongpo District, and all guaranteed companies are subsidiaries of the Company, including Chongqing Jiulongyuan High-tech Industry Group Co., Ltd., Chongqing Aluminum Industry Development and Investment Group Co., Ltd., and Chongqing Ruiying Industrial Co., Ltd. We consider that the Company's contingent liability risk is relatively controllable.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CYAM assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CYAM is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jiulongpo District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CYAM believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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