Credit Opinion

24 July 2023

Ratings	
Senior Unsecured Debt Rating	BBB_g-
Long-Term Credit Rating	BBB_g-
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd. ("YDSI" or the "Company") reflects Yidu City Government's (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of Yidu City Government's capacity to provide support reflects Yidu City's good economic fundamentals ranking top among all county-level cities in Hubei Province but with moderate fiscal strength.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) crucial role in the local economic and social development as one of the most important state-owned enterprises ("SOEs") in Yidu City; (2) good track record of receiving government support; and (3) diversified funding channels including bank loans and bond issuances.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate debt management with increasing debt levels; and (3) weak asset liquidity.

The stable outlook on YDSI's rating reflects our expectation that Yidu City Government's capacity to provide support will remain stable, and the Company will maintain its crucial role in the economic and social development of Yidu City over the next 12-18 months.

Rating Drivers

- Crucial role in the local economic and social development as one of the most important SOEs
- Medium exposure to commercial activities
- Moderate debt management and weak asset liquidity
- Good track record of receiving government support
- Diversified funding channels including bank loans and bond issuances

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Yidu City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Yidu City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky commercial activities.

Key Indicators

	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	27.8	33.6	40.2	45.6
Total Equity (RMB billion)	12.8	14.3	16.6	19.7
Total Revenue (RMB billion)	2.0	2.2	3.5	2.5
Total Debt/Total Capital (%)	49.2	52.6	53.1	50.1

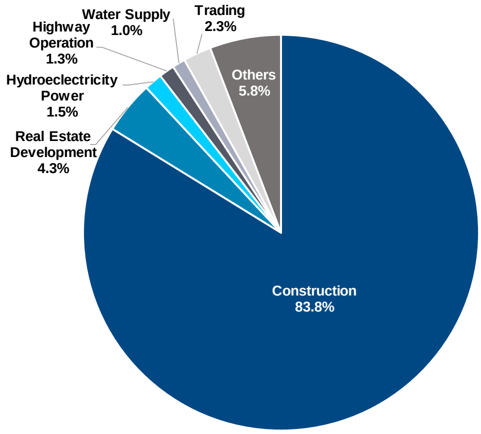
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

Corporate Profile

Established in 1997, YDSI is one of the most important SOEs and one of the largest SOEs in terms of total assets in Yidu City, Yichang City. It is mainly responsible for managing and operating state-owned enterprises and assets, as well as industrial development in Yidu City. YDSI plays an important role in the local economic and social development, undertaking various public projects and providing public services in the city, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply. The Company also engages in commercial activities, such as property development, trading, hotel service, property leasing, as well as equity investment. As of 30 September 2022, YDSI was wholly owned and controlled by the State-owned Assets Supervision and Administration Bureau of Yidu City Government ("Yidu SASAB").

Exhibit 1. Revenue structure in 2021



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Yidu City Government has a relatively strong capacity to provide support given its good economic fundamentals ranking top among all county-level cities in Hubei Province but with moderate fiscal strength.

Yichang City is a prefecture-level city located in the southwest part of Hubei Province. Hubei Province is the seventh largest province in China by gross regional product ("GRP") in 2022, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. Yichang City has moderate economic and fiscal strength, ranking top among prefecture-level cities in Hubei Province. After years of development, it has formed 9 pillar industries such as green chemical, equipment manufacturing, food and drink, biomedicine, building materials, textile clothing and stationery, new generation information technology, clean energy, as well as aerospace and ocean engineering. Suffering from the breakdown of COVID-19 especially in Hubei Province, Yichang City recorded negative economic growth and a decrease in general budgetary revenue in 2020. With a good economic foundation, its economy recovered quickly, backing to RMB502.3 billion and RMB550.3 billion in 2021 and 2022, respectively. The local government's general budgetary revenue was in line with the economic trend. In 2022, its general budgetary revenue also recovered to RMB21.8 billion. The fiscal stability was good with tax revenue contributing more than 75% to the general budgetary revenue over the past three years. However, its moderate fiscal balance ratio (general budgetary revenue/general budgetary expenditure) indicated that it relied on support from high-tier government and land transfer income. As of 31 December 2022, the outstanding government debt of Yichang City was RMB92.6 billion, accounting for 16.8% of its GRP.

Exhibit 2. Key economic and fiscal indicators of Yichang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	426.1	502.3	550.3
GRP Growth (%)	-4.7	16.8	5.5
General Budgetary Revenue (RMB billion)	14.0	19.8	21.8
General Budgetary Expenditure (RMB billion)	59.0	48.8	56.0
Local Government Debt (RMB billion)	72.2	80.5	92.6

Source: Official website of Yichang City Government, CCXAP research

Yidu City is a county-level city under the administration of Yichang City with a good geographical location and convenient transportation network. The city is included in the Three Gorges-Yichang Half-hour Economic Circle and has developed six pillar industries including fine chemicals, biomedicine, equipment manufacturing, new energy, and new materials. Over the past three years, by GRP, Yidu City ranked top among the counties/districts of Yichang City. In 2022, it ranked 68th among the CCID Top 100 counties in China. In 2021, Yidu City recorded a rapid economic recovery, increasing by 19.7% year-over-year("YoY") to RMB80.0 billion. However, its general budgetary revenue in 2021 was still lower than that in 2019 because of the influence of the pandemic. The fiscal metrics of the Yidu City Government remained moderate. In 2021, the reported fiscal balance ratio was around 50.7%, and support from the upper-tier government is important for fiscal balancing. As of 31 December 2021, the outstanding government debt of the Yidu City Government amounted to RMB6.3 billion, accounting for 7.9% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Yidu City

	2019FY	2020FY	2021FY
GRP (RMB billion)	67.9	64.3	80.0
GRP Growth (%)	9.3	-6.3	19.7
General Budgetary Revenue (RMB billion)	2.4	1.5	2.0
General Budgetary Expenditure (RMB billion)	5.1	4.7	3.9
Local Government Debt (RMB billion)	4.5	5.0	6.3

Source: Official website of Yidu City Government CCXAP research

Government's Willingness to Provide Support

Crucial role in the local economic and social development as one of the most important SOEs

YDSI is the largest entity in terms of total assets and the most important one under the control of the Yidu SASAB in Yidu City. It is responsible for various public activities, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply, which are crucial to local economic and social development.

YDSI carries out infrastructure construction projects through agent construction and self-operation mode. Under agent construction mode, the Company signs an entrusted construction contract with the local government and receives the construction cost plus a 20% markup after the project is completed. Under self-operation mode, the Company needs to construct and operate the project itself. As of 30 September 2022, the Company had invested around RMB4.1 billion in key infrastructure construction projects under construction with an uninvested amount of around RMB2.0 billion, including road construction, primary land development as well as factories and living facilities in industrial areas. Meanwhile, there was a planned investment of around RMB1.1 billion in key projects under planning, indicating sufficient project reserves in hand.

Moreover, YDSI engaged in engineering construction since the acquisition of Hubei Guotong Lingyu Construction Group Co., Ltd. in 2020. The Company acquires projects through open market bidding and selected bidding. The revenue from engineering construction increased rapidly, leading the total revenue from the construction business to increase as well. As of 30 September 2022, YDSI had great amount of contracts on hand which were consisted of various construction projects mainly from SOEs of Yidu City.

YDSI undertakes affordable housing construction through agent construction and self-operation mode in Yidu City, which is similar to that of infrastructure construction. Under self-operation mode, the Company sells affordable houses to relocated householders at prices below the average of local commercial houses and achieves the fund balancing by selling additional houses at market prices, selling or leasing parking lots as well as providing property management services. As of 30 September 2022, YDSI had invested around RMB1.8 billion in key affordable housing projects under construction, with an uninvested amount of around RMB0.8 billion.

Exhibit 4. Key projects under construction and planning as of 30 September 2022

Project type	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
Project under construction			
Infrastructure construction	6.1	4.1	2.0
Affordable housing	2.6	1.8	0.8
Project under planning			
Infrastructure construction	1.1	-	1.1
Total	**9.8**	**5.9**	**3.9**

Source: Company information, CCXAP Research

YDSI also provides essential public services in Yidu City, including highway operation, hydroelectric power, and water supply. As of 30 September 2022, the Company held and managed two highways, including Yiyang first-grade highway and Luyu first-grade highway, with traffic mileage of 50.3 kilometers and 51.7 kilometers respectively. These two highways are important trunk lines in Yidu City and help promote the development of regions along the route. YDSI is the main hydroelectric power provider in Yidu City and owns 3 power plants with a total installed capacity of 44,770 KW. Moreover, the Company is the sole water supplier in Yidu City, covering both urban and rural areas. The Company has franchise advantages in providing such public services in Yidu City, however, given their public nature, the profitability of public services is relatively low and highly relies on government subsidies.

Medium exposure to commercial activities

YDSI participates in different commercial activities mainly including property development, trading, hotel service, property leasing, as well as equity investment. Based on our assessment, YDSI's exposure to commercial activities is medium with the assets of commercial activities accounting for less than 20% of total assets.

The Company is engaged in property development in Yidu City through its subsidiary. As of 30 September 2022, YDSI had completed 3 key projects which were almost sold. Meanwhile, YDSI had 2 projects under construction, located at Lucheng Subdistrict, with a total investment of around RMB850 million and an uninvested amount of around RMB370 million. During the downturn in China's property market, property development would be exposed to more uncertainties during construction and sales.

The Company also developed other businesses such as trading, hotel, and leasing which generated a revenue of around RMB285 million in 2021, accounting for around 8.1% of total revenue. The Company mainly focuses on trading building materials such as gravel and steel which are provided to local construction projects. The Company runs three hotels that generate stable revenue. In 2021, the Company was granted a river sand mining concession with a value of around RMB1.6 billion from the government and started the river mining business. The Company sells quota to harvesters within annual extraction planned by the local government and the sand is priced by auction.

Moderate debt management and weak asset liquidity

YDSI's debt continuously increased over the past three years mainly due to ongoing financing for construction projects. The total debt increased from RMB12.4 billion in 2019 to RMB19.7 billion in 2022Q3. As of 30 September 2022, the financial leverage, measured by the total capital ratio, remained at a moderate level of 50.1% and the cash to short-term debt ratio recorded 0.9x. Considering ongoing investment and debt repayment needs, we expect the Company would continue to rely on external financings such as bank loans and bond issuances and the total debt would further increase over the next 12-18 months.

YDSI had weak asset liquidity and financial flexibility. As of 30 September 2022, there were around 12% of total assets restricted and were mainly cash or cash equivalent, land, and highway toll right. At the same time, the receivables and other receivables totally accounted for 20.6% of total assets, which mainly consist of government-related receivables. There were water area development rights within Qingjiang Gaobazhou Reservoir Area and Yidu Section of Yuyang River of around RMB3.3 billion granted by the local government that generated slight income.

Good track record of receiving government support

The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset injection, and equity transfer. From 2020 to 2022Q3, Yidu City Government injected assets of around RMB5.8 billion into YDSI, such as primary land development rights and concession rights for comprehensive utilization of river sand, which enlarged the Company's capital strength and business scopes. From 2020 to 2022Q3, the Company continued receiving project payments from the local government with a total amount of around RMB1.8 billion. The visibility of the payment mechanism is expected to improve as the Company has signed payment contracts with the government for infrastructure and affordable housing projects. In addition, the Company received subsidies for its public-related activities such as highway operation and water supply, with a total amount of RMB903.4 million. Considering the Company's status as one of the most important SOEs of Yidu City, we expect YDSI will continue receiving support from the local government.

Diversified funding channels including bank loans and bond issuances

The Company has diversified funding channels financing from policy and commercial banks as well as the domestic bond market, which may release the pressure on refinancing and capital expenditure. Bank loans and bonds accounted for most of the total debt. The Company has built long-term and close relationships with different banks such as policy banks, state-owned commercial banks, and city commercial banks including the Agricultural Development Bank of China, Industrial and Commercial Bank of China Limited, and Hubei Bank Corporation Limited. As of 30 September 2022, the available credit facilities from banks amounted to RMB2.7 billion. Yidu Guotop Investment & Development Co., Ltd., the key subsidiary of the Company, has a track record of access to the bond market and has issued various products including corporate bonds, CPs and MTNs. The Company also had manageable exposure to non-standard financing, which accounted for less than 15% of total debt as of 30 September 2022.

ESG Considerations

YDSI is exposed to environmental risks due to undertaking engineering construction and river sand mining. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the start of the projects and close monitoring during the construction phase.

YDSI bears social risks as it plays a crucial role in the development of Yidu City. Demographic changes, public awareness, and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

YDSI's governance considerations are also material as the Company is subject to oversight by Yidu City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

YDSI's senior unsecured debt rating is equal to its long-term credit rating. We believe that government support will flow through the Company given its crucial role in the economic and social development of Yidu City, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

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

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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