

## Credit Opinion

31 May 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> -
Outlook	Stable

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## Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Yinchuan Tonglian Capital Investment Operation Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Yinchuan Tonglian Capital Investment Operation Group Co., Ltd. (“YCTL” or the “Company”) reflects (1) Yinchuan Municipal Government’s very strong capacity to support, and (2) the local government’s high willingness to support, based on our assessment of the Company’s characteristics.

Our assessment of Yinchuan Municipal Government’s capacity to support reflects its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, but constrained by its relatively weak fiscal balance and high debt burden.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in local infrastructure construction projects; (2) sole public utility services provider with high sustainability; and (3) good track record of receiving government payments.

However, the Company’s rating is constrained by its (1) small reserves in public projects and high exposure to commercial activities; (2) mismatched debt structure with large refinancing pressure; and (3) moderate exposure to contingent risk.

The stable outlook on YCTL’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will continue to play an essential role in local infrastructure projects and public service delivery in Yinchuan City.

## Rating Drivers

- Dominant role in local infrastructure construction projects but with small project reserves
- Sole public utility services provider with high sustainability
- High exposure to commercial activities
- Good track record of receiving government payments
- Mismatched debt structure with large refinancing pressure
- Moderate exposure to contingent risk

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Yinchuan Municipal 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 support, such as materially lowers the exposure to risky commercial activities and strengthens funding ability.

### What could downgrade the rating?

The rating could be downgraded if (1) Yinchuan Municipal Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, further weakened funding ability, or decreased government supports.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	48.0	41.2	46.3	47.6
Total Equity (RMB billion)	20.5	21.0	23.3	23.2
Total Revenue (RMB billion)	1.6	1.6	1.2	0.2
Total Debt/Total Capital (%)	49.2	43.7	41.6	42.0

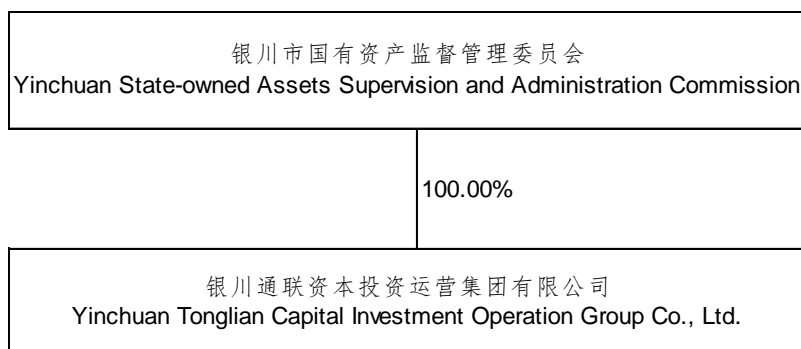
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## Corporate Profile

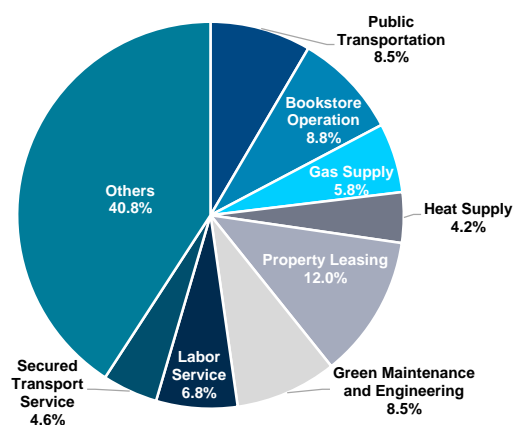
Founded in 2008, YCTL is a local infrastructure investment and financing company ("LIIFC") with the largest total assets in Yinchuan City. The Company plays a dominant role in implementing the local government's blueprint for urban planning and municipal construction. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, public transportation, and gas supply. Meanwhile, the Company has commercial operations, fixed assets operation, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, as well as financial services. As of 31 March 2023, the Company was direct and wholly owned by the State-owned Assets Supervision and Administration Commission of Yinchuan City ("Yinchuan SASAC").

### Exhibit 1. Shareholding chart as of 31 March 2023



Source: Company information, CCXAP research

## Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe Yinchuan Municipal Government has very strong capacity to provide support given its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, however, constrained by its relatively weak fiscal balance and high debt burden.

Yinchuan City acts as the main contributor to the economic development of Ningxia Hui Autonomous Region, which is an important central city in Northwest China approved by the State Council and a window for China to open-up to the west. Yinchuan City focuses on developing high-end equipment manufacturing, new materials, logistics, new energy vehicles, and life & health industries. In 2022, Yinchuan City's total Gross Regional Product ("GRP") increased by 4.0% year-over-year ("YoY") to RMB253.6 billion, ranking 1<sup>st</sup> in terms of GRP among prefecture-level cities in Ningxia Hui Autonomous Region. However, it showed a lower ranking as compared to other capital cities. Yinchuan City had a good revenue structure, reporting general budgetary revenue of RMB17.5 billion with 16.6% YoY increase, of which tax revenue accounted for 70.9% of general budgetary revenue. Yinchuan City's GRP and general budgetary revenue contributed for 50% and 38% to that of Ningxia Hui Autonomous Region. However, its performance was constrained by weak fiscal self-sufficiency as the general budgetary revenue could only cover 52.5% of the general budgetary expense. Moreover, Yinchuan City reported an outstanding government debt of RMB63.0 billion as of 31 December 2022, accounting for 24.8% of its GRP and indicating a relatively high debt pressure.

**Exhibit 3. Key economic and fiscal indicators of Yinchuan City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	196.4	229.6	253.6
GRP Growth (%)	3.2	6.4	4.0
General Budgetary Revenue (RMB billion)	13.7	14.6	17.5
General Budgetary Expenditure (RMB billion)	30.5	26.8	33.3
Local Government Debt (RMB billion)	61.0	60.8	63.0

Source: Statistics Bureau of Yinchuan City, CCXAP research

**Government's Willingness to Provide Support****Dominant role in local infrastructure construction projects but with small project reserves**

YCTL is the largest LIIFC in Yinchuan City in terms of asset size as of year-end 2022 and the most primary government-authorized infrastructure constructor in the region. According to Yinchuan Municipal Government's restructuring plan of "2+7+2+N" for state-owned enterprises in Yinchuan City, the Company acts as one of the two most important platforms to promote local social and economic development.

YCTL is primarily responsible for the infrastructure construction projects such as construction of municipal roads, affordable housing projects, water facilities, and educational institutions. The Company engages in the business through entrusted construction model, which signs an entrusted construction agreement with the government before each project is developed, and transfers the project ownership to the government or related parties after the project is completed. The government will pay the total cost plus a few percentage markups after examining the projects. As of 31 March 2023, the total investment and scheduled government payment of YCTL's completed projects amounted to approximately RMB9.0 billion and RMB12.0 billion, respectively. Meanwhile, there were few project reserves because of the Company's business restructuring, showing a relatively weak sustainability of YCTL's infrastructure construction business.

The Company also engages in engineering construction with relevant qualifications. Most projects of this business are municipal engineering projects and generally complete construction in a short period, including road maintenance, lighting improvement, as well as street light installation. The Company generally acquires these municipal engineering projects through public bidding or designation by government departments. However, these projects were relatively small-scale with a short construction period. From January 2022 to March 2023, the Company completed more than 20 projects, with total contract amounts and project payments of RMB36.8 million and RMB12.3 million.

**Sole public utility services provider with high sustainability**

YCTL is the sole public transportation operator in Yinchuan City, covering the downtown area of Yinchuan City and nearby counties including Helan County and Yongning County, representing approximately 60% of the urban public passenger transportation (buses, vans, and taxis) in the region. As of 31 March 2023, the Company had 2,324 public vehicles operating in 198 routes, with a total length of routes amounting to 3,606.5 kilometers. However, the Company has recorded large losses from the public transportation business due to its public welfare nature and has received government subsidies to make up for the losses. Yinchuan Municipal Government subsidizes the Company for the bus operation, with nearly RMB1.5 billion from 2020 to the first quarter of 2023.

The Company also offers a comprehensive set of gas supply services in Yinchuan City, providing bottled liquefied petroleum gas for the residents in Yinchuan City and some of the urban catering industry, and

compressed natural gas (CNG) mainly for car refilling. Additionally, the Company engages in heat supply in some residential communities such as Tanglai, Hubin, Yinhu, and Xihuan with a heating area of more than 2 million square meters. The Company transports the hot steam to the self-built heat exchange station of each residential community through the heating pipe network. The communities subsequently convert the hot steam through their heat exchange stations and transport it to the residents in the community.

In addition, YCTL holds 3 major public utilities in the form of equity investment covering gas supply, heat supply, as well as water supply. We believe that the Company's business scale will further enlarge and the replacement cost for the Company's role is high as these public services are essential for the residents.

### **High exposure to commercial activities**

YCTL's major commercial activities include fixed assets operation, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, and financial services. We estimate the Company's risk exposure to commercial business is relatively high, accounting for more than 30% of total assets as of 31 December 2022.

YCTL leases multiple residential and commercial investment properties to the government departments, schools, and merchants. In 2022, Yinchuan SASAC transferred affordable houses, supporting storage rooms and underground garages to the Company, which is expected to further enrich its leasable assets. As of 31 March 2023, the Company owned 12 key properties through acquisition or self-construction, with a total leasable area of 501.4 thousand square meters and average occupancy rate of more than 94%. Yinchuan Greenland Center North Tower is the key commercial project located in the center of Yuehai Bay CBD under construction, with a total investment of RMB2.0 billion and uninvested amount of RMB640 million, respectively. The project's fund balancing is expected to achieve through selling and leasing, which may have higher uncertainty in future income as compared to the return of projects under agency construction model. Also, the completion time of the project is still uncertain, which is highly dependent on the operating condition of its construction party, Greenland Holdings Corporation Limited.

YCTL's subsidiary conducts property development business, which mainly includes commodity housing projects and resettlement housing projects. However, the revenue generated from property sales suffered a significant drop after the major subsidiary who participating in the property development business was not consolidated in 2022. As of 31 March 2023, the Company had 1 key property development project under construction, with total investment amount of RMB591 million. During the downturn in China's property market, this project's follow-up may suffer from high volatility due to uncertainty of construction and sales progress.

YCTL undergoes industrial investment in the forms of direct equity investment, fund investment, and lending to promote local industrial development. However, the return of these investments contains investment risk because it highly depends on the operational and financial performance of the investee. Moreover, the Company takes part in the lending business and has contributed a certain degree of income in past years, providing financial support to other state-owned enterprises and private-owned enterprises. The lending business makes it bear certain risk exposure to private-owned enterprises, which have higher operation risk during market downturns. Until now, several clients have also been involved in legal disputes and ran into financial distress that have relatively high collection risk.

Additionally, the Company participates in diversified business operations such as commodity sales, bookstore operation, cultural tourism, secured transport service, and operation of parking lots, providing supplementary income to the Company. However, these businesses are purely market-oriented operations, which may exert

larger uncertainties on the Company's operation. Overall, we expect that YCTL's commercial activities will continue to expand instead of concentrating on public-policy projects due to the Company's business restructuring plans guided by the local government.

### Good track record of receiving government payments

YCTL has received strong support from Yinchuan Municipal Government, including subsidies, capital injections, asset injections and government payments for previous construction projects. From 2020 to 2023Q1, the local government injected cash, operating assets, and gratuitously transferred share of several companies to the Company, driving the capital reserves increased to RMB5.4 billion as of 31 March 2023 from RMB3.2 billion as of 31 December 2020 while the paid-in capital increased to RMB16.2 billion from RMB15.7 billion. Meanwhile, the Company has received different types of government subsidies of approximately RMB2.2 billion.

Benefiting from Yinchuan Municipal Government's continuous support, the Company enhanced its operating and capital strength. YCTL has received government direct payments of RMB21 million over the past three years, however, it is expected to further drop in the future due to the limited infrastructure projects under the agency construction model. The government's propensity to support would become lower after the Company's business restructuring, since it is generally more difficult to support debt associated with commercial activities than that associated with public-policy businesses.

Nevertheless, taking into account the Company's strong public policy role with stable business development in providing public service, we expect the Company will continue to receive government support over the next 12 to 18 months. The local government is scheduling to increase asset injections such as high-value operating state-owned assets, concession rights for public utility, as well as land use rights.

#### Exhibit 4. Government supports from 2019 to 2022H1

(RMB million)	2020FY	2021FY	2022FY	2023Q1
Capital Injections	1,556	622	5,753	80
- Cash	608	-	750	80
- Assets	948	622	5,003	-
Government Subsidies	945	393	852	-
Government Payments	-	16	5	-
<b>Total</b>	<b>2,501</b>	<b>1,031</b>	<b>6,610</b>	<b>80</b>

Source: Company information, CCXAP Research

### Mismatched debt structure with large refinancing pressure

YCTL's total debt decreased from RMB19.8 billion at the end-2020 to RMB16.8 billion at 2023Q1, while its total capitalization ratio decreased from 49.2% to 42.0%, showing a downward trend of debt leverage. However, the Company had an unbalanced debt structure in which short-term debt accounted for more than 50% of its total debt as of 31 March 2023. Meanwhile, the cash or cash equivalent of the Company was RMB870 million which could only cover around 10% of short-term debt.

YCTL had a relatively weak liquidity profile with large refinancing pressure in 2023. As of 31 March 2023, the Company reported more than RMB7.1 billion in outstanding debts due within 2023 in the public bond markets, including onshore and offshore debt capital markets. Under the deteriorated financing condition of China's northwestern cities including Yinchuan City, the Company's financing ability has become weak as compared to

previous years. Therefore, there is still unclear in YCTL's refinancing process from capital market in the short to medium term.

We believe the Company's sufficient bank facilities could partially mitigate the refinancing risk. YCTL maintains close relationships with nationwide joint-stock commercial banks and policy banks in China such as China CITIC Bank and China Development Bank. As of 31 March 2023, the total credit facilities and the available credit facilities from banks amounted to RMB21.8 billion and RMB11.8 billion, respectively.

Considering the YCTL's dominant role as the largest platform to participate in state-owned asset operations and providing essential public services in Yinchuan City, we expect the Company to maintain fair access to funding and retain relatively good refinancing capabilities. We also believe Yinchuan Municipal Government will have high incentive to provide direct and timely financial support, in case any credit events occur. We will keep following the Company's repayment process and the recovery of refinancing ability.

### **Moderate exposure to contingent risk**

The Company bears moderate exposure to contingent risk given its relatively large number of external guarantees. As of 31 March 2023, YCTL's outstanding amount of external guarantees was RMB2.7 billion, accounting for 11.7% of its net assets. The external guarantees are all provided to state-owned enterprises but some entities are involved in multiple litigation disputes, with higher operating risk. If a credit event occurs, the Company may face certain contingent risks, which could inversely impact its reputation, operations, and financial conditions. Overall, we believe that the contingent risk of the external guarantee is moderately controllable, considering the state-owned enterprises' important strategic position in their respective regions with the local government's support in a timely manner.

### **ESG Considerations**

YCTL faces environmental risks because it has undertaken infrastructure construction projects and property projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

YCTL bears social risks as it implements public policy initiatives by providing essential public services in Yinchuan 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.

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

### **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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