

Credit Opinion

26 July 2023

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

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Yizheng City State-owned Assets Investment Development (Group) Co., Ltd.

Initial credit rating report

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.

Summary

The BBB_g long-term credit rating of Yizheng City State-owned Assets Investment Development (Group) Co., Ltd (“YSAI” or the “Company”) 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.

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.

Rating Drivers

- Key role in infrastructure construction in Yizheng City
- Good track record of receiving government support
- Diversified funding channels, with high reliance on non-standard financing
- High debt leverage due to reliance on external financing
- Relatively weak asset liquidity
- High exposure to external guarantees, with manageable contingent liabilities risk

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) 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.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	48.4	51.7	56.1
Total Equity (RMB billion)	17.4	17.3	17.9
Total Revenue (RMB billion)	2.4	2.5	2.1
Total Debt/Total Capital (%)	56.1	61.1	62.8

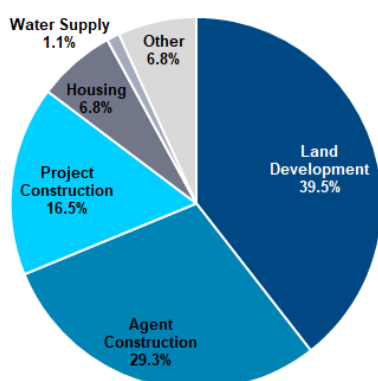
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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.

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding and organization chart as of 31 December 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Yizheng City Government has a strong capacity to provide support, given its status in Yangzhou City, ongoing economic growth and good fiscal stability.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional products ("GRP"), after Guangdong Province. In 2022, the GRP of Jiangsu Province was RMB12.3 trillion, and its GRP growth rate was 2.8%. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB925.9 billion in 2022 from RMB1 trillion in 2021, with tax revenue accounting for 73.5% of its general public budget revenue. With the relief of pandemic measures and recovery of economic development, we expect that Jiangsu's economy will recover steadily as supported by its strong integrated strength.

Yangzhou City is a prefecture-level city administrated under Jiangsu Province. Yangzhou City is in the middle of Jiangsu Province, As the hub city of the Yangtze River and the Beijing-Hangzhou Grand Canal, Yangzhou City has a significant location advantage. It was an important salt and grain distribution center in history, and is now the water source of the South-to-North Water Diversion Project. The location advantage of Yangzhou City helps support its rapid economic growth. In recent years, Yangzhou has developed manufacturing and modern service industries, optimized the agricultural structure, promoted the transformation and upgrading of the

manufacturing industry, and expanded strategic emerging industries, such as new light sources, new energy, high-end manufacturing, biotechnology and new medicine, and new generation information technology. Benefiting from its good location advantages and optimized industrial structure, Yangzhou's GRP reached over RMB710.5 billion in 2022, ranking medium level in Jiangsu Province. Despite the impact of the COVID-19 pandemic, Yangzhou was still able to maintain a good economic growth rate of 4.3% in 2022. In 2022, Yangzhou reported a general budgetary revenue of RMB32.5 billion. Tax income accounted for 73.2% of its fiscal revenue, representing a relatively good fiscal stability. However, recent fluctuations in the real estate market may affect its fiscal stability as government funds accounted for around 60% of its fiscal revenue, which mainly came from land sales. The high correlation between its fiscal revenue and the property market would be a credit negative because this may increase the government's fiscal pressure when the property market underperforms. At the end of 2022, Yangzhou's local government debt balance was RMB110.5 billion, accounting for 15.7% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Yangzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	604.8	669.6	710.5
GRP Growth (%)	3.5	7.4	4.3
General Budgetary Revenue (RMB billion)	33.7	34.4	32.5
General Budgetary Expenditure (RMB billion)	66.8	68.5	69.9
Local Government Debt (RMB billion)	90.6	97.8	110.5

Source: Statistics Bureau of Yangzhou City, CCXAP research

Yizheng City is a county-level city under the administration of Yangzhou City, with a total area of 857 square kilometers. Yizheng City is located between Nanjing and Yangzhou, benefiting from development policies of both two cities. It has developed pillar industries such as automobiles, new materials and petrochemical, forming solid foundation for economic development. Yizheng City has demonstrated ongoing economic growth. Its GRP increased from RMB81.5 billion in 2020 to RMB100.3 billion in 2022, ranking fourth among the districts/counties in Yangzhou City. Affected by the tax refund policy, its general public budget revenue decreased from RMB4.8 billion in 2021 to RMB4.7 billion in 2022, ranking second among the districts/counties in Yangzhou City. Yizheng City has good fiscal stability, with tax revenue accounting for 80.5% of its general public budget revenue on average over the past three years. In addition, the Yizheng City Government has outstanding government debt of RMB14.6 billion at end-2022, accounting for 14.6% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Yizheng City

	2020FY	2021FY	2022FY
GRP (RMB billion)	81.5	91.1	100.3
GRP Growth (%)	3.4	7.6	4.6
General Budgetary Revenue (RMB billion)	4.8	4.8	4.7
General Budgetary Expenditure (RMB billion)	6.9	7.1	7.2
Local Government Debt (RMB billion)	14.1	14.3	14.6

Source: Statistics Bureau of Yizheng City, CCXAP research

Government's Willingness to Provide Support

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. Yangzhou New Material Investment Group Co., Ltd is responsible for the infrastructure construction in the Yizheng ETDZ and Yangzhou Chemical Industrial Park, while Yangzi Culture and Tourism Holding Group Co., Ltd, is mainly responsible for the infrastructure construction in Zaolinwan Area and Yangzhou (Yizheng) Automobile Industrial Park in Yizheng City. 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.

Commissioned by the local government or local state-owned enterprises, YSAI has undertaken primary land development projects in Yizheng City by self-raised funds, involving demolition, land levelling, and related supporting infrastructure construction. After the completion of construction, the Company will receive a return based on the construction costs plus a certain amount of markup. As 31 December 2022, the Company had invested RMB4.4 billion into the completed land project in Xincheng Town and the constructing land project in Binjiang New City, receiving government payment of RMB5.2 billion in total. With no primary land development projects under planning, the primary land development business is subject to uncertainty, and susceptible to local land policies and market condition.

YSAI is entrusted to undertake agency construction projects by self-raised funds, including transportation infrastructure and water infrastructure. After the completion of construction, the projects will be transferred to the entrusting parties, and the Company will receive a return based on the construction costs plus a certain amount of markup. As of 31 December 2022, the Company's 7 major agency construction projects under construction or planning required total estimated investment of RMB4.2 billion, with uninvested amount of RMB3.8 billion. Given large amount construction projects in the pipeline, we believe the agency construction business is highly sustainable.

YSAI operates water supply business through its subsidiary, Yizheng Shuida Water Supply Co., Ltd., which mainly provides water supply service in various towns and Yangzhou (Yizheng) Automobile Industrial Park in Yizheng City, serving around 220,000 citizens in the region. The Company also operates passenger transport business through its subsidiary Yizheng Automobile Passenger Transport Co., Ltd., which provides public transport and long-distance passenger transport services in Yizheng City. Due to the public welfare nature of water supply and transportation services, the Company regularly receives subsidies from the local government to support its operations.

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.

The Company's commercial property development business is operated by its subsidiaries, which carry out residential and commercial property projects in Yizheng City. The future capital needs for the projects under construction are limited and there is no project under planning. At end-2022, the Company had only two residential property projects and one commercial real estate project under construction, with total estimated investment of RMB3.1 billion and uninvested amount of RMB1.2 billion. In 2021 and 2022, the Company achieved total sales of about RMB350 million from the residential projects under construction. We expect that with the ongoing sale of the constructing projects, the commercial property development will continue to provide supplemental income to the Company for the next 2 to 3 years. Despite the slowdown of the property market, we believe that the business risk for commercial property development is relatively manageable, considering its small business scale and limited future capital needs.

The Company is also engaged in security service, building materials trading, property leasing, and guarantee businesses. However, the income scale of these businesses is small and does not contribute much to the Company's revenue and gross profit. Given that the Company plans to further diversify its commercial businesses into civil air defense parking and electronic charging, we expect its exposure to commercial activities will gradually increase in the next two to three years.

Good track record of receiving government support

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. From 2020 to 2022, the Company had totally received operating subsidies of RMB1.7 billion and special bond funds of RMB800 million. In addition, the Company's capital strength has been enhanced by the capital injections and asset transfers. From 2021 to 2022, the local government had transferred assets, mostly housing properties, and injected paid-in capital into the Company, increasing its capital by more than RMB800 million. 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.

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%. In addition, the Company has a high short-term debt servicing pressure. As of 31 December 2022, its short-term debt accounted for about 47.2% of total debt, indicating that its debt maturity structure needs to be improved. 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.

Diversified funding channels, with high reliance on non-standard financing

YSAI had diversified funding channels including bank loans and capital markets. The Company has a sufficient approved line of credit from diversified commercial and policy banks, such as China Construction Bank, Agricultural Development Bank, and China Development Bank. As of 31 December 2022, it had obtained total credit facilities of RMB29.2 billion, with available credit facilities of RMB9.9 billion. The Company also has good track record of fund-raising activities in bond market. From 2020 to mid-2023, the Company had issued various bond products such as PPNs, corporate bonds, and USD bonds via its subsidiaries, raising about RMB8.6 billion and USD50 million. However, the Company has high reliance on non-standard financing, accounting for 49.3% of total debt at end-2022, which may increase its refinancing risk.

High exposure to external guarantees, with manageable contingent liabilities risk

YSAI has a large number of external guarantees that may increase its repayment obligations. As of 31 December 2022, the Company had outstanding external guarantees of RMB12.4 billion, accounting for 69.2% of its net assets. Nevertheless, given that the counterparties of external guarantees are all local state-owned enterprises with low credit risks, we believe that the contingent liabilities risk of the Company is manageable.

ESG Considerations

YSAI faces environmental risks because it has undertaken primary land development and property development 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.

YSAI bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in Yizheng 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.

YSAI's governance considerations are also material as the Company is subject to oversight by the Yizheng City 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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