

Credit Opinion

25 January 2024

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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Yueyang Tianfu City Development Group Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g long-term credit rating of Yueyang Tianfu City Development Group Co., Ltd. (“YTCD” 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. In addition, Nanhu New Area is the first provincial tourism new area approved by the Hunan Provincial Government.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) ultimate control by Yueyang Municipal Government; (2) monopoly position in infrastructure construction and important role in tourism operation of Nanhu New Area; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with moderate commercial risks; and (2) moderate debt growth and weak asset liquidity.

The stable outlook on YTCD’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 infrastructure construction of Nanhu New Area.

Rating Drivers

- Monopoly position in infrastructure construction of Nanhu New Area
- Low exposure to commercial activities, with moderate commercial risks
- Good track of receiving government support
- Moderate debt growth and weak asset liquidity
- Access to funding from banks and bond market

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as strengthened regional significance or reduction in the exposure to commercial activities.

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 weakened access to funding.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	14.8	15.0	16.2	17.3
Total Equity (RMB billion)	7.3	7.6	7.8	7.9
Total Revenue (RMB billion)	2.6	2.8	2.8	1.9
Total Debt/Total Capital (%)	49.1	46.5	49.7	51.3

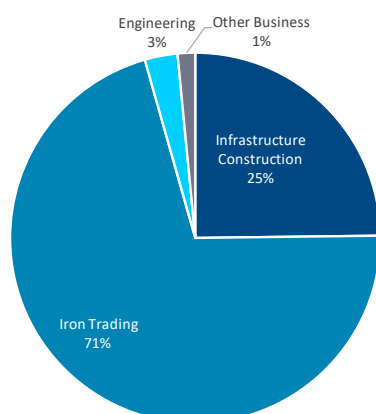
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 2014, YTCD is the sole local infrastructure investment and financing company ("LIIFC") in Nanhu New Area of Yueyang City. The Company is mainly engaged in infrastructure construction in Nanhu New Area. It has also participated in commercial activities such as engineering construction, cultural and tourism operation, and trading. As of 30 September 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Yueyang City.

Exhibit 1. Revenue Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Yueyang Municipal Government has very strong capacity to provide support, given its economic importance in Hunan Province with its economic and fiscal strengths continuing to grow.

Located in the central part of China, Hunan Province is one of the important cradles of Chinese civilization and it is also an important grain production base. In 2022, the gross regional product ("GRP") of Hunan Province was RMB4.9 trillion, ranking 9th among all provinces in China. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB310.2 billion in 2022 from RMB325.1 billion in 2021, with tax revenue accounting for 64.6% of its general public budget revenue. In the first half year of 2023, the GRP of Hunan Province was RMB2.4 trillion, with a YoY growth rate of 3.6%. At the same time, general public budget revenue of Hunan Province achieved RMB176.8 billion, with a YoY growth rate of 11.2%.

Located in the northeastern part of Hunan Province, Yueyang City is a node city in the national Yangtze River Economic Belt and an urban agglomeration in the middle reaches of the Yangtze River. It has superior location advantages and convenient transportation. It is also an international shipping center and the largest international container port and direct shipping port in Hunan Province. Yueyang City is an important petrochemical, papermaking, and electric power energy base. Benefiting from its good location advantages and optimized industrial structure, Yueyang City's GRP increased from RMB400.2 billion in 2020 to RMB471.1 billion in 2022, ranking second after Changsha City among prefecture-level cities in Hunan Province. In the first half of 2023, its GRP continued to increase by 4.4% year-on-year ("YoY") to RMB223.1 billion. As the economy continues to grow, the general budgetary revenue of Yueyang City has also increased from RMB15.3 billion in 2020 to RMB18.5 billion in 2022. However, Yueyang Municipal Government has weak fiscal self-sufficiency, as reflected by its average fiscal balance ratio of around 30% over the past three years. Therefore, it relies heavily on higher-tier government transfer payments and local land sales. At the end of 2022, Yueyang City's local government debt balance was RMB92.3 billion, accounting for 19.6% of GRP. In the first half year of 2023, the GRP of Yueyang City was RMB223.1 billion, with a YoY growth rate of 4.4%. At the same time, general public budget revenue of Yueyang City achieved RMB10.1 billion, with a YoY growth rate of 8.9%.

Exhibit 2. Key Economic and fiscal indicators of Yueyang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	400.2	440.3	471.1

GRP Growth (%)	4.2	8.1	5.4
General Budgetary Revenue (RMB billion)	15.3	17.1	18.5
General Budgetary Expenditure (RMB billion)	53.9	54.8	55.7
Local Government Debt (RMB billion)	67.7	79.5	92.3

Source: Statistics Bureau of Yueyang City, CCXAP research

Nanhu New Area, located in Yueyang City, is the first provincial tourism new area approved by the Hunan Provincial People's Government in 1992. Nanhu New Area is located in the south of Yueyang City, west of the Dongtinghu, east of the Beijing-Zhuhai Expressway, north of the central city. In the first half year of 2023, the GRP of Nanhu New Area was RMB7.2 billion, with a YoY growth rate of 5.0%. With the sound recovery of tourism after pandemic, general public budget revenue of Nanhu New Area achieved RMB339.0 million billion in 2022, with a YoY growth rate of 27.9%.

Government's Willingness to Provide Support Monopoly position in infrastructure construction of Nanhu New Area

YTCD is the sole LIIFC in Nanhu New Area, conducting infrastructure construction projects in the region through the Company itself and its subsidiaries. It is also one of the key infrastructure construction entities in Yueyang City responsible for key infrastructure construction projects in Nanhu New Area. Since its establishment, the Company has completed large amount of infrastructure projects, making great contributions to the economic and social development of Nanhu New Area. Considering that YTCD owns the most state-owned assets in Nanhu New Area, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

The Company undertakes infrastructure construction projects under agent construction model. The Company enters into agent construction agreements with Yueyang Housing and Urban Construction Bureau, receiving 20% markup based on total investment amount after project completion. The Company has large amount of construction projects in the pipeline, ensuring high sustainability of public policy business, but exerting high capital expenditure pressure. As of 30 September 2023, the Company had 9 infrastructure projects under construction, with a total planned investment of RMB5.2 billion and uninvested amount of RMB3.0 billion.

Low exposure to commercial activities, with moderate commercial risks

In addition to public activities, YTCD is also engaged in commercial businesses, mainly including trading, cultural and tourism operation, and engineering construction businesses. At present, the Company's exposure to commercial businesses is low, accounting for less than 10% of its total assets. However, the cultural and tourism projects exert capital expenditure pressure to the Company.

The Company's trading business is conducted via its subsidiary under demand-driven model, mainly involving trading of steels. There is a short-term gap between the settlement with suppliers and with customers, causing certain capital occupation to the Company. Trading business has relatively high concentration risk, with top five suppliers accounting for 69.0% of total purchase and top five customers accounting for 74.0% of total sales in 2022. In 2022, revenue from trading business was RMB1.9 billion, but with low profit margin of 1.2%.

YTCD's cultural and tourism operation business involves providing tour bus, wedding, promotional video, and music festival services in Dongting Lake Tourist Resort. In recent years, revenue generated from the Company's tourism operation business has been growing, but the scale is relatively small and gross profit margin is still negative. In addition, the Company also has undertaken some self-operated cultural and tourism projects by

self-raised funds and achieves financial balance through scenic spot tickets and operating income from supporting projects after project completion. However, it is noteworthy that the self-operated projects are greatly influenced by operation situations, which may cause uncertainty to their financial balance.

The Company newly engaged in engineering construction in 2022. As of 30 September 2023, the Company had completed 4 projects, with a total revenue of RMB110.1 million and repayment amount of RMB119.7 billion. Engineering construction business has relatively low risk, as most of projects are public projects. Revenue from engineering construction business was RMB78.7 million in 2022.

Good track of receiving government support

YTCD has regularly received support from the local government in the form of asset transfer, operating subsidies and project payments. Nanhu New Area Management Committee transferred land assets of RMB1.5 billion to the Company in 2016. From 2018 to 2019, the Company received capital injection of RMB4.4 billion. Besides, from 2020 to 2023Q3, the Company totally received government subsidies of about RMB638.3 million. Furthermore, the Company also regularly receives project payments for the completed infrastructure projects from the local government, with RMB4.6 billion as of 30 September 2023. Given its key role in the infrastructure construction of Nanhu New Area, we believe that the local government will continue to provide support to the Company.

Moderate debt growth and weak asset liquidity

YTCD has moderate debt growth over the past three years. The Company's total debt had increased from RMB7.1 billion at end-2020 to RMB8.3 billion at end-2023Q3, with total capitalization ratio of 51.3%. The increase in debt is mainly attributable to the ongoing external financing for the infrastructure construction projects. In addition, as of 30 September 2023, the Company's short-term debt accounted for about 24.6% of total debt, indicating relatively reasonable debt structure. Given large numbers of projects under pipeline and their large capital expenditure pressure, we expect the Company's debt burden will continue to grow in the next 12 to 18 months.

YTCD's asset liquidity is weak, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, and receivables, all with relatively low liquidity. The inventories are land assets and development costs from construction projects, while the receivables mainly consist of uncollected payments from the local government and other state-owned enterprises, totally accounting for about 83.1% of total asset as of 30 September 2023. However, the Company has certain amount of cash reserves to support its daily operations and debt repayment. As of 30 September 2023, its cash reserves amounted to RMB1.2 billion, accounting for about 6.9% of total asset.

Access to funding from banks and bond market

YTCD mainly relies on bank loans and bond issuance for funding. The Company has an approved line of credit from both commercial banks and policy banks, such as Bank of Communications and Agricultural Development Bank of China. As of 30 September 2023, it had obtained total credit facilities of RMB8.7 billion, with available credit facilities of RMB235.0 million. The Company also has access to bond market via its subsidiary Yueyang Nanhu City Construction and Investment Co., Ltd., which raised RMB1.6 billion on onshore bond market in 2023. In addition, YTCD has low exposure to non-standard financing, which accounted for less than 10% of its total debts at end-2023Q3.

ESG Considerations

YTCD faces environmental risks because it has undertaken infrastructure construction and engineering 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.

YTCD bears social risks as it implements public policy initiatives by undertaking infrastructure construction and land development in Nanhu New Area of Yueyang 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.

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

Structural Consideration

YTCD's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in infrastructure construction of Nanhu New Area, 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 \(July 2022\)](#).

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