

Credit Opinion

31 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 |

Analyst Contacts

Olivia Feng +852-2860 7133

Senior Credit Analyst

olivia_feng@ccxap.com

Jonathan Kwong +852-2860 7132

Credit Analyst

jonathan_kwong@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Yibin Nanxi Urban and Transportation Construction Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Yibin Nanxi Urban and Transportation Construction Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Yibin Nanxi Urban and Transportation Construction Group Co., Ltd. (“YNUT” or the “Company”) reflects Nanxi District 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 Nanxi District Government’s capacity to provide support reflects that Nanxi District has rich mineral resources, with fast-growing fiscal income, but is constrained by its small economic scale.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important status as the major infrastructure construction and public transportation operation entity in Nanxi District; (2) reasonable debt leverage; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) low but increasing exposure to commercial activities; (2) limited financing flexibility and relatively high financing cost; and (3) moderate asset liquidity.

The stable outlook on YNUT’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its importance in the development of Nanxi District.

Rating Drivers

- Major infrastructure construction and public transportation operation entity in Nanxi District
- Good track record of receiving government support
- Limited financing flexibility and relatively high financing cost
- Low but increasing exposure to commercial activities
- Reasonable debt leverage
- Moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Nanxi District Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved funding ability.

What could downgrade the rating?

The rating could be downgraded if (1) Nanxi District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decreased government support.

Key Indicators

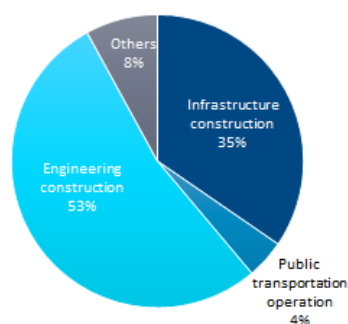
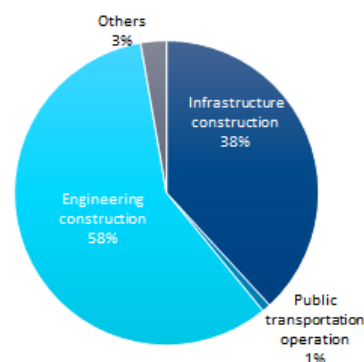
| | 2020FY | 2021FY | 2022FY | 2023H1 |
|------------------------------|--------|--------|--------|--------|
| Total Asset (RMB billion) | 11.1 | 11.8 | 20.4 | 22.3 |
| Total Equity (RMB billion) | 7.9 | 8.4 | 12.4 | 12.9 |
| Total Revenue (RMB billion) | 0.7 | 0.5 | 0.7 | 0.4 |
| Total Debt/Total Capital (%) | 17.2 | 14.2 | 17.8 | 19.7 |

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2018 and formerly known as Sichuan Yibin Yishuo Mineral Resources Co., Ltd. After the consolidation of other local state-owned enterprises in Nanxi District, YNUT has become an important urban infrastructure construction and public transportation operation entity in Nanxi District. It is primarily engaged in infrastructure construction and public transportation operations in Nanxi District. It also undertakes commercial activities such as the construction of self-operating projects, sandstone trading, and engineering construction. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision, Administration and Financial Bureau of Nanxi District, Yibin City ("Nanxi SASAFB").

Exhibit 1. Revenue Structure in 2022**Exhibit 2. Gross Profit Structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Nanxi District Government has a strong capacity to provide support for the Company given that it has rich mineral resources, with fast-growing fiscal income, but is constrained by its small economic scale.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year-on-year ("YoY"), ranking 6th in terms of GRP among all provinces in China. In 2022, its general budgetary revenue increased to RMB488.2 billion, up by 2.3% YoY. In 2023, Sichuan's GRP was RMB6.0 trillion, a YoY increase of 6.0%.

Yibin City is a prefecture-level city in Sichuan Province, with a total area of 13,283 square kilometers. It is an important node city in the Belt and Road" and the Yangtze River Economic Belt. Yibin City has a well-developed agricultural foundation and is a major agricultural city in Sichuan Province. It has formed a "5+2" pillar industry, such as winemaking, bamboo, tea, silkworm, oil camphor, pig industry and aquaculture. In 2022, Yibin City achieved a GRP of RMB342.8 billion, ranking 3rd among all prefecture-level cities in Sichuan Province, with a GRP growth rate of 4.5%. Its general budgetary revenue increased from 20.0 billion in 2020 to RMB27.6 billion in 2022. However, its government fund revenue decreased from RMB25.6 billion in 2020 to RMB20.8 billion in 2022 due to the property market downturn and land sales fluctuations. Yibin City has relatively weak fiscal self-sufficiency, with a fiscal balance ratio of 45.2% in 2022. Yibin Municipal Government has an increasing debt burden, the government debt was RMB90.4 billion in 2022, representing 26.4% of its GRP. In 2023, Yibin City recorded a GRP of RMB380.7 billion, with a YoY increase of 7.5%; while its general budgetary revenue increased to RMB31.4 billion, with a YoY increase of 13.8%.

Exhibit 3. Key economic and fiscal indicators of Yibin City

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 280.2 | 314.8 | 342.8 |
| GRP Growth (%) | 4.6 | 8.9 | 4.5 |
| General Budgetary Revenue (RMB billion) | 20.0 | 25.1 | 27.6 |
| General Budgetary Expenditure (RMB billion) | 55.6 | 56.4 | 61.0 |
| Local Government Debt (RMB billion) | 57.9 | 74.2 | 90.3 |

Source: Statistic Bureau of Yibin City, CCXAP research

Nanxi District is under the jurisdiction of Yibin City, with a total area of 704 square kilometers. It has rich mineral resources such as coal, limestone, shale, and sandstone. Currently, Nanxi District is constructing major transportation projects such as the Southern Sichuan Intercity Railway, Chongqing-Kunming High-speed Railway, and Inner-South Expressway. After the high-speed railway is completed, Nanxi District will be within the one-hour traffic circle of Chengdu and Chongqing. Relying on its pillar industries, such as power battery accessories, wine and food, medical care and medical equipment, Nanxi District has continued to develop in recent years. Nanxi District's GRP increased from RMB19.2 billion in 2020 to RMB22.4 billion in 2022, with a GRP growth rate of 2.4%, ranking 3rd among 10 districts/counties in Yibin City. Nanxi District has a small but growing fiscal income, Nanxi District Government's general budgetary revenue increased from RMB1.2 billion in 2020 to RMB1.6 billion in 2022, of which tax revenue accounted for 43.9% in 2022. Its government fund revenue increased from RMB1.9 billion in 2020 to RMB2.5 billion in 2022. However, Nanxi District has a moderate fiscal self-sufficiency, its fiscal balance ratio was lower than 40% over the past three years. Nanxi District has a heavy debt burden. At end-2022, Nanxi District's outstanding government debt was RMB11.7 billion, accounting for 52.2% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Nanxi District

| | 2020FY | 2021FY | 2022FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 19.2 | 21.2 | 22.4 |
| GRP Growth (%) | 3.9 | 8.5 | 2.4 |
| General Budgetary Revenue (RMB billion) | 1.2 | 1.4 | 1.6 |
| General Budgetary Expenditure (RMB billion) | 4.4 | 4.4 | 4.2 |
| Local Government Debt (RMB billion) | 6.2 | 10.6 | 11.7 |

Source: Statistic Bureau of Nanxi District, CCXAP research

Government's Willingness to Provide Support**Major infrastructure construction and public transportation operation entity in Nanxi District**

There are two major Local Infrastructure Investment and Financing Companies ("LIIFCs") in Nanxi District, namely Yibin Nanxi State-owned Assets Management Group Co., Ltd. ("YNAM"), and YNUT. YNAM is mainly responsible for asset management, capital operation, and industrial investment in Nanxi District. The Company is mainly responsible for the infrastructure construction and public transportation operation in Nanxi District.

YNUT undertakes infrastructure construction projects such as resettlement housing, and roads mainly with self-raised funds. The Company conducts infrastructure projects by signing agency construction agreements with the entrusted parties, which would repay the Company based on the construction progress. The repurchase payment is calculated based on the construction cost plus an agreed return. Affected by the progress of the

project and settlement, as of 30 June 2023, the Company had completed projects with a total investment of RMB2.2 billion, recognizing revenue of RMB9.9 million, and had received a repayment of RMB5.6 million. As of 30 June 2023, the Company had 7 major infrastructure construction projects under construction or planning, with a total planned investment amount of RMB1.9 billion and an outstanding amount of RMB1.2 billion, which ensures the sustainability of the business, but exerts large capital expenditure pressure to Company.

After the consolidation of Yibin Nanxi District Hengtong Transportation Investment Co., Ltd. (“Hengtong Transportation”), the Company is also responsible for the public transportation operation in Nanxi District. Hengtong Transportation is the sole public transportation operation entity in Nanxi District. As of 30 June 2023, the Company operated 26 transportation lines and 343 public vehicles. However, due to the public welfare nature of this business, the gross profit margin is relatively low (4.58% in 2022). The Company receives operation subsidies from the local government for the business. In 2022, the Company received operation subsidies of RMB32.1 million.

Low but increasing exposure to commercial activities

YNUT is also engaged in commercial activities such as the construction of self-operating projects, sandstone trading, and engineering construction. We consider the Company’s commercial business risk to be low, because its assets related to commercial activities accounted for less than 15% of its total assets.

The Company engages in the construction of self-operating projects, such as industrial parks, parking lots and charging piles. The Company constructs self-operating projects mainly with self-raised funds and obtains sales or leasing income to achieve breakeven. However, the income of self-construction projects is subject to the operating performance, which brings uncertainty to achieve breakeven. As of 30 June 2023, the Company had multiple self-operating projects under construction or planning, with an estimated total investment of RMB3.4 billion and an outstanding amount of RMB3.2 billion, exerting relatively large capital expenditure pressure. Given the large number of self-operating projects under construction, we expect the Company’s exposure to commercial activities will increase in the future.

Engineering construction is the Company’s major source of income, which accounted for 53.1% of the total revenue in 2022. The Company undertakes engineering construction projects through public bidding with self-raised funds. The project owners are mainly the Housing and Urban-Rural Development and Urban Management Bureau of Nanxi District, or other local state-owned enterprises in Nanxi District. The Company conducts engineering construction projects by signing construction agreements with the entrusted parties, and recognizing revenue after settlement. As of 30 June 2023, the Company had 51 engineering construction projects, with a total contract amount of RMB298.0 million. The engineering construction business also provides relatively good profit to the Company, with the gross profit margin maintaining at over 15% over the past three years.

Affected by the expiration of the sandstone plants permit, the revenue of the sandstone trading business significantly decreased from RMB146 million in 2020 to RMB15 million in 2022. From 2020 to 2022, the local government injected underground sandstone mining operation rights to the Company, with an estimated value of RMB9.6 billion. In addition, the Company acquired new mining rights through public bidding, and is expected to commence production in 2024. With the substantial injection of sandstone and the acquisition of new mining rights, we anticipate an increase in revenue for the sandstone trading business in the future. However, the business is subject to high-concentration risk. As of 30 June 2023, the top 5 customers accounted for 79.0% of the total sales, while there were only 2 suppliers.

Good track record of receiving government support, but constrained by weak regional fiscal income

YNUT has a good track record of receiving support from the local government in the past few years, including government subsidies, cash injections, and asset injections. From 2020 to 2023H1, the Company received total government subsidies of RMB173.0 million. In 2023H1, the Company received a total cash injection of RMB500.0 million. In terms of asset injections, the Company received a total asset injection of RMB9.6 billion from the local government in 2020 and 2021, mainly the sandstone mining operation rights. Considering the important strategic role of the Company, we expect the Company will continue to receive support from the local government in the future.

The Company also regularly receives repurchase payments for its infrastructure construction projects. However, government payments are largely subject to the local economy and government fiscal strength. Given the relatively small fiscal income of Nanxi District, the repurchase payment collection period of the Company has been extended.

Exhibit 5. Government support from 2020 to 2023H1

| (RMB million) | 2020FY | 2021FY | 2022FY | 2023H1 |
|----------------------|--------------|--------------|-----------|------------|
| Government Subsidies | 66 | 20 | 87 | - |
| Cash Injections | - | - | - | 500 |
| Asset Injections | 6,487 | 3,072 | - | - |
| Total | 6,553 | 3,092 | 87 | 500 |

Source: Company information, CCXAP research

Reasonable debt leverage and moderate asset liquidity

Due to the injection of several subsidiaries, YNUT's total debt had increased from RMB1.6 billion at the end of 2020 to RMB3.2 billion as of 30 June 2023, while its capitalization ratio slightly increased from 17.2% to 19.7% over the same period, maintained at a reasonable level. Moreover, as of 30 June 2023, the Company's short-term debt accounted for 17.8% of its total debt; its cash to short-term debt ratio was 2.8x. However, given the Company's relatively large capital expenditure on construction projects, we expect the Company will expand external financing and have a fast debt growth for the next 12-18 months.

In addition, the Company has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of other non-current assets, and receivables, accounting for 74.3% of its total assets as of 30 June 2023. Receivables were mainly unreceived payments from the agencies of government or other state-owned companies; while other non-current assets are mainly sandstone mining operation rights, all of which are considered low liquidity.

Controllable contingent liability risk

In terms of contingent liability, as of 30 June 2023, the Company's external guarantee amount was RMB764.0 million, accounting for 5.9% of its net assets. All of the external guarantees are provided to local state-owned enterprises in Nanxi District. The local state-owned enterprises have a strong ability to avoid liability risks, because most of these local state-owned enterprises are likely to be supported by the local government when necessary, and therefore contingent risk would be controllable.

Limited financing flexibility and relatively high financing cost

As of 30 June 2023, about 93.1% of the Company's debt financing was provided by domestic banks, with a financing cost of around 6.12%. At the same time, it held a total bank credit facility of RMB4.4 billion, and the available credit facility was only around RMB1.3 billion, indicating limited financing flexibility. In addition, the Company has not issued any bonds in the public debt capital market. The Company has a relatively low exposure to non-standard financings, such as financial leasing, which accounted for only 6.9% of its total debt at mid-2023. The financing cost of non-standard financing is around 7.14%. Non-standard financing is less stable than bank financing, and the Company faces higher financing costs and greater refinancing pressure. The Company has a relatively high average financing cost of around 6.93%. It plans to issue offshore bonds to broaden its financing channel.

ESG Considerations

YNUT bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

YNUT bears social risks as it implements public policy initiatives by building public infrastructure in Nanxi District. 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.

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

Structural considerations

YNUT's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important role in local infrastructure construction in Nanxi District, 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 \(July 2022\)](#).

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

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.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656