

Credit Opinion

22 March 2024

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

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Chongqing Yulong Asset Management (Group) Co., Ltd.

Surveillance credit rating report

CCXAP affirms Chongqing Yulong Asset Management (Group) Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Chongqing Yulong Asset Management (Group) Co., Ltd. ("CYAM" or the "Company") reflects Chongqing Jiulongpo District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the Jiulongpo District Government's capacity to provide support reflects Jiulongpo District's vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing by gross regional product ("GRP").

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position in land consolidation and infrastructure construction in Jiulongpo District; (2) important status as a leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City; (3) diversified access to funding; and (4) solid track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high debt leverage and weak assets liquidity; and (3) medium contingent risks associated with external guarantees.

The stable outlook on CYAM's rating reflects our expectation that the local government's capacity to support the Company will remain stable, the Company will maintain its dominant position in land consolidation and infrastructure construction in Jiulongpo District, and the Company will promote its transformation into market-oriented businesses such as real estate development, charging facilities operation and equity investment funds.

Rating Drivers

- Dominant position in land consolidation and infrastructure construction in Jiulongpo District
- Solid track record of receiving government payments
- Medium exposure to commercial activities
- High debt leverage and weak asset liquidity
- Diversified access to funding
- Medium contingent risks associated with external guarantees

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) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

Key Indicators

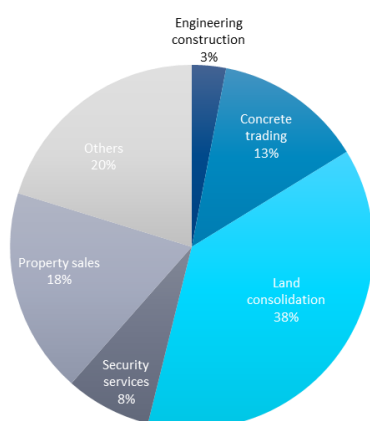
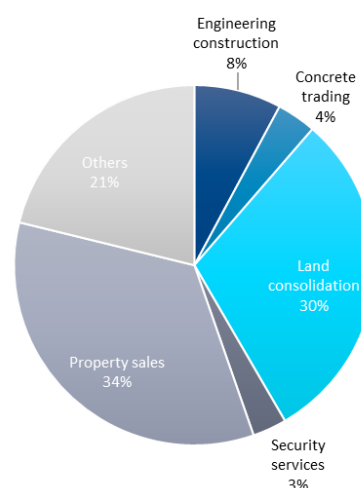
| | 2020FY | 2021FY | 2022FY | 2023Q3 |
|------------------------------|--------|--------|--------|--------|
| Total Asset (RMB billion) | 64.7 | 70.7 | 80.8 | 89.9 |
| Total Equity (RMB billion) | 22.3 | 25.0 | 28.3 | 31.5 |
| Total Revenue (RMB billion) | 3.0 | 3.3 | 3.7 | 2.9 |
| Total Debt/Total Capital (%) | 61.0 | 59.7 | 59.5 | 59.5 |

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2002, CYAM is the most important local infrastructure investment and financing company ("LIIFC"), with the largest asset size among local state-owned enterprises in Jiulongpo District. The Company is primarily responsible for infrastructure construction, land development, shantytown renovation, and state-owned asset operation in Jiulongpo District. Apart from public development projects, the Company also undertakes various commercial activities, such as self-operating projects, concrete trading, property leasing and management, security service, equity and fund investments. As of 30 September 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing ("Jiulongpo SASAC").

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 the Jiulongpo District Government has a strong capacity to provide support to the Company, given its vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing City by GRP.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2023, Chongqing City recorded a GRP of RMB3.0 trillion with a GRP growth rate of 6.1% year on year ("YoY"), ranking 5th among municipalities and prefecture-level cities in China, and becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. Meanwhile, thanks to the economic recovery, key financial indicators of Chongqing City showed a restorative uptrend in 2023. Chongqing City's tax revenue has increased from RMB127.09 billion in 2022 to RMB147.6 billion in 2023, resulting in the rising general public budget revenue from RMB210.3 billion in 2022 to RMB244.1 billion in 2023, with a growth rate of 16.0% YoY. As of the end of 2023, the outstanding direct government debt balance of Chongqing City amounted to RMB1.2 trillion, accounting for 40.7% of its GRP for that year. We consider Chongqing City bears a relatively high debt burden owing to its relatively large scale of direct government debt and local state-owned enterprises debt.

Exhibit 3. Key Economic and Fiscal Indicators of Chongqing City

| | 2021FY | 2022FY | 2023FY |
|---|---------|---------|---------|
| GRP (RMB billion) | 2,789.4 | 2,912.9 | 3,014.6 |
| GRP Growth (%) | 8.3 | 2.6 | 6.1 |
| General Budgetary Revenue (RMB billion) | 228.5 | 210.3 | 244.1 |
| General Budgetary Expenditure (RMB billion) | 483.5 | 489.3 | 530.4 |
| Local Government Debt (RMB billion) | 861.0 | 1,007.1 | 1,225.8 |

Source: Statistic Bureau of Chongqing City, CCXAP research

Jiulongpo District, located in the western part of the Chongqing City main district, is one of the nine core districts in Chongqing City. Relying on strategic opportunities of the Belt and Road initiative, the Yangtze River Economic Belt, and the construction of a twin-city economic circle in the Chengdu-Chongqing City region, key economic indicators of Jiulongpo District Government were top-ranked among all districts and counties in Chongqing City in recent years. It has demonstrated stable economic growth in recent years. Jiulongpo District Government recorded a GRP of RMB176.4 billion with a GRP growth rate of 2.7% in 2022 and a GRP of RMB186.7 billion with a GRP growth rate of 6.5% in 2023, ranked 2nd among 38 districts and counties in Chongqing City. Benefiting from continuous growth in industries including automobile and motorcycle manufacturing, non-ferrous metal, electrical machinery and electronic information, Jiulongpo District Government shows a relatively good fiscal strength. The general budgetary revenue of Jiulongpo District increased from RMB5.6 billion in 2022 to RMB6.8 billion in 2023, representing a YoY growth rate of 21.9%, benefiting from increasing tax revenue and upper-tiered government's support. During the same period, Jiulongpo District had an outstanding direct government debt balance of RMB33.7 billion, accounting for 14.2% of the Jiulongpo District's GRP for that year.

Exhibit 4. Key Economic and Fiscal Indicators of Jiulongpo District

| | 2021FY | 2022FY | 2023FY |
|---|--------|--------|--------|
| GRP (RMB billion) | 173.6 | 176.4 | 186.7 |
| GRP Growth (%) | 9.2 | 2.7 | 6.5 |
| General Budgetary Revenue (RMB billion) | 5.5 | 5.6 | 6.8 |
| General Budgetary Expenditure (RMB billion) | 8.3 | 9.5 | 10.0 |
| Local Government Debt (RMB billion) | 23.6 | 27.1 | 33.7 |

Source: Statistic Bureau of Jiulongpo District, CCXAP research

Government's Willingness to Provide Support

Dominant position in land consolidation and infrastructure construction in Jiulongpo District

CYAM is the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District. The Company has the largest business scope and strongest comprehensive strength in Jiulongpo District as it is responsible for land consolidation and infrastructure construction in most areas of Jiulongpo District. Considering the Company's high strategic significance to the development of Jiulongpo District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

CYAM acts as a contractor to conduct its infrastructure construction projects. The Company has successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, schools, bridges, and water conservancy Infrastructure. As of 30 September 2023, the Company's total investment in completed infrastructure construction projects reached RMB1.6 billion, with a cumulative recognized revenue of RMB3.0 billion, and received payments of RMB1.9 billion. Meanwhile, the Company had 39 infrastructure construction projects under construction or planning, with a total investment amount of RMB9.3 billion and an outstanding amount of RMB3.6 billion. There is a relatively large amount of investment in and receivables from the infrastructure projects, and the repayment period for these receivables is prolonged, which caused a certain degree of capital pressure on the Company.

As the most important land consolidation entity in Jiulongpo District, the Company is responsible for the land development in the main area of Jiulongpo District, including demolition and land leveling. At end-2023Q3, the Company completed 345.5 mu of land consolidation, with a total invested amount of RMB3.5 billion and a received repurchase payment of RMB0.6 billion. As of 30 September 2023, the Company had 2,630 mu of lands under consolidation or planning, with a total investment amount of RMB3.5 billion and an outstanding amount

of RMB1.2 billion. In addition, the Company also transfers some of its own land to generate income. However, the income from land development is subject to the prosperity of the land market and government policies.

Leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City

According to the planning of the Jiulongpo District Government, CYAM is responsible for the shanty town renovation projects and 2 major comprehensive development projects in Jiulongpo district, namely the Jiulong Peninsula comprehensive development project and the Zhongliang Yunfeng comprehensive development project.

The Company conducts shanty town renovation projects through the government purchase service model. After the project is completed, the government will pay service fees year by year. As of 30 September 2023, the projects under the government purchase service model had a total investment amount of RMB12.0 billion, of which 80% of capital expenditure can be covered by special loans from banks, with an outstanding amount of RMB3.2 billion. The sufficient project reserves demonstrated the sustainability of the Company's public-policy businesses.

Jiulong Peninsula comprehensive development project is one of the top ten area renovation projects in Chongqing City, with a long-term planning scope of around 15 square kilometers and an estimated investment amount of RMB30.6 billion. At the end of September 2023, the total invested amount reached around RMB13.1 billion. In addition, the Zhongliang Yunfeng comprehensive development project is another major local development project in Jiulongpo District. The total planned construction area is about 0.7 million square meters ("sqm"), and the estimated investment amount is RMB10.0 billion with an invested amount of RMB4.0 billion as of 30 September 2023. Given the large investment amount in the Jiulong Peninsula development project and Zhongliang Yunfeng development project, coupled with relatively long construction periods (5 to 15 years) and payback periods (7 to 25 years), we believe the Company will face large capital expenditure pressure and debt repayment pressure.

Medium exposure to commercial activities

In addition to public activities, CYAM is also involved in various commercial activities such as property sales, self-operating projects, concrete trading, property leasing and management, security service, equity and fund investments. We consider CYAM's commercial business exposure to be medium, as its market-driven businesses account for around 15% to 20% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

CYAM's property sales business is market-oriented. As of 30 September 2023, the Company had a total saleable amount of RMB296.5 million for supporting shops of resettlement housing and a total saleable amount of RMB252.2 million for factories. We expect the property sales business can generate supplement revenue for the Company in the future but may fluctuate with market conditions. The Company is also involved in the property leasing business, including office buildings and factories. The total leasable area has increased greatly to approximately 87.2 thousand sqm and an unleased area of 27.4 thousand sqm, with an occupancy rate of 68.6% as of 30 September 2023. In addition, the Company is constructing several self-operating projects. As of 30 September 2023, the Company had 2 self-operating projects under planning, with a total investment amount of RMB3.7 billion. However, since the initial investment is large, there is uncertainty in the cash collection and investment return.

Affected by the downturn in the real estate market, the income of CYAM's concrete trading business decreased from RMB968.9 million in 2020 to RMB 442.8 million in 2022 representing a declining rate of 54.3%. Furthermore, several payments for upstream suppliers have been affected by default on settlement payments from their downstream customers since 2023 and it is necessary to keep track of the progress in resolving these problems. We believe there may be bottlenecks for the future development of the concrete trading business as it is highly subject to the real estate market which is under a downturn period.

The Company's security service business has a monopoly position in Jiulongpo District and remains a stable customer base, providing services to enterprises and institutions in Jiulongpo District, such as banks, Chinese central state-owned enterprises, kindergartens and schools, and contributing stable revenue to the Company but is constrained by its relatively small scale.

The Company also participated in fund and equity investment through its subsidiaries Chongqing West Securities Yufu Equity Investment Fund Management Co., Ltd. ("Yufu Equity") and Chongqing Yulong Equity Investment Fund Management Co., Ltd. ("Yulong Equity"). The fund and equity investment business is profitable as the average gross profit margin of the business was as high as 82.8% from 2020 to 2022. However, the small operating scale limits its contribution to the Company's overall income. As of 31 March 2023, Yufu Equity invested 18 funds and mainly invested in SME enterprises outside Jiulongpo District, with a total investment amount of RMB31.6 billion. Yulong Equity invested 8 funds and mainly invested in cultural creativity, high technology and intelligent manufacturing fields, with a total management amount of over RMB6.3 billion as of the same date.

Solid track record of receiving government payments

As the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District, CYAM has a good track record of receiving payments from the Jiulongpo District government. These payments take various forms, such as government subsidies, asset injections and capital injections. From 2020 to 2023Q3, the Company received capital injections totaling RMB7.5 billion from the government, allowing the Company to be engaged in capital-intensive and large-scale projects. The government also transferred a series of assets to the Company without compensation in recent years, to enhance its capital strength and broaden its business scope. For example, the Company received a sewage network from the government in 2021, increasing its capital reserve of RMB2.7 billion. The Company also regularly receives government subsidies for its public policy projects with a total amount of RMB109.0 million from 2020 to 2023Q3. Given CYAM's important strategic role, we expect the Company will continue to receive support from the Jiulongpo District Government in the future.

Exhibit 5. Government Support from 2020 to 2023Q3

| (RMB million) | 2020FY | 2021FY | 2022FY | 2023Q3 |
|----------------------|--------------|--------------|--------------|--------------|
| Government Subsidies | 69 | 19 | 13 | 8 |
| Capital Injections | 3,418 | 659 | 1,983 | 1,440 |
| Asset Injections | 346 | 2,680 | - | - |
| Total | 3,833 | 3,358 | 1,996 | 1,448 |

Source: Company information, CCXAP research

High debt leverage and weak asset liquidity

CYAM's total debt had increased from RMB33.0 billion at end-2020 to RMB44.3 billion as of 30 September 2023.

The Company has a relatively high capitalization ratio of 59.5% as of 30 September 2023. The increase in debt was mainly attributable to the expansion of the construction of infrastructure projects. As of 30 September 2023, its short-term debt accounted for about 24.1% of its total debt, and cash to short-term debt ratio was 0.4x, indicating certain short-term debt servicing pressure. Meanwhile, the Company had 40 public-policy projects under construction or planning, including land consolidation projects, engineering construction projects and shantytown renovation projects, with an expected investment of RMB24.8 billion and an outstanding amount of RMB8.0 billion. Given the Company's large capital expenditure pressure, we expect the Company to rely on external financing, and maintain a relatively high debt burden for the next 12-18 months.

Furthermore, CYAM has weak asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 62.9% of its total assets as of 30 September 2023. Inventories were mainly land use rights and investment costs for infrastructure construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, most of which are expected to be received within 5 years and therefore are considered low liquidity.

Diversified access to funding

The Company's large investment needs can be mitigated by its diversified financing channels. The Company has access to various sources of funding, including bank loans, onshore and offshore bond financing, and non-standard financing. As of 30 September 2023, around 55.8% of the Company's debt financing was provided by domestic banks. It held total credit facilities of RMB59.1 billion and available credit facilities of RMB25.4 billion, indicating a sufficient liquidity buffer. The Company also has a good track record for fund-raising activities in debt capital markets. From 2020 to 2023, the Company has raised around RMB16.0 billion in total through the issuance of 19 onshore bonds, including MTNs, PPNs and corporate bonds. The Company's exposure to non-standard financing is low, accounting for around 8.2% of total debt financing as of 30 September 2023. We consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

Medium contingent risks associated with external guarantees

As of 30 September 2023, the Company's total amount of external guarantees was RMB9.1 billion, which accounted for 29.0% of its net assets. All these external guarantees were provided to local state-owned enterprises in Jiulongpo District, including Chongqing Jiulongyuan High-tech Industry Group Co., Ltd. and Chongqing Aluminum Industry Development and Investment Group Co., Ltd. We consider that the Company's contingent liability risk is relatively controllable, taking into account the government's support to local state-owned enterprises.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CYAM assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CYAM is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jiulongpo District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CYAM believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

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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