

Credit Opinion

22 May 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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Jiangsu Yueda Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Jiangsu Yueda Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Jiangsu Yueda Group Co., Ltd. (“Jiangsu Yueda” or the “Company”) to BBB_g+

 from BBB_g, reflecting the stronger capacity to provide support from the Yancheng Municipal Government and the high likelihood of government support for Jiangsu Yueda. Jiangsu Yueda has also exhibited an improvement in the quality of its investment portfolio and credit metrics.

The BBB_g+

 long-term credit rating of Jiangsu Yueda is underpinned by the Company’s (1) investment portfolio in line with Yancheng City’s industrial development strategy; (2) good access to quality investments; and (3) diversified funding channels.

However, the rating is constrained by the Company’s (1) exposure to high volatility from its investments in cyclical industries; (2) modest financial profile with relatively weak profitability and high financial leverage; and (3) high refinancing needs in the near term.

The rating also reflects a high likelihood of government support from the Yancheng Municipal Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) high strategic and economic importance in Yancheng City as one of the largest local state-owned enterprises (“SOEs”); and (3) solid track record of receiving ongoing government support, including subsidies and capital injections.

The stable outlook on Jiangsu Yueda’s rating reflects our expectation that the Company will continue to receive solid support from the Yancheng Municipal Government. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

Rating Drivers

- High likelihood of support from the Yancheng Municipal Government
- Investment portfolio in line with Yancheng City's development strategy
- Good access to quality investments
- Exposure to the volatility from cyclical industries
- Modest financial profile with low profitability and high financial leverage
- High refinancing needs mitigated by its diversified funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Yancheng Municipal Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's credit metrics improve, for example, a lower debt-to-investment income ratio and a higher cash-to-short-term debt ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Yancheng Municipal Government decreases; (2) the Company's credit metrics deteriorate, such as a significant increase in debt-to-investment income ratio or a decrease in investment income-to-interest ratio; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Key Indicators

Consolidated Level	2021FY	2022FY	2023FY
Total Assets (RMB billion)	73.0	79.4	84.3
Total Equity (RMB billion)	26.6	29.5	30.2
Total Revenue (RMB billion)	18.5	21.8	24.1
Net Profits (RMB billion)	0.4	0.9	1.2
Return on Equity (%)	1.5	3.2	3.9
Holding Company Level (HoldCo)	2021FY	2022FY	2023FY
Total Assets (RMB billion)	34.0	38.9	44.4
Total Equity (RMB billion)	8.5	10.8	12.7
Return on Equity (%)	5.0	1.5	10.1
Debt/Investment Income (x)	11.1	12.9	9.2
Cash/Short-term Debt (x)	0.2	0.1	0.1

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

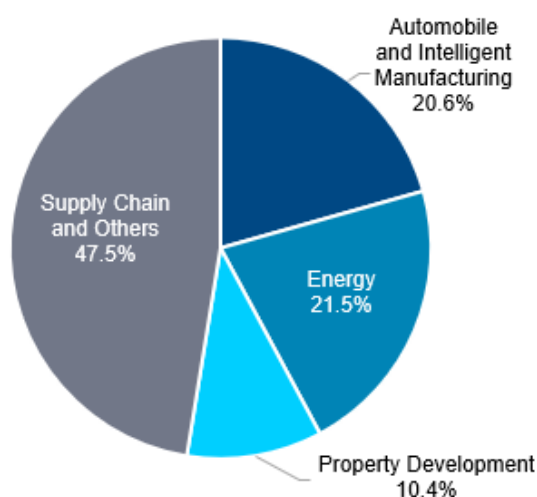
Source: Company data, CCXAP research

Corporate Profile

Founded in 1991, Jiangsu Yueda, a state-owned conglomerate, is owned by the Yancheng Municipal Government and supervised by the Yancheng State-owned Assets Supervision and Administration Commission ("Yancheng SASAC"). It is an important platform to manage the state-owned assets on behalf of the Yancheng Municipal Government, with the aim to securitize and maximize the value of the state-owned assets. Jiangsu Yueda has four key strategic investment segments, namely (1) automobile and intelligent manufacturing, (2) energy, (3) property development, and (4) supply chain and others.

Jiangsu Yueda's key operating subsidiaries include Jiangsu Yueda Investment Co., Ltd. (600805.SH) ("Yueda Investment"), Yueda International Holdings Limited (00629.HK) ("Yueda Holdings"), Shanghai Yueda New Industrial Group Go., Ltd., Jiangsu Yueda South Holding Co., Ltd., Yue Da Group (H.K.) Co., Limited and Yueda Capital Co., Ltd. The Company is approximately 91.3% owned by the Yancheng Municipal Government and 8.7% by the Department of Finance of Jiangsu Province. As of 31 December 2023, Jiangsu Yueda reported total assets of RMB84.3 billion and net assets of RMB30.2 billion.

Exhibit 1. Revenue structure in 2023



Source: Company data, CCXAP research

Exhibit 2. Gross profit structure in 2023

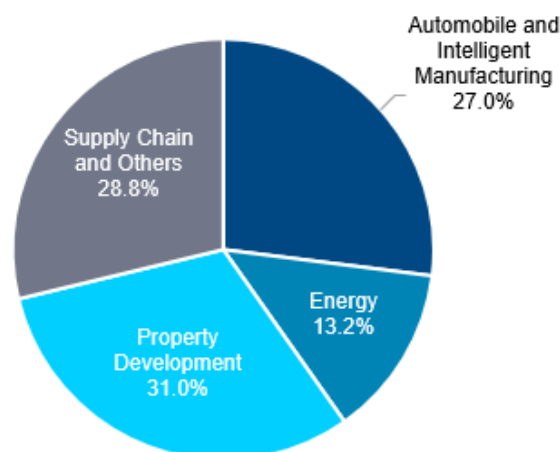


Exhibit 3. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

Investment portfolio in line with Yancheng City’s development strategy

Jiangsu Yueda is one of the key investment entities entrusted by the Yancheng Municipal Government to cultivate the development of local industries, particularly automobile manufacturing and new energy, which are the pillar sectors of Yancheng City. Along with the ongoing economic development of Yancheng City, Jiangsu Yueda adheres to the “1+2+1” development strategy covering segments in automobile and intelligent manufacturing, energy, property, and the supply chain. Jiangsu Yueda has gradually developed a large investment portfolio in different segments including automobile manufacturing, intelligent manufacturing, electric utilities, coal mining, toll roads, real estate, commercial circulation, and financial services. Key investments in automobile manufacturing include Jiangsu Yueda Kia Motor Co., Ltd. (“Yueda Kia”, a joint venture with South Korean automobile maker, Kia Motors Car Corporation), Human Horizons New Energy, and CATARC Automotive Proving Ground Co., Ltd. (“CAPG”, a holding company of China Automotive Technology & Research Center). The Company has also entered the new energy sector by investing in Jiangsu Runergy New Energy Technology Co., Ltd. (“Runergy”), which produces high-efficiency crystalline silicon batteries. In the new energy sector, the Company is also involved in wind and thermal energy projects. However, its investment portfolio consists mainly of privately held equities with relatively low asset liquidity. We expect that the liquidity and value of Jiangsu Yueda’s investment portfolio to improve with more investees going public. The Company’s investment income is an important contributor to its profitability and the dividend income has been stable during the past. At the holding level, the Company reported an investment income of around RMB3.0 billion in 2023, a significant increase from RMB1.8 billion in 2022.

Good access to quality investments

Jiangsu Yueda has good access to quality investments as underpinned by strong support from the Yancheng Municipal Government. The Company has obtained quality projects with strong dividend income over the past years, such as toll collection rights for the Beijing – Shanghai Expressway (Jiangsu section), and Shanxi No.2 Huangling coal mine. The Company held the majority shares of 1 coal mining company and the minority shares of 6 coal mining companies. All the coal mines in which the Company holds minority shares are located in different areas including Shaanxi, Shanxi, Gansu and Inner Mongolia, and have relatively high resource quality, large reserve scales and long average remaining exploitable lives. In recent years, the coal mining sector has contributed largely to investment returns, especially Shaanxi No.2 Huangling. In 2023, Shaanxi No.2 Huangling generated investment income of RMB1.6 billion and distributed dividends of RMB1.8 billion. As for the new energy sector, the investment income contributed by Runergy was also stable which was RMB524.0 million in 2023.

Jiangsu Yueda also has a long investment track record in the car industry and has developed a portfolio covering the upstream and downstream of the car industry including car parts production, vehicle production, transport, car dealership, auto finance, test site, and research center. In 2021, with the purpose of consolidating sources of the car industry and promoting the development of the car industry in Yancheng City, Jiangsu Yueda established Jiangsu Yueda Automobile Group Co., Ltd. (“Yuda Automobile”) under the guidance of Yancheng Municipal Government. Yueda Automobile invests in two new energy car brands, Yueda Kia and Human Horizons New Energy. Yueda Kia has a strong historical performance, which has enabled the Company to fully recover its past investment costs in Yueda Kia. Recently, Yueda Kia has been going through a sales slump accompanied by ongoing losses. Supported by the Yancheng Municipal Government, the Company has increased its investment in Yueda Kia. In 2023, Yueda Kia’s revenue increased and losses were reduced, due

to a larger sales volume with a particular focus on exports. The improvement in Yueda Kia's operating conditions is going to weaken the profit erosion impact on Jiangsu Yueda brought about by its persistent losses.

Jiangsu Yueda has a sound record of cultivating investees going public listings. For example, CAPG (Stock code: 301215.SZ) was listed on China ChiNext in March 2022, of which the Company held 29.25% of shares. With the end of lock-up period of CAPG's shares held by Jiangsu Yueda, the investment income from CAPG in 2023, totaling RMB1.7 billion, became a key income booster for Jiangsu Yueda. Meanwhile, the listing application of Runergy was passed in November 2022, and Jiangsu Yueda held its 19.48% shares through Shanghai Yueda New Industrial Group Co., Ltd. It would bring greater asset liquidity and asset appreciation opportunities to the Company if the public listing succeeds.

Exposure to the volatility from cyclical industries

Jiangsu Yueda's investment portfolio covers multiple industries or sectors, however, some of them face cyclical volatilities, such as coal and metal mining, commercial trading, real estate development and automobile sales. As most of Jiangsu Yueda's investments were located in China, they are correlated with China's economic conditions and policy changes. Especially, the recent sluggish China's real estate market could weaken the prospect of its investments in the residential property development segment. In addition, Yueda Kia and Human Horizons New Energy, its key investments, still suffered losses under the intensive competition of automobile market. Human Horizons New Energy announced a suspension of production (not exceed 6 months) in February 2024.

Nevertheless, the automobile industry is a pillar industry in Yancheng City and the Company can obtain certain policy and resource support from the local government. In addition, we believe that Jiangsu Yueda's diversified investment portfolio including the new materials sector, new energy sector, and thermal power plants could partially mitigate the negative effect of its exposure to cyclical industries.

Modest financial profile with low profitability and high financial leverage

Jiangsu Yueda's financial profile is considered modest with relatively weak profitability and high debt leverage. Jiangsu Yueda's profitability is mainly driven by its investment income. With investment income from CAPG, the net income of both consolidated and holding company levels achieved a significant increase in 2023. At consolidated level, the net income increased by 30.7% YoY to RMB4.1 billion and ROE increased to 3.9%; while at the holding company level, the net income increased to RMB1.2 billion and ROE increased to 10.3%. However, the 3-year average ROE remained relatively weak at the holding company level which recorded 5.7%. The low profitability of Jiangsu Yueda will weaken its ability to repay debts through its internal financial resources.

Jiangsu Yueda has relatively high debt leverage driven by its debt-funded business expansion model over the past few years. As of the end of 2023, at the holding company level, the total debt (including perpetual bonds) increased by 17.6% YoY to RMB28.1 billion and financial leverage, measured by total capitalization ratio, increased by 0.4 percentage points to 69.7%. It is reliant on refinancing to repay the debts given its limited business operations at the holding company level. Meanwhile, at the consolidated level, the total debt rose by 14.1% YoY to RMB46.5 billion and financial leverage increased to 60.9%. We expect Jiangsu Yueda's debt leverage will become lower at consolidated level over the next 12-18 months given its ongoing deleveraging process and improving value in key investments.

High refinancing needs mitigated by its diversified funding channels

Jiangsu Yueda's refinancing need is high considering its high level of short-term debt. As of 31 December 2023, the short-term debt was around RMB16.0 billion at the holding company level, representing 56.5% of the total debt, and RMB28.2 billion at the consolidated level, representing 60.7% of the total debt. The cash to short-term debt ratio remained at a low level of around 0.1x at end-2023 at the holding company level, which reflects the need to obtain significant refinancing from external sources in the next 12 months.

Furthermore, the Company has a certain scale of assets pledged for its loans, which would limit its flexibility in asset realization and ability to obtain additional funding when needed. The Company pledged its key assets (such as shares in listed subsidiaries, rights in expressways and coal mining assets) as collateral for loans to the Company and its subsidiaries. As of 31 December 2023, the Company had total restricted assets of approximately RMB15.9 billion, representing 18.9% of its total assets.

Nevertheless, the high refinancing pressure could be alleviated by its diversified funding channels, underpinned by its state-owned status. Jiangsu Yueda has a good presence in the onshore capital markets and its financing costs have shown a continuous declining trend. At end-2023, the comprehensive financing cost of Jiangsu Yueda's existing debt was 5.16%, a decrease of 35bp from end-2022. In 2023, the Company issued several tranches of 2-year and 3-year corporate bonds with coupon rates ranging from 3.95% to 4.7%. In 2023, it also enhanced its presence in overseas capital market by issuing a 3-year CNY bond of RMB1.5 billion with the coupon rate of 5.5%. The Company has established long-term financing relationships with reliable domestic banks and financial institutions. As of 31 March 2024, the Company had total credit facilities of RMB36.8 billion with an undrawn amount of RMB8.8 billion.

We expect that the Company's plans to optimize its debt structure through increasing debt duration and other measures launched by the government to prevent debt stress for the local SOEs could also help relieve its refinancing pressure.

External Support

High likelihood of support from the Yancheng Municipal Government

We expect a high likelihood of government support from the Yancheng Municipal Government to Jiangsu Yueda in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) strategic and economic importance in Yancheng City as one of the largest SOEs under the Yancheng Municipal Government; and (3) solid track record of receiving ongoing government support from the Yancheng Municipal Government, including subsidies, capital injections and asset transfers.

Yancheng SASAC maintains a high degree of control over Jiangsu Yueda's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. As of 31 December 2023, all the members of board of directors were appointed directly by Yancheng SASAC. The Company is also required to report its annual budget, objectives, plans, and performance to Yancheng SASAC.

In terms of total assets, the Company is one of the largest local SOEs in Yancheng City. Its consolidated assets amounted to RMB84.3 billion as of 31 December 2023. Jiangsu Yueda has created more than 14,000 jobs for local citizens in Yancheng City. As the strategic platform in industrial investment, the Company also assumes the role of cultivating local automobile manufacturing development and cooperating with foreign investors.

Jiangsu Yueda receives solid support from the Yancheng Municipal Government, given its strategic and economic importance in industrial investment in Yancheng City. The Company continued receiving subsidies

from the government over the past three years and received totaling RMB25 million in 2023. In November 2023, Yancheng SASAC agreed to increase the registered capital of Jiangsu Yueda to RMB7.5 billion, with the Company's paid-in capital increasing to RMB7.4 billion as of the end of 2023. Furthermore, Jiangsu Yueda is also on the list of Yancheng City's standby cash reserve, a pre-emptive fund with total fund size of RMB5.0 billion launched by the government to provide periodic liquidity for the local SOEs. As a member of the Yiqiyin scheme, the Company also enjoys the benefit of additional credit facilities, which was launched by the government and China Zheshang Bank Co., Ltd. to prevent funding risks for the key SOEs in Yancheng City.

Structural Consideration

Jiangsu Yueda's senior unsecured debt rating is equal to its long-term credit rating. We did not notch the rating for structural subordination, considering that (1) the Company's diversified business profile (with cash flow generation across its operating subsidiaries) can help mitigate structural subordination risk; and (2) the shareholder support will flow through directly to the holding company in a financially distressed scenario given the Company's important status in Yancheng City, thereby mitigating any differences in expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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