

## Credit Opinion

12 July 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Nanyang Urban Investment Holdings Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Nanyang Urban Investment Holdings Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Nanyang Urban Investment Holdings Co., Ltd. (“NYUI” or the “Company”) reflects the Company’s strong regional competitiveness and importance in sewage treatment and parking lots operation businesses in Nanyang City.

However, the rating is constrained by the Company’s (1) relatively small revenue scale and weak profitability; and (2) increasing debt burden and modest liquidity position.

The rating also reflects a relatively high likelihood of support from the Nanyang Municipal Government and its parent company when needed, which is based on the Company’s (1) status as the core subsidiary of Nanyang Investment Group Co., Ltd. (“NYIG”); (2) ultimate control by the Nanyang Municipal Government; (3) regional importance in urban operation and industrial development in Nanyang City; and (4) good track record of receiving support from the local government and its parent company.

The stable outlook on NYUI’s rating reflects our expectation that the Company will maintain its regional competitiveness and importance in Nanyang City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government and the parent company.

## Rating Drivers

- Strong regional competitiveness and importance in sewage treatment and parking lots operation businesses
- Rapid expansion in trading business but with thin profit margin
- Vulnerable to market conditions with destocking pressure in property development
- Ongoing revenue growth with small revenue scale and weak profitability
- Increasing debt burden driven by continuous business expansion
- Modest liquidity position with large exposure to non-standard financing
- Relatively high likelihood of support from the Nanyang Municipal Government and the parent company

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the Company's business strength improves; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and liquidity.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government or parental support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.

## Key Indicators

	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	16.5	23.7	20.6
Total Equity (RMB billion)	8.4	14.9	14.8
Total Revenue (RMB billion)	0.5	2.7	0.5
Net Profits (RMB million)	17.7	97.6	-14.2
EBIT Margin (%)	25.6	9.9	-
Return on Assets (%)	0.8	1.3	-
Total Debt/Total Capital (%)	28.9	29.1	20.9
Total Debt/EBITDA (x)	20.2	18.7	-
EBITDA/Interest (x)	1.0	2.3	-
FFO/Total debt (%)	4.6	5.1	-

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

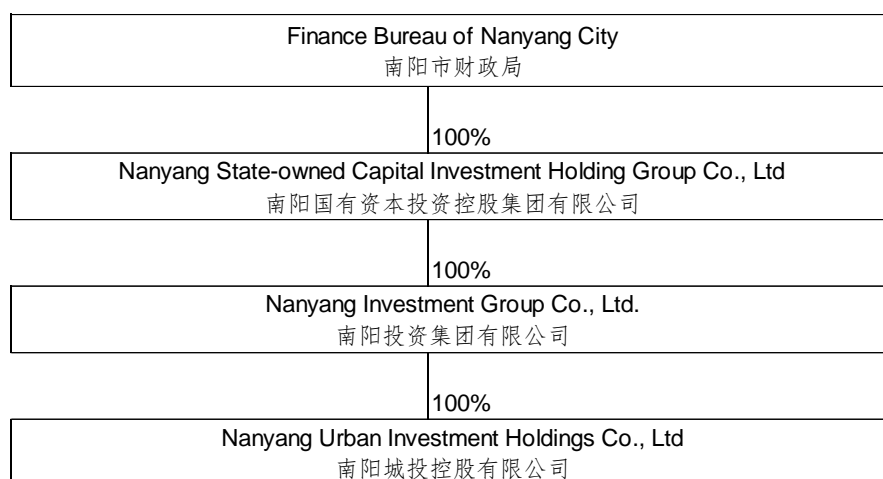
Source: Company data, CCXAP research

## Corporate Profile

Established in August 2020, NYUI is a local state-owned enterprise in Nanyang City. The Company's diversified business scope covers trading, real estate development, sewage treatment, engineering construction, and urban operations such as parking lots operation. NYUI is a wholly-owned subsidiary of NYIG, an important state-owned capital investment, construction and operation entity in Nanyang City, responsible for infrastructure construction, urban operation, industrial development, and financial service. NYUI is the core operating

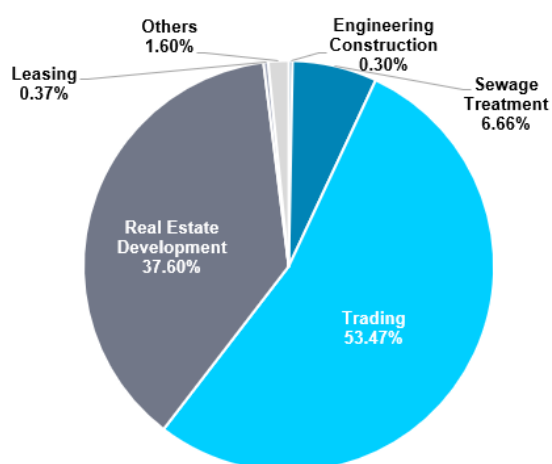
subsidiary of NYIG in the urban operation and industrial development in Nanyang City. As of 31 March 2024, the Finance Bureau of Nanyang City is the ultimate controller of the Company.

#### Exhibit 1. Shareholding chart as of 31 March 2024



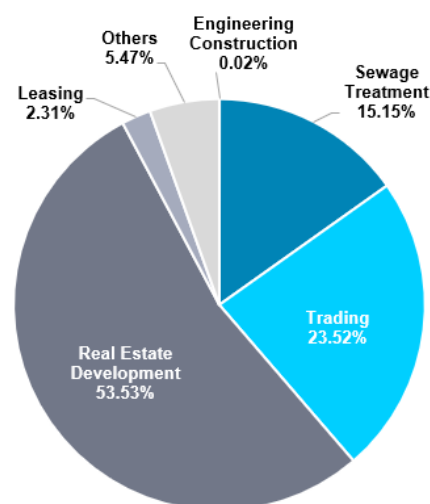
Source: Company information, CCXAP research

#### Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

#### Exhibit 3. Gross profit structure in 2023



## Rating Considerations

### Business Profile

#### Strong regional competitiveness and importance in sewage treatment and parking lots operation businesses

NYUI is the main sewage treatment operating entity in Nanyang City, covering the north bank of Baihe River in the central area of Nanyang City, with a service area of about 82 square kilometers and a service population of around 1.2 million. The Company's sewage treatment business has a relatively strong market position in Nanyang City, with a total sewage treatment capacity of 400,000 cubic meters per day, accounting for over 70% of the total capacity in the central urban area of Nanyang City and over 30% of the total capacity of the 13

counties and districts in Nanyang City. The sewage treatment business generates relatively small portion of revenue and gross profit to the Company as the price is guided by the local government. However, the Company may receive operating subsidies from the local government owing to its public welfare nature. In 2023, the sewage treatment business generated revenue of RMB180.0 million, with a gross profit margin of 18.4%. As of end-2023, there was one sewage treatment plant under planning (with an estimated total sewage treatment capacity of 200,000 cubic meters per day) with a planned total investment of RMB1.3 billion. With the completion of this project, we expect that the scale and capacity of the Company's sewage treatment business will expand in the future, and NYUI will maintain its relatively strong market position in Nanyang City.

In addition, the Company had one self-operated project under planning at the end of 2023, namely the Baihe River EOD (Phase I) Project. It is an ecological restoration project with an estimated total investment of RMB6.3 billion. After completion, this project is expected to achieve fund balance through the sales of dredged river sand, the introduction and development of cultural and tourism industry, and community development.

NYUI has a relatively strong regional competitiveness in parking space operation in Nanyang City. The Company obtained a 30-year franchise right to operate parking space in the central area of Nanyang City from the local government in 2023, covering Wancheng District, Wolong District, Nanyang Hi-tech Development Zone and Nanyang Urban-Rural Integration Demonstration Zone. As of end-2023, the Company had 4 parking lot projects under construction, with a total planned investment of RMB644 million and an uninvested amount of RMB494 million. The Company is expected to achieve funding balance through parking fee income. In addition, the Company obtained a 10-year franchise right for outdoor advertising in the same area. The long-term franchising right ensures the sustainability of the Company's business.

#### **Rapid expansion in trading business but with thin profit margin**

NYUI's trading business includes the sale of liquefied natural gas ("LNG") and medical equipment as well as medical consumables. In 2023, NYUI tapped into the sale of LNG, enlarging its business scope. The Company adopts demand-on-purchase model for its LNG trading. It occupies little capital occupation as most downstream customers are required to make prepayments in advance. The Company's upstream and downstream customers span across a relatively wide geographic area. However, the Company is exposed to high concentration risks. The sales from the top 5 customers and procurements from the top 5 suppliers accounted for more than 70% of its total sales and total procurement in 2023, respectively, which may lead to lower bargaining power of the Company.

As a newly engaged segment, the natural gas sales business expanded rapidly and has contributed considerable amount of income to the Company. In 2023, the Company sold 266.2 thousand tons of LNG and achieved revenue of RMB1.1 billion, accounting for 39.7% of the Company's total revenue. However, the gross profit margin was low. In addition, the Company will expand its business to gas supply business. Through the acquisition of a local private-owned enterprise, the Company has obtained the gas supply franchise rights of 8 townships of Nanyang City. With the expansion of the Company's LNG trading and gas supply business, we expect the Company's revenue to increase in the future.

Furthermore, NYUI engages in trading of medical equipment and medical consumables with a broad range of healthcare products, including vitro diagnostics, orthopedic consumables and surgical instruments. The Company adopts demand-on-purchase model for the sale of medical equipment, and it employs both direct sale and agent distribution for the sale of medical consumables. The Company may face certain recovery risks from its downstream customers as the medical equipment can be paid in instalments and the payments for orthopedic and dental consumables are settled after downstream customers receive payment. The account period for its

downstream customers is long, generally around one year. As of 31 March 2024, the Company had total amount of receivables of RMB80.5 million from its largest customer, who did not make payment on schedule, with provision for doubtful debt of RMB0.4 million. Meanwhile, the Company faces certain concentration risks from downstream customers, mainly hospitals in Henan Province, as the top 5 customers accounted for 87% of the total sales in 2023. In 2023, the revenue generated from this business sector amounted to RMB129 million with a gross profit margin of 26.8%. As the procurement prices of medical consumables are guided by the local government, the profit growth of this business sector may slow down in the future.

### **Vulnerable to market conditions with destocking pressure in property development**

NYUI engages in real estate development business for the construction and sale of residential and commercial properties. Due to the completion of projects, the revenue from real estate development business grew notably from RMB79.1 million in 2022 to RMB1.0 billion in 2023. Even though the business could generate supplementary income, the profit and sale progress of these projects are highly subject to the changes in the current property market. As of end-2023, NYUI had 2 key completed projects in the progress of sale, with total saleable area of 318.1 thousand square meters and unsold area of 149.8 thousand square meters, indicating certain destocking pressure, especially during the downturn of property market in China. In addition, the Company has certain capital expenditure needs for its projects under construction and planning. At end-2023, the Company had one commercial housing project under construction and one under planning, with an outstanding investment of RMB1.8 billion. Moreover, the Company's property projects are highly concentrated in the city centre of Nanyang City, which is susceptible to changes in local regulatory policies and economic conditions.

### **Financial Profile**

#### **Ongoing revenue growth with small revenue scale and weak profitability**

Given its recent establishment and that most of its business is operated in Nanyang City, NYUI's revenue scale is comparatively small. Benefited from the newly engaged natural gas trading business and the completion of real estate development projects, NYUI's total revenue increased significantly from RMB496.6 million in 2022 to RMB2.7 billion in 2023. Trading business is the most significant contributor to NYUI's revenue, contributing more than half of NYUI's total revenue (53.5%) in 2023, followed by real estate development (37.6%) and sewage treatment (6.7%).

NYUI's profitability is relatively weak, as reflected by the declining EBIT margin and the weak return on assets. The Company's EBIT margin decreased from 25.6% in 2022 to 9.9% in 2023, mainly driven by the high sales volume but low profitability of the trading business, while the return on assets increased slightly from 0.7% to 1.3% over the same period.

Considering the Company's diversified business portfolio and continuous expansion, we expect the Company's revenue to maintain a growth trend over the next 12 to 18 months. However, the profitability is expected to remain relatively weak.

#### **Increasing debt burden driven by continuous business expansion**

NYUI's total debt continued to increase in the past few years owing to its ongoing investment in construction projects. As of 31 March 2024, the Company's total debt increased to RMB3.9 billion from RMB2.6 billion as of end-2021, while its capitalization ratio (total debt to total capital) decreased to 20.9% from 24.2% over the same period mainly due to the increase in total equity. The Company's total equity raised from RMB8.0 billion as of

end-2021 to RMB14.8 billion as of 31 March 2024, mainly attributed by the capital injection from the local government and the parent company. In addition, NYUI shows improvement in debt servicing capability but is relatively weak. Despite the Company's increasing debt level, its EBITDA grew 94.4% YoY to RMB326.5 million in 2023, resulting its total debt to EBITDA ratio slightly declining from 20.2x in 2022 to 18.7x in 2023. In addition, the EBITDA/total interest ratio increased from 1.0x to 2.3x over the same period. Given the Company's large capital expenditure pressure on the real estate development and self-operated projects, we expect the Company's debt level will gradually increase over the next 12-18 months.

### **Modest liquidity position with large exposure to non-standard financing**

NYUI has a modest liquidity position. The Company faces high refinancing pressure considering its high level of short-term debt. As of 31 March 2024, the Company's short-term debt accounted for 28.1% of its total debt and the cash to short-term debt ratio was moderate at 0.4x. At the same time, the Company reported cash reserves of RMB411.3 million, insufficient to cover its short-term debt of RMB1.1 billion. Besides, the Company has some assets pledged for loans, which could undermine its financial flexibility. The pledged assets include cost of construction projects, fixed assets and land use rights, with a total amount of RMB1.8 billion and accounting for around 8.6% of total assets as of 31 March 2024.

NYUI's liquidity profile could be partially alleviated by its access to external financing channels. Bank loans are the main source of funding, which accounted for more than 60% of the total debt as of 31 March 2024. However, the Company does not have standalone credit facilities and uses its parent company's credit facilities to obtain bank loans. As of 31 March 2024, NYIG has obtained total credit facilities of RMB56.2 billion, with an available amount of RMB15.2 billion. At the same time, the Company has relatively large exposure to non-standard financing, such as financial leases and factoring, accounting for around 30% of the total debt. Due to the capital expenditure pressure from its business plan, the Company plans to expand the financing channels to debt capital market in the next 12-18 months.

### **External Support**

#### **Relatively high likelihood of support from the Nanyang Municipal Government and the parent company**

We expect a relatively high likelihood of government support from the Nanyang Municipal Government and NYIG to NYUI in times of need. Our expectation incorporates the considerations of the Company's (1) status as the core subsidiary of NYIG; (2) ultimate control by the Nanyang Municipal Government; (3) regional importance in urban operation in Nanyang City; and (4) good track record of receiving ongoing government support from the Nanyang Municipal Government, including capital injection, equity transfers and financial subsidies.

Nanyang City focuses on the transformation and upgrading of traditional and supporting industries as well as the development of new industries, including digital optoelectronics, biomedicine, new materials, new energy industries. From 2021 to 2023, Nanyang City's economic strength improved steadily with GRP increasing from RMB434.2 billion to RMB457.2 billion, ranking 3<sup>rd</sup> among 18 prefecture-level cities in Henan Province over the past few years. Nanyang Municipal Government's general budgetary revenue has also increased for several consecutive years. In 2023, its general budgetary revenue grew by 12.4% to RMB28.9 billion, of which tax income accounted for 68.2%, indicating a relatively good fiscal quality.

There are three main state-owned capital investment, construction and operation entities in Nanyang City under the control of the Nanyang Municipal Government, which are Nanyang Industrial Investment Group Co., Ltd. ("NYII"), Nanyang Transportation Construction Investment Group Co., Ltd. ("NYTC") and NYIG, respectively. Their responsibilities are well-defined with clear functional positioning. NYII is positioned as an industrial

investment platform in Nanyang City, mainly focusing on industrial transformation and industrial upgrading, while NYTC is positioned as a transportation infrastructure construction and operation entity in Nanyang City. NYIG is an important infrastructure investment and operation entity in Nanyang City and plays a significant role in local urban development and state-owned assets operation. NYUI is one of the key subsidiaries of NYIG in urban operation and industrial development in Nanyang City.

The Nanyang Municipal Government maintains a high degree of control over NYUI's operations through NYIG, including the formulation of business strategies and the appointment of the board of directors and key management personnel. The Company is also required to report its annual budget, objectives, plans and performance to Nanyang SASAC. NYUI receives good support from the Nanyang Municipal Government, given its regional importance in urban operation in Nanyang City. From 2021 to 2023, the local government and NYIG provided capital injections of RMB766.1 million and RMB2.0 billion to the Company, respectively. Over the same period, the Company received operating subsidies from the local government with a total amount of RMB252.1 million, supporting its operations. In 2023, the local government has transferred exclusive rights to the Company, including the parking franchise rights and the outdoor advertising franchise rights in Nanyang City, broadening its business scope. In addition, the Company received government special bonds to support its parking lot projects.

In addition, we anticipate a relatively high likelihood of support from NYUI's parent company when necessary. In March 2024, along with the equity transfer of Nanyang Construction & Investment Co., Ltd. from NYUI to NYIG, NYUI no longer takes part in infrastructure construction under agency construction model. As the primary operating subsidiary in urban operation and industrial development, the Company contributes a large portion of assets and profits for NYIG, accounting for 30.9% of NYIG's total assets as of 31 March 2024 and 39.4% of total revenue in 2024Q1. The Company has continuously received comprehensive support from its parent company. Since 2022, NYIG transferred shares of several state-owned companies held by NYIG to NYUI, significantly enhancing the Company's capital strength. In September 2023, NYIG converted its debt investment in the Company into equity investment, increasing the Company's capital reserves by RMB2.9 billion. Moreover, the Company also obtained funding support from its parent company in terms of bank loans, as NYIG provided guarantee on more than 20% of the Company's total debt.

Overall, given NYUI's regional importance in Nanyang City, we believe its parent company and the local government will continue to support the Company in the form of financial subsidies, capital injections, or asset injections.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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