

## Credit Opinion

23 August 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

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## Yichang City Development Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Yichang City Development Holding Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Yichang City Development Holding Group Co., Ltd. (“YCHG” or the “Company”) reflects the Yichang 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 the Yichang Municipal Government’s capacity to provide support reflects Yichang City’s leading economic competitiveness in Hubei Province, with steady economic growth, but constrained by its modest fiscal balance.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) foremost role as the primary infrastructure construction and state-owned assets operation entity in Yichang City, with regional franchise advantage in public utilities; (2) solid track record of receiving government payments; and (3) diversified access to funding channels.

However, the rating is constrained by the Company’s (1) high commercial business risks due to fluctuations in cyclical industries; (2) rapid debt growth driven by large investment needs; and (3) weak asset liquidity.

The stable outlook on YCHG’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its dominant position in the infrastructure construction and urban development in Yichang City.

## Rating Drivers

- Foremost role as the primary infrastructure construction and state-owned assets operation entity in Yichang City
- High sustainability of public policy businesses
- Solid track record of receiving government payments
- High commercial business risks due to fluctuations in cyclical industries
- Rapid debt growth driven by large investment needs
- Weak asset liquidity
- Diversified access to funding channels with low exposure to non-standard products

## 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 the local government's willingness to provide support, such as reduced exposure to risky commercial activities, enhanced debt management and improved 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 and reduced government payment.

## Key Indicators

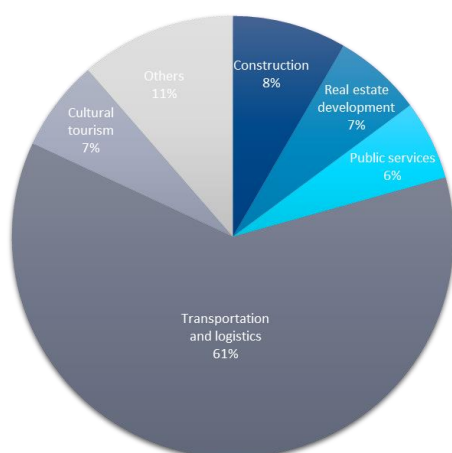
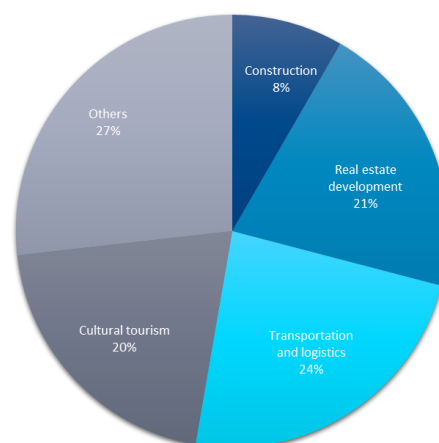
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	108.6	135.0	151.6
Total Equity (RMB billion)	34.7	42.8	47.5
Total Revenue (RMB billion)	7.1	12.9	17.2
Total Debt/Total Capital (%)	63.2	63.0	64.1

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2015, YCHG, formerly known as Yichang Water Investment Co., Ltd., became the most important local infrastructure investment and financing Company ("LIIFC") in Yichang City after the equity transfer in 2023. The Company is mainly responsible for infrastructure construction, affordable housing construction and public services including urban water and gas supply, transportation, sewage and garbage treatment in Yichang City. It also engages in several commercial activities, including real estate development, engineering construction, logistics trade, smart parking, property services and cultural tourism. As of the end of 2023, the Company was directly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Yichang City ("Yichang SASAC").

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Yichang Municipal Government has a very strong capacity to provide support to the Company, given its leading economic competitiveness in Hubei Province, with steady economic growth, but constrained by its modest fiscal balance situation.

Hubei Province is at the center of the Yangtze River Economic Belt and is a natural link between the East and West regions' economies, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. On the back of its geographical advantages, Hubei Province was the seventh largest province in China by gross regional product ("GRP") in 2023, which reached RMB5.6 trillion with a year-on-year ("YoY") increase of 6.0%. In the first half of 2024, Hubei Province's GRP amounted to RMB2.7 trillion, up 5.8% YoY. Hubei Province has strong financial strength. Its general budgetary revenue increased from RMB328.3 billion in 2021 to RMB369.2 billion in 2023, with good fiscal stability as tax income contributed to over 70% of the general budgetary revenue over the past three years. Government fund revenue is an important supplement to the Hubei Provincial Government's financial resources, but it is greatly affected by the land market condition. In 2023, affected by the expected weakening of the real estate market, government fund revenue of Hubei Province dropped by 46.2% to RMB259.7 billion, compared with 2021. Its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was 39.7% in 2023, which was at a relatively weak level. Moreover, Hubei Province's debt burden is relatively heavy as its outstanding government debt amounted to RMB1.6 trillion at end-2023, accounting for about 28.6% of GRP and 248.4% of its total fiscal revenue.

**Exhibit 3. Key economic and fiscal indicators of Hubei Province**

	2021FY	2022FY	2023FY
GRP (RMB billion)	5,001.2	5,373.4	5,580.3
GRP Growth (%)	12.9	4.3	6.0
General Budgetary Revenue (RMB billion)	328.3	328.1	369.2
General Budgetary Expenditure (RMB billion)	793.7	862.4	929.6
Local Government Debt (RMB billion)	1,193.2	1,390.0	1,562.5

Source: Statistic Bureau of Hubei Province, CCXAP research

Yichang City is a prefecture-level city located in the southwest part of Hubei Province. Yichang City has stable economic and fiscal strength, ranking top among prefecture-level cities in Hubei Province. After years of development, it has formed 9 pillar industries such as green chemical, equipment manufacturing, food and drink, biomedicine, building materials, textile clothing and stationery, new generation information technology, clean energy, as well as aerospace and ocean engineering. In 2023, its GRP increased to RMB575.6 billion, representing a YoY growth of 7.1%, ranking 3<sup>rd</sup> among 17 prefecture-level cities in Hubei province. In the first quarter of 2024, Yichang City's GRP amounted to RMB120.2 billion, up 4.9% YoY. The local government's general budgetary revenue was in line with the economic growth. In 2023, its general budgetary revenue also increased to RMB26.9 billion with a YoY growth rate of 23.3%. The fiscal stability was good with tax revenue contributing more than 75% to the general budgetary revenue over the past three years. However, its moderate fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 39.6% indicated that it relied on support from high-tier government and land transfer income. As of 31 December 2023, the outstanding government debt of Yichang City was RMB98.7 billion, accounting for 17.1% of its GRP. The local government debt scale is expanding at a relatively fast pace, and the overall regional debt pressure is relatively high taking into account the debt burden of local state-owned enterprises.

#### **Exhibit 4. Key Economic and Fiscal Indicators of Yichang City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	502.3	550.3	575.6
GRP Growth (%)	16.8	5.5	7.1
General Budgetary Revenue (RMB billion)	19.8	21.8	26.9
General Budgetary Expenditure (RMB billion)	48.8	56.4	68.0
Local Government Debt (RMB billion)	80.5	92.6	98.7

Source: Statistic Bureau of Yichang City, CCXAP research

#### **Government's Willingness to Provide Support**

##### **Foremost role as the primary infrastructure construction and state-owned assets operation entity in Yichang City**

There are two key LIIFCs in Yichang City, namely, Yichang Industrial Investment Holding Group Co., Ltd. ("YIHG") and YCHG, each with a clear positioning in the development of the region. YIHG undertakes important functions including industrial investment and financial services in Yichang City (Except Yichang High-tech Industrial Development Zone). As the largest LIIFC in terms of assets in Yichang City, the Company plays a vital role in public policy businesses in the region, including infrastructure construction, affordable housing construction, urban water and gas supply, transportation, sewage and garbage treatment with strong regional franchise advantages, which provide significant strategic importance for the local government and benefit to the local social and economic development. Considering its strategic importance in undertaking public policy projects in Yichang City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

##### **High sustainability of public policy businesses**

YCHG occupies a leading position in the infrastructure construction and affordable housing construction businesses in Yichang City, which are crucial to local social and economic development. We believe that the large project reserves can ensure the sustainability of the Company's public-policy businesses. However, the delay in project payment progress has caused a certain degree of occupation of the Company's funds.

The Company keeps a leading position in the field of infrastructure construction in Yichang City by undertaking most of the major infrastructure construction tasks, including roads and bridges, landscaping, and municipal public facilities projects. The Company conducts infrastructure construction through an agency construction model. Under the agent construction model, YCHG enters into an agency construction agreement with the related departments of the Yichang Municipal Government and the related departments will pay the total costs plus certain markups to the Company according to construction progress for projects started after 14 July 2017. For those projects started before 14 July 2017, the Company receives repayment according to the planning of the Yichang Finance Department, causing certain delays. As of 31 December 2023, the Company had completed 45 infrastructure construction projects with a total invested amount of RMB6.6 billion and had received repayment of RMB3.6 billion. Meanwhile, the Company had 12 infrastructure construction projects under construction with a total planned investment of RMB1.4 billion and an uninvested amount of RMB1.0 billion and several infrastructure construction projects under planning with a total planned investment of RMB1.3 billion.

As the main urban developer in Yichang City, the Company is also entrusted by the local government to develop affordable housing in the region and is mainly responsible for the development, sale and leasing of talent apartments, affordable housing, demolition of resettlement housing and rental affordable housing to specific groups at prices under government guidance. As of the end of 2023, the Company completed 2 key affordable housing projects with a total investment of RMB749.0 million and a realized sales amount of RMB115.0 million; and there were 17 demolition resettlement housing projects with a realized sales amount of RMB7.9 billion. Moreover, the Company completed 7 rental affordable housing projects with an invested amount of RMB2.7 billion and an occupancy rate of over 85%, which generated rental income of more than RMB45.0 million in 2023. At the same time, there were 3 rental affordable housing projects under construction, with a total estimated investment of around RMB0.7 billion and an uninvested amount of RMB0.5 billion.

### **Regional franchise advantage in public utilities**

In addition, YCHG undertakes urban water supply, gas supply, transportation, sewage and garbage treatment businesses in Yichang City with regional monopoly advantages. As of 31 December 2023, the Company had 4 water supply plants with a daily water supply capacity of 282.0 thousand tons, covering Xiaoting District, Dianjun District, Baiyang Park of High-tech Zone, Gujiadian Town of Zhijiang City, and Xiakou Scenic Area. Moreover, the Company carries out a gas supply business with a total annual gas supply of about 10 million cubic meters, mainly in the Gezhouba-Ziyang area. In addition, the Company runs a sewage and garbage treatment business through 5 sewage treatment plants with a daily sewage treatment capacity of 169.0 thousand cubic meters, covering Yichang City's Xiaoting District, the eastern area of Wujiagang District, the High-tech Zone, Dianjun District, Pinghu Scenic Area and Pinghu Peninsula, and 3 garbage treatment plants, with a daily garbage treatment capacity of 1,030 tons. Considering the nature of the public welfare business, the local government has provided continuous subsidies related to sewage treatment, which amounted to RMB170.0 million in total from 2021 to 2023.

For the transportation business, the income from this business comes from the operation charging rights of the Yichang Yangtze River Highway Bridge ("the Bridge") and the passenger travel business. The operation period of the Bridge is as long as 30 years, starting from September 2001 to September 2031. From 2021-2023, the traffic volume of the Bridge was 8.3 million vehicles, 8.6 million vehicles and 8.1 million vehicles, respectively, which can generate relatively stable income and cash flow every year. In the same period, the vehicle access business realized revenue of RMB251 million and RMB263 million, respectively. Moreover, the Company plans to renovate and expand the Bridge to extend the toll period and ensure the sustainability of the business. The

Company's passenger travel business mainly includes road passenger transport, station services and taxi passenger transport. From 2021 to 2023, the business generated revenue of RMB508 million in total.

### **High commercial business risks due to fluctuations in cyclical industries**

In addition to public activities, YCHG also engages in various commercial activities, such as real estate development, engineering construction, logistics trade, smart parking, property services and cultural tourism. We consider YCHG's commercial business exposure to be high, as its marked-driven business accounted for over 35% of its total assets as of the end of 2023. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks.

YCHG undertakes the development of commercial housing projects in Yichang City. As of end-2023, the Company had completed 8 commercial housing projects, most of which were sold out, with a total investment of RMB6.2 billion and a repayment of RMB6.4 billion. Meanwhile, the Company had 9 commercial housing projects under construction, with a total investment of RMB9.0 billion and an uninvested amount of RMB5.3 billion. Given the large investment demand on these projects, coupled with relatively long construction and payback periods, we believe the Company will face certain capital expenditure pressure and destocking pressure as it is highly subject to the real estate market which China's property market is under a downturn period in China. However, it is difficult to see a fundamental change in China's property market in the short term. Given the cyclical nature of this segment, we believe the Company's risk exposure to real estate will remain a concern.

The Company's transportation and logistics sector is the largest income source of the Company thanks to YCHG's rapidly expanding logistics trade business in recent years. In 2023, the revenue from transportation and logistics amounted to RMB10.6 billion, accounting for 61.3% of its total revenue, but the profitability was low reflected by a gross profit margin of 3.1%. The Company's logistics trade business is primarily involved in sales of bulk commodities, including coal, steel and coke, to chemical and energy companies along the Yangtze River through its subsidiaries, and provides warehousing, multimodal transport of special railway lines, and entrusted procurement services, building a full industrial chain service. In 2023, the procurement from the top five suppliers accounted for 38.1% of the total procurement and the sales from the top five customers accounted for 24.8% of the total sales. However, the business is subject to volatile market supply and demand risks with low bargaining power.

The Company engages in car sales and diversified extended vehicle services, including vehicle refueling, gas charging, testing, and driving training. Due to a decline in the scale of vehicle sales resulting from intensified competition in the sluggish car sales market, the Company's car sales and extended vehicle service business revenue has continued to shrink in recent years, recording revenue of RMB1.1 billion, RMB997 million, and RMB805 million in 2021 to 2023, respectively.

YCHG's cultural tourism business has developed rapidly, mainly including hotel operations and tourism services. From 2021 to 2023, the Company achieved hotel operation revenue of RMB49 million, RMB222 million and RMB281 million, respectively. From 2022 to 2023, the tourism service revenue was RMB219 million and RMB1.0 billion, respectively. The cultural tourism business can increase the Company's revenue scale and profitability but uncertainty exists due to the vulnerable nature of the tourism industry.



### **Solid track record of receiving government payments**

In recognition of the Company's importance of public activities in Yichang City, YCHG has a proven track record of receiving support from the local government in terms of financial subsidies and asset injections. In 2022, The local government transferred shares of several state-owned companies to Yichang Urban Development Investment Group Co., Ltd. ("YUDI"). In February 2023, the Yichang SASAC transferred 100% of equity shares of YUDI to the Company without compensation, which contributed nearly 90% of its total revenue in 2023 and around 92.8% of its total assets at-end 2023, greatly enhancing its capital strength and broadening its business scope. It also has obtained exclusive rights from the local government to develop water supply and sewage treatment services in Yichang City since 2005. YCHG also received government subsidies totaling RMB1.9 billion from 2021 to 2023, to support its daily operations. We expect government support for YCHG to continue in light of the Company's important strategic role in the region.

### **Rapid debt growth driven by large investment needs**

YCHG shows a rising debt burden owing to its continuous investment in public-policy projects and commercial activities over the past few years. YCHG's total debt has grown rapidly since 2021. As of 31 December 2023, the Company's total debt grew to RMB84.1 billion from RMB57.8 billion as of end-2021, with a compound annual growth rate of 13.3%. The total capitalization ratio, as measured by total debt to total capital, has also increased to 64.1% at end-2023 from 63.2% at end-2021. Meanwhile, the Company bores a relatively high short-term debt burden, with a cash to short-term debt ratio of 0.5x. Considering the Company's ongoing investment needs and slow repayment progress of its agency construction projects, we expect that the Company will rely on external financings to meet its capital expenditures and the Company will maintain a relatively fast debt growth for the next 12-18 months.

The Company has certain exposure to external guarantees while the contingent risk would be controllable. At end-2023, the Company had one external guarantee of RMB1.5 billion, accounting for 3.2% of its net assets. The external guarantee was provided to a local state-owned enterprise in Yichang City, which will likely be supported by the local government when necessary.

### **Weak asset liquidity**

In addition, YCHG has weak asset liquidity. The Company's total asset mainly consists of inventories, account receivables, and construction in progress, which accounted for 77.0% of its total assets at end-2023, all of which are considered low liquidity. Inventories were mainly investment costs for infrastructure construction projects and property development projects, while receivables were mainly unreceived payments from the agencies of the government or other state-owned companies. Construction in progress mainly consisted of investment costs for projects including port, logistics, urban construction and environmental protection.

### **Diversified access to funding channels with low exposure to non-standard products**

The Company has access to various sources of funding, including bank loans, onshore bond financing and non-standard financing. As of the end of 2023, around 53.8% of the Company's debt financing was provided by domestic banks with total credit facilities of RMB55.1 billion and available credit facilities of RMB29.1 billion, indicating a sufficient liquidity buffer. It has good access to the onshore bond market as around 36.0% of the Company's debt was financed from the debt capital market. The Company's subsidiary had raised RMB32.4 billion from the onshore bond market via the issuance of MTNs, PPNs, and corporate bonds. Meanwhile, the Company's exposure to non-standard financing is relatively low, mainly financial leasing, accounting for around

10.2% of total debt at end-2023. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing onshore and offshore bonds. In addition, we consider the Company's diversified funding channel can largely fulfill its future capital expenditure.

## 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. YCHG 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.

The Company fulfills its social function by providing public services in Yichang City. YCHG is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Yichang City. 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. YCHG 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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