

## Credit Opinion

5 September 2024

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Yibin Cuiping Industrial Development Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Yibin Cuiping Industrial Development Group Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Yibin Cuiping Industrial Development Group Co., Ltd. (“YCID” or the “Company”) reflects Cuiping District Government’s (1) 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 Cuiping District Government’s capacity to provide support reflects that Cuiping District is the political, economic and cultural center of Yibin City, with strong industrial fundamental.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important strategic role as the most important state-owned capital operation entity in Cuiping District; (2) low risk exposure to commercial activities; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) weak asset liquidity; and (2) rising debt amount with relatively high leverage.

The stable outlook on YCID’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 Cuiping District.

## Rating Drivers

- Most important state-owned capital operation entity in Cuiping District
- Low risk exposure to commercial activities
- Good track record of receiving government support
- Rising debt amount with relatively high leverage
- Weak asset liquidity
- Funding mainly from banks

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) Cuiping 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 access to funding channel.

### What could downgrade the rating?

The rating could be downgraded if (1) Cuiping 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

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	53.0	64.6	77.6	79.5
Total Equity (RMB billion)	25.8	31.6	35.7	35.4
Total Revenue (RMB billion)	1.1	1.5	2.5	0.7
Total Debt/Total Capital (%)	45.4	44.6	47.7	49.2

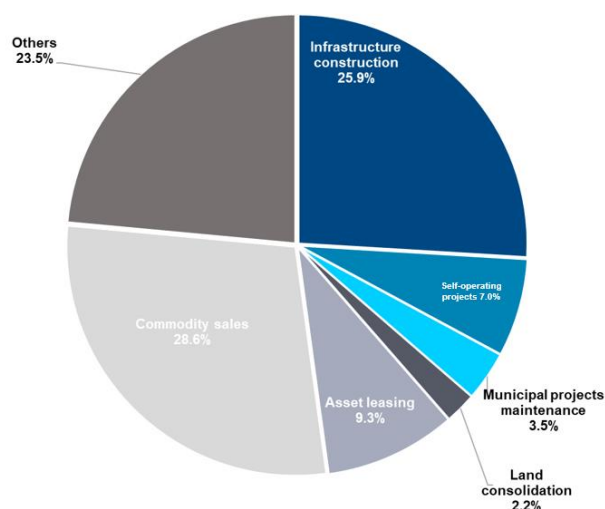
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

YCID was established in 2020 held by Yibin Cuiping District State-owned Assets Management Co., Ltd. ("YCSO"). In 2022, the ownership of YCID was transferred to the State-owned Assets Supervision and Administration and Financial Bureau of Cuiping District, Yibin City ("Cuiping SASAB") and YCSO became YCID's subsidiary. After the consolidation of local state-owned enterprises by Cuiping SASAB, the Company has become the most important state-owned capital operation entity in Cuiping District. It is primarily engaged in infrastructure construction projects. It also undertakes commercial activities such as commodity sales, construction of self-operating projects, and asset leasing. As of 31 March 2024, the Company was wholly owned and ultimately controlled by Cuiping SASAB.

## Exhibit 1. Revenue Structure in 2023



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Cuiping District Government has a strong capacity to provide support for the Company given that Cuiping District is the political, economic and cultural center of Yibin City, with strong industrial fundamental.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2023, Sichuan recorded a gross regional product ("GRP") of RMB6.0 trillion, with a GRP growth rate of 6.0% year-on-year ("YoY"), ranking 6<sup>th</sup> in terms of GRP among all provinces in China. In 2023, its general budgetary revenue increased to RMB552.9 billion, up by 13.3% YoY.

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 2023, Yibin City recorded a GRP of RMB380.7 billion, ranking 3<sup>rd</sup> among all prefecture-level cities in Sichuan Province, with a GRP growth rate of 7.5%. In the first half of 2024, the GDP of Yibin City recorded a YoY growth of 6.7%. Its general budgetary revenue increased from RMB25.1 billion in 2021 to RMB31.4 billion in 2023. However, its government fund revenue decreased from RMB23.6 billion in 2021 to RMB18.0 billion in 2023 due to the property market downturn and land sales fluctuations. Yibin City has relatively weak fiscal self-sufficiency, with a fiscal balance ratio of 45.7% over the past three years. Yibin Municipal Government has an increasing debt burden, the government debt was RMB110.2 billion in 2023, representing 28.9% of its GRP.

**Exhibit 2. Key economic and fiscal indicators of Yibin City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	314.8	342.8	380.7
GRP Growth (%)	8.9	4.5	7.5
General Budgetary Revenue (RMB billion)	25.1	27.6	31.4
General Budgetary Expenditure (RMB billion)	56.4	61.0	66.4
Local Government Debt (RMB billion)	74.2	90.4	110.2

Source: Statistic Bureau of Yibin City, CCXAP research

Cuiping District is under the administration of Yibin City, with a total area of 1,259 square kilometers. It is the political, economic and cultural center of Yibin City. Cuiping District has strong industrial strength, and its leading industries include liquor and food, chemical fiber textiles, machinery and equipment manufacturing, and new energy. Several nationwide renowned companies have settled in Cuiping District, including Yibin Wuliangye Group Co., Ltd and Langsha Holding Group Co., Ltd.

Cuiping District's GRP increased to RMB151.2 billion in 2023, with a YoY GRP growth rate of 9.2%. Cuiping District Government's general budgetary revenue amount to RMB7.5 billion in 2023, with a YoY growth rate of 13.7%, of which tax revenue accounted for 64.4% in 2023, with a YoY growth rate of 26.7%. The GRP and general budgetary of Cuiping District both ranked as 1<sup>st</sup> among 10 districts/counties of Yibin City. However, its government fund revenue decreased from RMB2.9 billion in 2021 to RMB2.6 billion in 2023 due to the property market downturn and land sales fluctuations. Cuiping District has a moderate fiscal self-sufficiency, its fiscal balance ratios were around 47.5% over the past three years. The debt burden of Cuiping District is manageable but with an upward trend. From 2021 to 2023, the government debt of Cuiping District rose from RMB5.7 billion to RMB10.6 billion. At end-2023, Cuiping District's outstanding government debt accounted for 7.0% of its GRP.

**Exhibit 3. Key economic and fiscal indicators of Cuiping District**

	2021FY	2022FY	2023FY
GRP (RMB billion)	116.4	131.8	151.2
GRP Growth (%)	10.5	7.6	9.2
General Budgetary Revenue (RMB billion)	3.0	3.3	3.7
General Budgetary Expenditure (RMB billion)	7.0	7.2	7.1
Local Government Debt (RMB billion)	5.7	7.9	10.6

Source: Statistic Bureau of Cuiping District, CCXAP research

**Government's Willingness to Provide Support****Most important state-owned capital operation entity in Cuiping District**

After the consolidation of the local platform in Cuiping District, YCID has become the most important state-owned capital operation entity in Cuiping District. Among them, YCSO is the most important subsidiary, which was mainly responsible for infrastructure construction, commodity sales, construction of self-operating projects, and asset leasing.

YCID undertakes infrastructure construction projects such as municipal roads, pipeline networks, shanty town reconstruction. The Company conducts infrastructure construction mainly by signing agency construction agreements with the entrusted parties, normally government institutions in Cuiping District, which would pay the

Company based on the construction progress. The repurchase payment is calculated based on the construction cost plus an agreed return. As of 31 March 2024, the Company had 12 major infrastructure construction projects under construction or planning, with a total planned investment amount of RMB29.0 billion and an outstanding amount of RMB7.8 billion, which ensures the sustainability of the business, but exerts large capital expenditure pressure to Company.

YCID also undertakes land consolidation and municipal project maintenance business within Cuiping District. In terms of land consolidation business, the Company enters into agreements with Yibin Cuiping District Finance Bureau and Yibin Cuiping District Land Acquisition and Demolition Service Center to conduct land consolidation. The Company receives land consolidation management fee from the government each year based on the work progress. In terms of municipal projects maintenance, the Company entered agreements with Yibin Cuiping District Finance Bureau and market-oriented entities. The Company manages the municipal facilities of Cuiping District, and receives management fee. However, the sustainability of the land consolidation and municipal project maintenance business face uncertainty as the previous agreements with the government have expired and the Company currently has not initiated new agreements.

### **Low risk exposure to commercial activities**

YCID is also engaged in commercial activities such as the construction of self-operating projects, commodity sales, and asset leasing. We consider the Company's commercial business risk to be manageable, because the proportion of assets related to commercial activities to its total assets were relatively low.

The Company engages in the construction of self-operating projects, such as industrial parks, pipeline networks and cultural center. The Company constructs self-operating projects mainly with self-raised funds and rely on leasing and operating income to achieve breakeven. However, the income of self-construction projects is subject to the changes of operating performance and market landscape. As of 31 March 2024, the Company had 19 major self-operating projects under construction or planning, with an estimated total investment of RMB15.2 billion and an outstanding amount of RMB13.0 billion, exerting relatively large capital expenditure pressure. Given the large number of self-operating projects under construction or planning, we expect the Company's exposure to commercial activities will increase in the future.

The Company also engages in commodity sales business, such as sands, pebbles, flakes, quicklime and stone powder. This segment faces certain concentration risk. As of end of 2023, the top 5 suppliers and customers accounted for 56.3% and 81.2% of the total procurement and total sales, respectively. In recent years, the gross profit from segment has been gradually dropping, mainly due to the higher sales volume of low-profit-margin products. This segment recorded substantial increase in revenue from 48.6 million in 2021 to RMB711.1 million in 2023. It is also noteworthy that the downstream customers involve private-owned enterprises, hence the progress of payment collection shall be closely monitored.

The asset leasing business include both housing leasing and car leasing. The housing leasing segment mainly generated income by renting shops, office building and public rental housing. As of 31 March 2024, the Company had 5 major clients, with a total leased area of 12,457 square meter. Meanwhile, the future development of housing leasing segment shall be closely monitored given the fluctuations in the rental market. The car leasing business was established in 2023. Benefited by the high occupancy rate and the properties injection from Cuiping District Government, the revenue from asset leasing business has been growing steadily over the past few years. The revenue from the asset leasing business increased from RMB98 million in 2021 to RMB230.4 million in 2023.

### **Good track record of receiving government support**

YCID 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 2021 to 2022, the Company received cash injection of RMB2.3 billion as well as government subsidies of RMB290.6 million. Over the same period, the Company had received asset injection of RMB13.4 billion, mainly operating rights, investment properties, and equity shares of other local state-owned enterprises. Overall, given its important position and contribution to regional industrial development, we believe that the Company will receive ongoing government support to support its business operations.

### **Rising debt amount with relatively high leverage**

With the expansion of its construction projects, the total debt has been rising in the past few years. As of 31 March 2024, the total debt increased to RMB34.4 billion from RMB21.4 billion in 2021. Its debt leverage is still elevated as the total capitalization ratio slightly increased from 45.4% at end-2021 to 49.2% as of 31 March 2024. Moreover, the Company has a certain short-term repayment pressure. As of 31 March 2024, the Company's short-term debt amounted to RMB9.1 billion, accounting for 26.7% of its total debt. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will expand external financing and have a relatively fast debt growth for the next 12-18 months.

### **Weak asset liquidity**

The Company has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of inventories, accounting for 70.6% of its total assets as of 31 March 2024. Inventories were mainly the construction costs arising from its public projects, which we believe to be of low liquidity. Many projects have been completed but not yet receive payments. Moreover, the Company's total restricted asset was RMB3.4 billion as of 31 December 2023, which mainly consists of construction cost, intangible asset, fixed asset and cash that were used for pledge.

In terms of contingent liability, as of end-2023, the Company's external guarantee amount was RMB3.8 billion, accounting for 11.9% of its net assets. Most of the external guarantees are provided to local state-owned enterprises in Cuiping 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.

### **Funding mainly from banks**

As of 31 March 2024, about 54.7% of the Company's financing was the loans provided by domestic banks, with a financing cost ranging from 5% to 6%. The Company has a sufficient liquidity buffer given its relatively large amount of available credit facilities. As of 31 March 2024, it held available bank credit facility of RMB9.3 billion. In addition, the Company has access to the onshore debt capital market, with coupon rate ranging from 4.5% to 6.1%. It plans to issue offshore bonds to broaden its financing channel.

## **ESG Considerations**

YCID 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.

YCID bears social risks as it implements public policy initiatives by building public infrastructure in Cuiping 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.

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

### **Structural Consideration**

YCID'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 dominant position in the infrastructure construction in Cuiping 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 \(July 2022\)](#).

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