

Credit Opinion

6 December 2024

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

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Yixing City Construction Culture Tourism Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Yixing City Construction Culture Tourism Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g long-term credit rating of Yixing City Construction Culture Tourism Group Co., Ltd. ("YCCT") reflects (1) Yixing City Government's very strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Yixing City Government's capacity to provide support reflects Yixing City's status as the third largest county-level city by gross regional product ("GRP") in Wuxi City, with ongoing economic growth and good fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic position in urban and rural infrastructure construction in Yixing City; (2) good access to diversified funding; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high level of contingent liabilities resulting from external debt guarantees.

The stable outlook on YCCT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in Yixing City.

Rating Drivers

- Clear and important strategic position in Yixing City
- Medium exposure to commercial activities
- Good track record of receiving government support
- Prudent debt management that helps mitigate financial pressure
- Good access to diversified funding
- High level of contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduction in exposure to commercial activities or increase in policy importance.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or deteriorated debt management.

Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	15.8	17.5	20.9	20.8
Total Equity (RMB billion)	6.4	6.5	7.6	7.7
Total Revenue (RMB billion)	1.5	1.4	1.6	0.7
Total Debt/Total Capital (%)	57.4	59.7	56.9	58.5

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

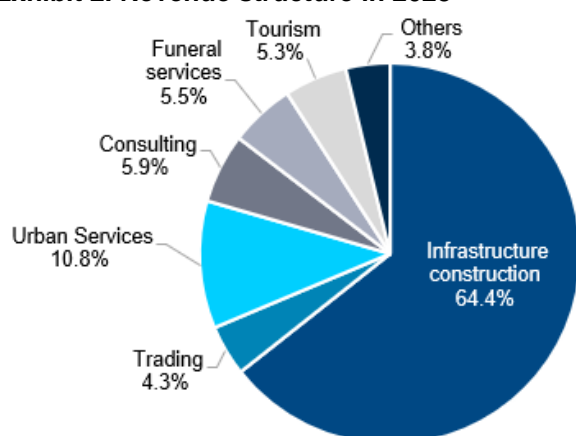
Source: Company data, CCXAP research

Corporate Profile

Established in 2002, YCCT is one of the key local infrastructure investment and financing companies ("LIIFCs") in Yixing City, Wuxi City. It is mainly responsible for the construction and maintenance of public and infrastructure facilities. It also participates in different business segments such as fish pond business, tourism, urban services and trading businesses. In 2023, the Yixing Municipal Government transferred 51% of the Company's equity to Yixing State-owned Capital Investment Holding Group Co., Ltd. ("YSCI"). As of 30 June 2024, the State-owned Assets Supervision and Administration Office of Yixing Municipal People's Government ("Yixing SASAO") and YSCI held 49% and 51% of the Company's equity, respectively. Yixing SASAO remained as the ultimate controller.

Exhibit 1. Shareholding chart as of 30 June 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe that Yixing City Government has a very strong capacity to provide support, given its ongoing economic growth and good fiscal stability.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150.5 thousand, ranking first among all provinces in China. In the first three quarters of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's economy is relatively strong with the third-highest GRP at the prefectural level in Jiangsu Province for more than 5 consecutive years. In 2023, it achieved a GRP of RMB1.5 trillion with a YoY growth rate of 6.0%; and in the first three quarters of 2024, the GRP of Wuxi City amounted to RMB1.1 trillion, with a YoY growth rate of 6.0%. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry. Wuxi City's fiscal profile is strong and characterized by high fiscal sufficiency and a strong

revenue-generating ability. In 2023, its general budgetary revenue increased to RMB119.5 billion, and its self-sufficiency rate (general budgetary revenue/general budgetary expenditure) has averaged above 85% over the past three years. As of 31 December 2023, the local government's outstanding debt increased to RMB217.1 billion, accounting for 14.0% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Wuxi City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,400.3	1,485.1	1,545.6
GRP Growth (%)	8.8	3.0	6.0
General Budgetary Revenue (RMB billion)	120.1	113.3	119.5
General Budgetary Expenditure (RMB billion)	135.8	136.6	139.0
Local Government Debt (RMB billion)	160.8	187.4	217.1

Source: Statistics Bureau of Wuxi City, CCXAP research

Yixing City is located in the southwest of Wuxi City, and has ranked top in comprehensive strength among the top 100 counties in China for years according to CCID. Yixing City's main industries include ceramic manufacturing, cable industry, and environmental protection. In 2023, Yixing City achieved a GRP of RMB233.8 billion with a YoY increase of 6.2%, which maintained a solid economic growth above that of the national level and Wuxi City. In the first three quarters of 2024, the GRP of Yixing City amounted to RMB176.5 billion with a YoY growth of 6.2%. With the support of ongoing economic development, Yixing City's fiscal strength also remained at the forefront of Wuxi City and demonstrated good fiscal stability. In 2023, it reported a public budgetary revenue of RMB14.1 billion, with a YoY growth rate of 6.2%. Tax income is a solid source of fiscal revenue, accounting for around 80% of the public budgetary revenue over the past three years. Yixing City Government's fiscal balance rate remained relatively high level over 70% over the past three years. As of end-2023, Yixing City's government debt balance increased to RMB21.3 billion, accounting for 9.1% of GRP.

Exhibit 4. Key economic and fiscal indicators of Yixing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	208.2	223.7	233.8
GRP Growth (%)	8.8	3.2	6.2
General Budgetary Revenue (RMB billion)	14.2	13.2	14.1
General Budgetary Expenditure (RMB billion)	18.8	18.9	17.8
Local Government Debt (RMB billion)	15.6	18.8	21.3

Source: Statistics Bureau of Yixing City, CCXAP research

Government's Willingness to Provide Support Clear and important strategic position in Yixing City

There is a clear functional positioning for the LIIFCs in Yixing City, supporting the long-term development of YCCT. In October 2023, according to the local government's new plan to manage the tourism resources in Yixing City, the Company transferred out the subsidiary, Jiangsu Yixing Tourism Industry Group Co., Ltd. ("YXTI"), at the negotiated price to another local state-owned enterprise. After the transformation, YCCT's positioning has become clearer among the local SOEs, focusing on the three main businesses of urban development and construction, urban operation services and urban-rural integrated development. The Company is committed to being a comprehensive urban operator that engages in the investment, construction, operation and providing services, as well as the main force in industrial development.

In 2023, Yixing SASAO transferred 51% of the Company's equity to YSCI. There have been no significant changes in the Company's main business and regional importance, and Yixing SASAO remained as the ultimate controller of the Company. YSCI is wholly owned by the Yixing SASAO and is the sole state-owned enterprise integrating functions of financial services, area development and investment promotion. There are some other LIIFCs in Yixing City controlled by the local government, including Yixing City Development Investment Co., Ltd. ("YCDI"), Jiangsu Yixing Economic Development Zone Investment Development Co., Ltd. ("YEDI") and Yixing Communications Industry Group Co., Ltd. ("YCIG"). YCDI is responsible for the primary land development, drainage system maintenance and infrastructure construction for the urban area; YEDI is responsible for primary land development and resettlement housing construction in Yixing Economic Development Zone; YCIG is responsible for the investment, financing, construction, and management of the transportation infrastructure projects in Yixing City. We believe that the strategic role of YCCT in Yixing City's economic development and public welfare is irreplaceable in the short-to-medium time period.

Undertaking major infrastructure construction projects in Yixing City

YCCT has undertaken a large number of infrastructure construction projects over the past years mainly through agency construction mode. Projects include building roads, bridges, greening, urban renewal, and public facility upgrades, which have greatly increased the social welfare of Yixing City. Key completed projects include the Chengdong Xincheng Road Network, Cultural Center, Jiefang West Road and other old urban areas, and other infrastructure maintenance projects. At the end of 2023, the Company's infrastructure projects under construction mainly included the Traditional Chinese Medicine Hospital parking lot improvement and renovation project, with a total planned investment amount of RMB160.0 million and an uninvested amount of RMB130.0 million. Meanwhile, the Company had 4 projects under planning, with a total investment amount of RMB1.7 billion. We believe that the Company's long pipelines for projects will ensure YCCT's future revenue sustainability.

The Company also carries out government infrastructure construction projects through the engineering construction model, with a third-level qualification for general contracting of its subsidiary. The Company undertakes the infrastructure projects through bidding, and books revenue based on the completion progress. In 2023, the number and contract amount of YCCT's newly signed both decreased, and the contract amount dropped to RMB258.0 million. As of end-2023, the Company had sufficient project reserves, with a total amount of contracts in hand of RMB533.0 million.

Medium exposure to commercial activities

YCCT has also been engaged in diversified commercial activities, mainly including fish pond business, tourism, urban services and trading businesses. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We estimate the Company's risk exposure to commercial business remained moderate and the commercial assets account for 15%-20% of total assets.

To promote the development of rural areas, the Company has started the operation and management of breeding ponds including construction and upgrade of breeding ponds and ecological environment. The Company will generate income mainly through the rental of fish ponds, and comprehensive development of the aquaculture industry chain such as sales of fish farming products. The estimated total investment of the projects is RMB1.1 billion. The Company has invested RMB260 million as of the end of 2023 and has already obtained a 20-year tidal flat use right. Given the public affirmative attribute of the project, the local government has provided support including special funds of RMB590 million to the Company to release its capital expenditure pressure, while the long investment period and exposure to the agricultural market bring more business risks to

the Company.

For the tourism business, after the sale of rural tourism assets in 2023, YCCT is only responsible for the operation of tourism resources within the center of the city, including Longbei Mountain Forest Park and Tuanjiu Scenic Area. Since these scenic spots are free for tourists, the Company generates operation income such as various consumption-oriented projects within the scenic spots and receives government subsidies to maintain its operation. The revenue from tourism dropped significantly in 2024 due to the reduction in tourism assets. The Company achieved an investment income of RMB5.3 million in 2023 from the disposal of a tourist subsidiary, and the equity acquisition has been fully received by the end of June 2024.

YCCT's urban services business mainly includes parking lot management and logistics support in Yixing City. Backed by its strong shareholder background and sustainable customer source, the Company's revenue from urban services business remained stable, amounting to RMB72.4 million in the first half of 2024 and RMB176.2 million in 2023. The Company's main trading products are electrical copper. The main reason for the significant decline in the trading business revenue is that the revenue measurement method for part of the trading business was changed to the net amount method. Meanwhile, the gross profit continued to be negative, affected by the fluctuations in commodity prices. The Company has been controlling the scale of trade business since 2023 to reduce its exposure to high-risk trading business.

Good access to diversified funding

YCCT's funding capability remained good, with smooth funding channels and relatively low costs. Its primary funding sources are major domestic banks such as joint-stock commercial banks and large state-owned commercial banks, and the capital debt market, which collectively accounted for over 90% of its debts. As of 30 October 2024, it obtained total credit facilities of RMB10.7 billion with an unused amount of RMB2.1 billion. It had a controllable exposure to non-standard debts, such as leasing, and accounted for around 5% of the total debt. The Company also has a good track record of fund-raising activities in the capital market over the past 24 months. In 2023, the Company raised debt of RMB1.8 billion via three tranches of private corporate bonds with coupon rates from 3.15% to 3.63%. Both Wuxi City and Yixing City are well-developed cities in China, with strong economic strengths and a good financial environment. Benefiting from good recognition from the market, we expect that YCCT will maintain good funding access to bank borrowing and bond issuances over the next 12-18 months.

Prudent debt management that helps mitigate financial pressure

YCCT has demonstrated prudent debt management over the past three years with a reasonable debt growth rate. On one hand, the Company is committed to controlling the growth rate of total debt; on the other hand, it strives to diversify the operating revenue through its resources in Yixing City. YCCT's debt scale increased to RMB10.1 billion at end-2023 from RMB9.7 billion at end-2022, with a growth rate of around 4.0%, and further increased to RMB10.9 billion as of 30 June 2024. The growth rate was kept at a relatively reasonable level. The total capitalization ratio (calculated by total debt to total capital) remained at a relatively high level, at 58.5% as of 30 June 2024. The Company maintained a reasonable debt structure with short-term debt accounting for around 25% over the past three years.

YCCT's good debt management is helpful in mitigating its financial pressure from the low asset liquidity. YCCT's assets are dominated by inventories and receivables, mainly from the infrastructure construction business, with relatively low liquidity. Meanwhile, the Company's cash has remained over RMB1.0 billion with a low restricted ratio over the past three years, which could partially alleviate its liquidity pressure. The cash to short-term debt

ratio was acceptable at 0.4x as of 30 June 2024.

Good track record of receiving government payments

YCCT receives ongoing support from the Yixing City Government, including asset injection, project grants, and financial subsidies. In 2023, the Company received cash injection of RMB650 million. Meanwhile, the local government transferred property assets into the Company, with a value of RMB40 million. In addition, YCCT also has a good track of receiving government payments. From 2023 to 2024H1, the Company continued to receive government subsidies with a total amount of RMB241.0 million. The Company signed entrusted construction agreements with the local government and has received project repayments over the past three years. However, the settlement and actual payments of projects are susceptible to government discretion. Given its high strategic importance in Yixing City, we believe that the Yixing City Government will provide YCCT with operational and financial support such as asset injections, operating subsidies and repayments.

High level of contingent liabilities from external debt guarantees

YCCT had a high level of contingent liabilities resulting from its external guarantees, which could potentially increase its repayment obligations. It is mainly the cross-guarantee with other state-owned enterprises in Yixing City, such as YCDI. If a credit event occurs in the region, it may lead to large-scale cross-effects. However, we believe that the credit risk of the guarantee is moderately controllable, taking into account the local government's support to local SOEs. As of 30 June 2024, the Company's outstanding external guarantees increased to RMB5.6 billion, which accounted for 72.2% of its net assets.

ESG Considerations

YCCT faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

YCCT bears social risks as it implements public policy initiatives by building public infrastructure in Yixing City. 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.

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

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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