

CCXAP affirms Yueyang City Operation Investment Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 19 November 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of BBB_g+ to Yueyang City Operation Investment Group Co., Ltd. (“YCOG” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Yueyang City Operation Investment Group Co., Ltd. (“YCOG” or the “Company”) reflects Yueyang 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 Yueyang Municipal Government’s capacity to provide support reflects Yueyang City’s economic importance in Hunan Province, with ongoing economic and fiscal growth.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strong position in transportation infrastructure construction of Yueyang City; (2) good track record of receiving government support; and (3) good access to funding from banks and the bond market. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) increasing debt leverage and modest asset liquidity; and (3) moderate exposure to external guarantees.

Corporate Profile

Founded in April 2012, YCOG is an important infrastructure construction and state-owned asset operation and management entity in Yueyang City. The Company mainly engages in local transportation infrastructure construction, land development, shantytown renovation and affordable housing construction projects. It is also involved in other commercial activities such as engineering construction, trading, and fuel oil sales. As of 30 June 2024, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Yueyang Municipal People’s Government.

Rating Rationale

Credit Strengths

Strong position in transportation infrastructure construction of Yueyang City. YCOG primarily involves in transportation infrastructure construction, land development, shantytown renovation, and affordable housing construction within Yueyang City. Considering its status as an important urban construction entity in Yueyang City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving ongoing government support. YCOG receives ongoing support from the local government through operating subsidies, special funds, capital injections, and asset transfers. The Company has received capital injections, significantly enhancing its capital strength. Considering the Company’s important role in infrastructure construction projects and the provision of public services in Yueyang City, we believe that the local government will maintain strong support for the Company.

Good access to funding from banks and the bond market. YCOG has good access to funding, as reflected by its sufficient standby liquidity and track record of bond issuance. The Company has approved lines of credit from many commercial and policy banks, including Industrial and Commercial Bank of China and Agricultural Development Bank. the Company's reliance on non-standard financing is low, accounting for less than 10% to total debt.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, YCOG is also engaged in commercial businesses, mainly including engineering construction, trading, and fuel oil sales. We consider the Company's current exposure to commercial businesses to be medium, accounting for about 20% of its total assets.

Increasing debt burden and modest asset liquidity. YCOG's total debt has increased with ongoing financing for the construction projects. The Company's total debt increased from RMB18.7 billion at end-2021 to RMB30.1 billion at mid-2024, with a total capitalization ratio of 57.0%. YCOG has modest asset liquidity, which may undermine its financing flexibility.

Moderate exposure to external guarantees. YCOG has moderate exposure to external guarantees, which limits its credit rating. As of 30 June 2024, the Company had outstanding external guarantees of about RMB4.8 billion, accounting for 21.0% of its net assets.

Rating Outlook

The stable outlook on YCOG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will continue to play an important role in transportation infrastructure of Yueyang City.

What could upgrade the rating?

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

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 material increase in exposure to external guarantees.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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