

## **CCXAP upgrades Yixing City Construction Culture Tourism Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 30 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Yixing Construction Cultural Tourism Group Co., Ltd. (“YCCT” or the “Company”) to BBB<sub>g</sub>+ from BBB<sub>g</sub>, reflecting our expectation of the increasing willingness to provide support from the Yixing City Government.

The BBB<sub>g</sub>+ long-term credit rating of 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 funding with reduced reliance on non-standard financing; and (3) good track record of receiving government payments. 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.

### **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 engineering construction, urban services, human resources service and trading. As of 30 June 2023, it was wholly owned by the State-owned Assets Supervision and Administration Commission of Yixing City Government (“Yixing SASAC”), with a paid-in capital of RMB758.0 million.

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. YCCT will focus on the operation of tourism resources in the main urban area of Yixing City such as Longbei Mountain Forest Park and Tuanjiu Scenic Area in the future.

### **Rating Rationale**

#### **Credit Strengths**

**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. After the transformation in 2023, 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.

**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. In addition, the Company carries out government infrastructure construction projects through bidding, and recognizes revenue based on the completion progress.

**Good access to funding with reduced reliance on non-standard financing.** It has seen an improvement in YCCT's financing ability with optimized debt structure and lower costs. Its primary funding sources are major domestic banks such as joint-stock commercial banks and large state-owned commercial banks, and the public bond market, and it has a small exposure to non-standard debt. The Company also has a good track record of fund-raising activities in the capital market with low credit spreads over the past 24 months.

**Good track record of receiving government payments.** YCCT has received ongoing support from the Yixing City Government, including capital injections, asset transfers, project grants, and financial subsidies. In addition, YCCT also has a good track of receiving government payments. We believe that the Yixing City Government will provide YCCT with ongoing operational and financial support such as assets injections, operating subsidies and continuous repayments, given its high strategic importance in Yixing City.

### Credit Challenges

**Medium exposure to commercial activities.** Apart from public services, YCCT has also been engaged in diversified commercial activities, mainly including human resources service, tourism 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 at moderate level and the commercial assets account for 20%-25% of total assets.

**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. As of 30 June 2023, the Company's outstanding external guarantees decreased to RMB4.5 billion from RMB5.2 billion on 30 June 2022, which accounted for 68.4% of its net assets. If a credit event occurs in the region, it may lead to large-scale cross-effects.

### Rating Outlook

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.

#### **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.

#### **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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