

## CCXAP affirms Yuyao Shuncaï Investment Holding Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.

Hong Kong, 8 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yuyao Shuncaï Investment Holding Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of Yuyao Shuncaï Investment Holding Co., Ltd. (“Yuyao Shuncaï” or the “Company”) reflects (1) Yuyao 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 Yuyao City Government's capacity to provide support reflects Yuyao City's relatively good comprehensive strength, ongoing economic growth, and good fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong business position in Yuyao City; (2) essential policy role in the provision of public services in Yuyao City; (3) good access to fundings; and (4) good track record of receiving government payments. However, the rating is constrained by the Company's (1) moderate asset liquidity; (2) high debt leverage and fast debt growth; and (3) high exposure to contingent liabilities.

### Corporate Profile

Established in 2015, Yuyao Shuncaï is the largest local infrastructure investment and financing company (“LIIFC”) in Yuyao City in terms of total assets. It consolidates most of the key LIIFCs controlled by the Yuyao City State-owned Assets Supervision and Administration Commission (“Yuyao SASAC”). The Company engages in diversified businesses through its subsidiaries, mainly including public businesses such as infrastructure construction, land development and reclamation, resettlement housing development, as well as public services such as utilities and transportation. As of 30 September 2023, Yuyao Shuncaï was 90% directly owned by Yuyao SASAC, its ultimate controlling shareholder, and 10% owned by Zhejiang Financial Development Co., Ltd.

### Rating Rationale

#### Credit Strengths

**Strong business position in Yuyao City.** Positioned as the largest state-owned capital operation entity in Yuyao City, Yuyao Shuncaï is mandated by the local government to control and manage most of the key LIIFCs and state-owned assets in the region. Given its important position in Yuyao City, we believe that the Company is unlikely to be replaced in the foreseeable future.

**Essential policy role in the provision of public services in Yuyao City.** Yuyao Shuncaï plays an essential and active role in managing state-owned assets and implementing the Yuyao City Government's major strategic initiatives for urban planning and municipal development. It

is responsible for the provision of various public services, such as infrastructure construction, land development and reclamation, resettlement housing development, and provision of utilities and transportation services in Yuyao City, including the main urban area, Yuyao High-speed Rail New City, Yuyao Industrial Park, and Yuyao Economic Development Zone.

**Low exposure to commercial business activities.** Yuyao Shuncai has low commercial business risks as the proportion of commercial business assets of its total assets is less than 10% by our estimation. Its commercial businesses include commodity trading, and engineering construction. In 2022, the Company has further increased its holding shares to 16.53% in its listed subsidiary, Zhenhai Petrochemical Engineering Co., Ltd.

**Good access to funding.** Yuyao Shuncai has sufficient stand-by liquidity and diversified funding channels. Furthermore, Yuyao Shuncai has a proven track record of financing from both onshore and offshore bond markets. The Company also has manageable non-standard financing exposure, which accounted for less than 10% of its total debts as of 30 September 2023.

**Good track record of receiving government payments.** Yuyao Shuncai has a good track record of receiving payments from the local government in terms of capital injections, asset injections, financial subsidies, and payments for public policy projects. Considering Yuyao Shuncai's important position and tight relationship with the local government, we expect the local government will continue to support Yuyao Shuncai over the next 12 to 18 months.

### Credit Challenges

**High debt leverage and fast debt growth.** Positioned as the most important LIIFC in Yuyao City, the Company continues to undertake most of the public activities, resulting in fast debt growth and high debt leverage. The total debt (including perpetuals) increased from RMB78.7 billion at end-2021 to RMB101.9 billion as of 30 September 2023, with a total capitalization ratio of 60.1%.

**Moderate asset liquidity.** Yuyao Shuncai's asset liquidity is moderate, and its assets are mainly comprised of inventories and other receivables assets. As of 30 September 2023, its inventories, other non-current assets, and other receivables assets accounted for 62% of total assets.

**High exposure to contingent liabilities.** Yuyao Shuncai's external guarantee exposure remains high. As of 30 September 2023, its external guarantee amount was RMB26.0 billion, accounting for 38.5% of its total equity (excluding perpetuals). Since 2022, the Company has transferred equity interests of tourism subsidiaries to Yuyao Jinrui Asset Management Co., Ltd, which may have moderate impact on its credit quality.

### Rating Outlook

The stable outlook on Yuyao Shuncai's rating reflects our expectation that Yuyao City Government's capacity to provide support will remain stable, and the Company will maintain its strong business position in Yuyao City.

### **What could upgrade the rating?**

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as a substantial reduction in external guarantees or improved debt management.

**What could downgrade the rating?** The rating could be downgraded if (1) Yuyao City 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 a reduction in importance of its policy role, a substantial reduction in government payments, 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**

CCXAP's Rating Symbols and Definitions are available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/9/](http://www.ccxap.com/en/rating_services/category/9/)

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at [www.ccxap.com](http://www.ccxap.com) (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Peter Chong  
*Assistant Director of Credit Ratings*  
+852-2860 7124



[peter\\_chong@ccxap.com](mailto:peter_chong@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656