

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Yanxi Newcity Investment and Development Co., Ltd., with stable outlook.**

Hong Kong, 19 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Yanxi Newcity Investment and Development Co., Ltd. (“YXNC” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of YXNC reflects Yandu District Government’s strong capacity to provide support, and the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to provide support reflects that Yandu District’s economic and fiscal strengths with steady growth ranked upper middle among all districts and counties in Yancheng City for years.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) essential role in the development of Xiaomagou Life Group Project in Yandu District; (2) sufficient project reserves along with the development of Xiaomagou Life Group Project; and (3) good track of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt level to support investment in construction projects; and (2) moderate access to financing channels with limited financial flexibility.

### **Corporate Profile**

Established in 2007, YXNC, formerly known as Yancheng Yuda Water Conservancy Construction Service Co., Ltd., is one of the essential local infrastructure investment and financing companies (“LIIFCs”) in Yandu District, Yancheng City, mainly responsible for the construction and development of Panhuang Street, Yandu District. It is the key entity for the construction and development of Xiaomagou Group in Panhuang Street, one of six key urban construction projects in Yancheng City, that mainly undertakes infrastructure construction, land consolidation and resettlement housing construction. The Company also has developed commercial activities such as water sales, secondary water supply, agricultural products sales, property management and rental.

As of 30 September 2023, the State-owned Assets Supervision and Administration Office of Yandu District Government, Yancheng City (“Yandu SASAO”) was the ultimate controller of the Company, holding 100% stakes of the Company through Yancheng Yandu State-owned Assets Holding Group Co., Ltd. (“YDAH”).

### **Rating Rationale**

#### **Credit Strengths**

**Clear and important position in Yandu District.** There are three major LIIFCs directly owned by Yandu District Government and each of these companies has a clear functional position under the local government’s planning. YXNC mainly undertakes the development task in



Panhuang Street, Yandu District. It is the main entity responsible for the Xiaomagou Life Group Project located in Panhuang Street.

**Important role in Xiaomagou Life Group Project with sufficient project reserves.** YXNC is mainly engaged in infrastructure construction and land consolidation in Yandu District through the agent construction model. Overall, the Company's project reserves are relatively sufficient, which have positive implications for the Company to maintain its importance in construction within Yandu District.

**Good track record of receiving government support.** YXNC has a good track record in receiving government support in terms of asset injections and financial subsidies. In addition, the Company has a track of obtaining the repayments for the agent construction business. We believe that given YXNC's important position in Yandu District, the local government will continue to provide support to the Company in times of need over the next 12 to 18 months.

### Credit Challenges

**Increasing debt level to support investment in construction projects.** YXNC's debt burden increased fast mainly due to large investments in entrusted construction projects. YXNC faces certain capital expenditure pressure for the relatively large outstanding investment amount of construction projects. Considering the Company's ongoing investment needs and lagged payments from the local government, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

**Moderate access to funding channels with limited financial flexibility.** YXNC has moderate access to funding and relies highly on indirect financing and secured debt with a limited track record in accessing the domestic debt market. It has moderate exposure to non-standard financing products which are mainly financial leasing with relatively high costs. In addition, its relatively weak asset liquidity will limit its financial flexibility. Nevertheless, the Company's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk.

### Rating Outlook

The stable outlook on YXNC's rating reflects our expectation that Yandu District Government's capacity to provide support will remain stable, and the Company will maintain its important position in Yandu District over the next 12-18 months.

#### 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 improved policy importance or diversified financing channels.

#### 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 materially increased exposure to risky commercial activities or a deterioration in its financing ability.

### **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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