

CCXAP affirms Chongqing Yulong Asset Management (Group) Co., Ltd.'s BBB_g+ long-term credit rating, with stable outlook.

Hong Kong, 22 March 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Chongqing Yulong Asset Management (Group) Co., Ltd. (“CYAM” or the “Company”) at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of CYAM reflects Chongqing Jiulongpo District Government's strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics. Our assessment of the Jiulongpo District Government's capacity to provide support reflects Jiulongpo District's vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing by gross regional product.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position in land consolidation and infrastructure construction in Jiulongpo District; (2) important status as a leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City; (3) diversified access to funding; and (4) solid track record of receiving government payments. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high debt leverage and weak assets liquidity; and (3) medium contingent risks associated with external guarantees.

Corporate Profile

Founded in 2002, CYAM is the most important local infrastructure investment and financing company (“LIIFC”), with the largest asset size among local state-owned enterprises in Jiulongpo District. The Company is primarily responsible for infrastructure construction, land development, shantytown renovation, and state-owned asset operation in Jiulongpo District. Apart from public development projects, the Company also undertakes various commercial activities, such as self-operating projects, concrete trading, property leasing and management, security service, equity and fund investments. As of 30 September 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing (“Jiulongpo SASAC”).

Rating Rationale

Credit Strengths

Dominant position in land consolidation and infrastructure construction in Jiulongpo District. CYAM is the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District. The Company has the largest business scope and strongest comprehensive strength in Jiulongpo District as it is responsible for land consolidation and infrastructure construction in most areas of Jiulongpo District. Considering the Company's high strategic significance to the development of Jiulongpo District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Leading developer of Jiulong Peninsula, one of the top ten area renovation projects in Chongqing City. According to the planning of the Jiulongpo District Government, CYAM is responsible for the shanty town renovation projects and 2 major comprehensive development projects in Jiulongpo district, namely the Jiulong Peninsula comprehensive development project and the Zhongliang Yunfeng comprehensive development project.

Solid track record of receiving government payments. As the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District, CYAM has a good track record of receiving payments from the Jiulongpo District government. These payments take various forms, such as government subsidies, asset injections and capital injections. From 2020 to 2023Q3, the Company received capital injections totaling RMB7.5 billion from the government, allowing the Company to be engaged in capital-intensive and large-scale projects.

Diversified access to funding. The Company's large investment needs can be mitigated by its diversified financing channels. The Company has access to various sources of funding, including bank loans, onshore and offshore bond financing, and non-standard financing. As of 30 September 2023, around 55.8% of the Company's debt financing was provided by domestic banks. It held total credit facilities of RMB59.1 billion and available credit facilities of RMB25.4 billion, indicating a sufficient liquidity buffer.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, CYAM is also involved in various commercial activities such as property sales, self-operating projects, concrete trading, property leasing and management, security service, equity and fund investments. We consider CYAM's commercial business exposure to be medium, as its market-driven businesses account for around 15% to 20% of its total assets. These activities have been a good supplement to the Company's revenue but could exert certain funding and business risks. We expect the Company's exposure to commercial activities will continue to rise following its increasing investment in self-operated projects in the future.

High debt leverage and weak asset liquidity. CYAM's total debt had increased from RMB33.0 billion at end-2020 to RMB44.3 billion as of 30 September 2023. The Company has a relatively high capitalization ratio of 59.5% as of 30 September 2023. The increase in debt was mainly attributable to the expansion of the construction of infrastructure projects. Furthermore, CYAM has weak asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 62.9% of its total assets as of 30 September 2023.

Medium contingent risks associated with external guarantees. As of 30 September 2023, the Company's total amount of external guarantees was RMB9.1 billion, which accounted for 29.0% of its net assets. All these external guarantees were provided to local state-owned enterprises in Jiulongpo District, including Chongqing Jiulongyuan High-tech Industry Group Co., Ltd. and Chongqing Aluminum Industry Development and Investment Group Co., Ltd.

Rating Outlook

The stable outlook on CYAM's rating reflects our expectation that the local government's capacity to support the Company will remain stable, the Company will maintain its dominant position in land consolidation and infrastructure construction in Jiulongpo District, and the Company will promote its transformation into market-oriented businesses such as real estate development, charging facilities operation and equity investment funds.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and increased asset liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

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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http://www.ccxap.com/en/rating_services/category/6/

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