

CCXAP upgrades Jiangsu Yueda Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook

Hong Kong, 22 May 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Jiangsu Yueda Group Co., Ltd. (“Jiangsu Yueda” or the “Company”) to BBB_g+ from BBB_g, with stable outlook; and upgraded its senior unsecured debt rating to BBB_g+ from BBB_g. The upgrade reflected the stronger capacity to provide support from the Yancheng Municipal Government and the high likelihood of government support for Jiangsu Yueda. Jiangsu Yueda has also exhibited an improvement in the quality of its investment portfolio and credit metrics.

The BBB_g+ long-term credit rating of Jiangsu Yueda is underpinned by the Company’s (1) investment portfolio in line with Yancheng City’s industrial development strategy; (2) good access to quality investments; and (3) diversified funding channels. However, the rating is constrained by the Company’s (1) exposure to high volatility from its investments in cyclical industries; (2) modest financial profile with relatively weak profitability and high financial leverage; and (3) high refinancing needs in the near term.

The rating also reflects a high likelihood of government support from the Yancheng Municipal Government when needed, which is based on the Company’s (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) high strategic and economic importance in Yancheng City as one of the largest local state-owned enterprises (“SOEs”); and (3) solid track record of receiving ongoing government support, including subsidies and capital injections.

Corporate Profile

Founded in 1991, Jiangsu Yueda, a state-owned conglomerate, is owned by the Yancheng Municipal Government and supervised by the Yancheng State-owned Assets Supervision and Administration Commission (“Yancheng SASAC”). It is an important platform to manage the state-owned assets on behalf of the Yancheng Municipal Government, with the aim to securitize and maximize the value of the state-owned assets. Jiangsu Yueda has four key strategic investment segments, namely (1) automobile and intelligent manufacturing, (2) energy, (3) property development, and (4) supply chain and others.

Jiangsu Yueda’s key operating subsidiaries include Jiangsu Yueda Investment Co., Ltd. (600805.SH) (“Yueda Investment”), Yueda International Holdings Limited (00629.HK) (“Yueda Holdings”), Shanghai Yueda New Industrial Group Co., Ltd., Jiangsu Yueda South Holding Co., Ltd., Yue Da Group (H.K.) Co., Limited and Yueda Capital Co., Ltd. The Company is approximately 91.3% owned by the Yancheng Municipal Government and 8.7% by the Department of Finance of Jiangsu Province. As of 31 December 2023, Jiangsu Yueda reported total assets of RMB84.3 billion and net assets of RMB30.2 billion.

Rating Rationale

Credit Strengths

Investment portfolio in line with Yancheng City’s development strategy. Jiangsu Yueda is one of the key investment entities entrusted by the Yancheng Municipal Government to cultivate the development of local industries, particularly automobile manufacturing and new energy, which are the pillar sectors of Yancheng City. Along with the ongoing economic development of Yancheng City, Jiangsu Yueda adheres to the “1+2+1” development strategy covering segments in automobile and intelligent manufacturing, energy, property, and the supply chain.

Good access to quality investments. Jiangsu Yueda has good access to quality investments as underpinned by strong support from the Yancheng Municipal Government. The Company has obtained quality projects with strong dividend income over the past years. Jiangsu Yueda also has a long investment track record in the car industry and has developed a portfolio covering the upstream and downstream of the car industry including car parts production, vehicle production, transport, car dealership, auto finance, test site, and research center. Jiangsu Yueda also has a sound record of cultivating investees going public listings.

Diversified funding channels. Jiangsu Yueda has a good presence in the onshore capital markets and its financing costs have shown a continuous declining trend. In 2023, it also enhanced its presence in overseas capital market by issuing a 3-year CNY bond of RMB1.5 billion with the coupon rate of 5.5%. The Company has established long-term financing relationships with reliable domestic banks and financial institutions.

High likelihood of support from the Yancheng Municipal Government. Yancheng SASAC maintains a high degree of control over Jiangsu Yueda’s operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. In 2023, the Company continued to receive ongoing government support from the Yancheng Municipal Government, including subsidies, capital injections and asset transfers.

Credit Challenges

Exposure to the volatility from cyclical industries. Jiangsu Yueda’s investment portfolio covers multiple industries or sectors, however, some of them face cyclical volatilities, such as coal and metal mining, commercial trading, real estate development and automobile sales. As most of Jiangsu Yueda’s investments were located in China, they are correlated with China’s economic conditions and policy changes.

Modest financial profile with low profitability and high financial leverage. Jiangsu Yueda’s financial profile is considered modest with relatively weak profitability and high debt leverage. Jiangsu Yueda’s profitability is mainly driven by its investment income. The low profitability of Jiangsu Yueda will weaken its ability to repay debts through its internal financial resources. Jiangsu Yueda has relatively high debt leverage driven by its debt-funded business expansion model over the past few years.

High refinancing needs in the near term. Jiangsu Yueda's refinancing need is high considering its high level of short-term debt. Additionally, the cash to short-term debt ratio remained at a low level of around 0.1x at end-2023 at the holding company level, which reflects the need to obtain significant refinancing from external sources in the next 12 months. Furthermore, the Company has a certain scale of assets pledged for its loans, which would limit its flexibility in asset realization and ability to obtain additional funding when needed.

Rating Outlook

The stable outlook on Jiangsu Yueda's rating reflects our expectation that the Company will continue to receive solid support from the Yancheng Municipal Government. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Yancheng Municipal Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's credit metrics improve, for example, a lower debt-to-investment income ratio and a higher cash-to-short-term debt ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Yancheng Municipal Government decreases; (2) the Company's credit metrics deteriorate, such as a significant increase in debt-to-investment income ratio or a decrease in investment income-to-interest ratio; or (3) the Company shows weakened access to funding and eroded liquidity profile.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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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.

Kelly Liang

Credit Analyst

+852-2860 7127

kelly_liang@ccxap.com

Elle Hu

Executive Director – Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



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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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656