中誠信亞太 CCXAP

CCXAP assigns first-time long-term credit rating of A_g to Yiwu State-owned Capital Operation Co., Ltd., with stable outlook.

Hong Kong, 11 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned first-time long-term credit rating of A_g to Yiwu State-owned Capital Operation Co., Ltd. ("YSCO" or the "Company"), with stable outlook.

The A_g long-term credit rating of YSCO reflects Yiwu City Government's very strong capacity to provide support, and extremely high willingness to provide support to the Company based on our assessment of the Company's characteristics. Our assessment of Yiwu City Government's capacity to provide support reflects its position as the world's largest small commodity export base with ongoing economic growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) leading role in the infrastructure construction and state-owned asset operation in Yiwu City; (2) dominant role in providing essential public services with high sustainability; (3) good track record of receiving government payments; and (4) strong access to funding from commercial banks and bond markets. However, the rating is constrained by the Company's (1) large capital expenditure pressure and increasing debt burden; (2) operating risk arising from medium commercial business exposure; and (3) medium contingent liability risk associated with external guarantees.

Corporate Profile

Established in 2013, YSCO is now the most important and largest Local Infrastructure Investment and Financing Company ("LIIFC") in Yiwu City by asset size, undertaking public service business including infrastructure construction, affordable housing projects, as well as public transportation and urban utility services. In addition, the Company also engages in commercial business such as property development, commodity trading, and market operation business. As of 31 March 2024, it is ultimately controlled by the Yiwu State-owned Asset Supervision and Administration Office ("Yiwu SASAO"). Yiwu SASAO directly held 85.6% of the Company's shares and indirectly held 5% of the Company's shares via Yiwu Shuzhi Industry Development Group Co., Ltd. Zhejiang Financial Development Co., Ltd held the rest 9.4% of the Company's shares.

Rating Rationale

Credit Strengths

Leading role in infrastructure construction and state-owned asset operation in Yiwu City, with high sustainability in public services business. As the largest state-owned enterprise by asset size in Yiwu City, YSCO manages or operates around 90% of the city's state-owned assets. The Company conducts public service business including infrastructure projects, affordable housing, water-related business and public transportation via different functional subsidiaries. Considering the Company's extremely high strategic significance to the development of Yiwu City, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Good track record of receiving government payments. As the largest LIIFC in Yiwu City, YSCO has a proven track record of receiving government support in the form of debt repayment funding, project repayments, financial subsidies, capital injection and asset injection, which has effectively improved the liquidity, solvency and refinancing capabilities of YSCO. From 2021 to 2024Q1, the Company received government support of RMB6.6 billion. In the first quarter of 2024, the net assets of the Company further increased as a result of asset injection such as land assets. We expect the local government will continue to support the Company in the future given its important position in the region.

Strong access to funding from commercial banks and bond markets. The Company's strong credit profile has been recognized by different financial institutions and investors, with its overall financing cost lower than 4% as of 31 March 2024. As of 31 March 2024, the Company's total credit facilities were RMB94.1 billion, of which the unutilized amount was about RMB38.3 billion. Meanwhile, the bond financing accounted for 46.3% of the Company's total debt. In addition, the Company's reliance on non-standard financing is low, accounting for around 10% of its total debt.

Credit Challenges

Increasing debt burden and moderate asset liquidity. YSCO's total debt continued to increase due to ongoing investment needs. However, we believe the debt burden can be mitigated by the Company's resilient market operation business and strong access to capital. YSCO's asset liquidity was moderate as they were mainly inventories and non-current assets with weak liquidity. Meanwhile, YSCO owns the equity of listed company Zhejiang China Commodity City Group Company Ltd, and large-scale investment property and water assets, which can bring stable operating income for the Company and partly offset its moderate liquidity profile.

Operating risk arising from medium commercial business exposure. YSCO engages in commercial business such as property development, commodity trading, as well as its well-known market operation business based on its small commodities trading centres. We estimate that the Company had medium commercial exposure with the proportion of commercial business assets being around 35% of its total assets. We believe the Company's commercial businesses are complementary to its existing policy mandates with manageable risk.

Medium contingent liability risk associated with external guarantees. YSCO has medium exposure to contingent liabilities. As of 31 March 2024, the Company's external guarantees were RMB10.3 billion, accounting for 15.6% of its net assets, most of which were provided to local state-owned enterprises. Meanwhile, around 40% of the external guarantee was provided to private-owned enterprises ("POE"). However, we believe the overall risk of contingent liabilities is manageable as the guarantee to POE is primarily driven by the government's strategy. If a credit event occurs, the government is highly likely to provide necessary support.

Rating Outlook

The stable outlook on YSCO's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and that the Company will maintain its leading role in the infrastructure construction and state-owned asset operation in Yiwu City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improvement in debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

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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