

CCXAP affirms Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Hong Kong, 17 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd.’s (“YDSI” or the “Company”) long-term credit rating at BBB_g-, with stable outlook.

The BBB_g- long-term credit rating of YDSI reflects Yidu City Government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Yidu City Government’s capacity to provide support reflects Yidu City’s good economic fundamentals ranking top among all county-level cities in Hubei Province but with moderate fiscal strength.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) crucial role in the local economic and social development as one of the most important state-owned enterprises (“SOEs”) in Yidu City; (2) good track record of receiving government support; and (3) diversified funding channels including bank loans and bond issuances. However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) relatively high short-term debt repayment pressure; and (3) weak asset liquidity.

Corporate Profile

Established in 1997, YDSI is one of the most important SOEs and one of the largest SOEs in terms of total assets in Yidu City, Yichang City. It is mainly responsible for managing and operating state-owned enterprises and assets, as well as industrial development in Yidu City. YDSI plays an important role in the local economic and social development, undertaking various public projects and providing public services in the city, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply. The Company also engages in commercial activities, such as property development, trading, hotel service, property leasing, as well as equity investment. As of 31 December 2023, YDSI was wholly owned and controlled by the State-owned Assets Supervision and Administration Bureau of Yidu City Government (“Yidu SASAB”).

Rating Rationale

Credit Strengths

Crucial role in the local economic and social development as one of the most important SOEs. YDSI is the largest entity in terms of total assets and the most important one under the control of the Yidu SASAB in Yidu City. It is responsible for various public activities, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply, which are crucial to local economic and social development.

Good track record of receiving government payments. The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset injection, and equity transfer. In 2023, the government continued to demonstrate its commitment to the Company, evidenced by the total subsidy package of RMB5.5 billion given to the Company. Considering the Company's status as one of the most important SOEs of Yidu City, we expect YDSI will continue receiving support from the local government.

Diversified funding channels including bank loans and bond issuances. The Company has diversified funding channels, such as policy and commercial banks as well as the bond markets, which may release the pressure on refinancing and capital expenditure. As of end-2023, the available credit facilities from banks amounted to RMB4.9 billion. In 2024, the Company issued 3 bonds in the offshore bond market, with a total amount of RMB1.4 billion and a coupon rate of 6.3%~6.9%.

Credit Challenges

Relatively high short-term debt repayment pressure. The Company's short-term debt repayment pressure is relatively high. As of end-2023, the cash-to-short-term debt ratio recorded 0.5x and short-term debt still accounted for around 34.6% of its total debt. Considering ongoing investment and debt repayment needs, we expect the Company may continue to rely on external financings such as bank loans and bond issuances and the total debt may further increase over the next 12-18 months.

Weak asset liquidity. As of end-2023, around 8.6% of total assets were restricted, mainly cash or cash equivalent, land, and highway toll rights. At the same time, the receivables, other receivables, as well as non-current assets accounted for around 88.1% of total assets, which mainly consist of government-related receivables and intangible assets. We believe the liquidity of these assets to be low.

Medium exposure to commercial activities. YDSI participates in different commercial activities mainly including property development, engineering construction, trading, hotel service, property leasing, as well as equity investment. Based on our assessment, YDSI's exposure to commercial activities is medium with the assets of commercial activities accounting for less than 20% of total assets.

Rating Outlook

The stable outlook on YDSI's rating reflects our expectation that Yidu City Government's capacity to provide support will remain stable, and the Company will maintain its crucial role in the economic and social development of Yidu City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Yidu City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Yidu City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky 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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