

CCXAP affirms Yuyao Shuncai Investment Holding Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 4 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yuyao Shuncai Investment Holding Co., Ltd.’s long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of Yuyao Shuncai Investment Holding Co., Ltd. (“Yuyao Shuncai” or the “Company”) reflects (1) Yuyao City Government’s very strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yuyao City Government’s capacity to provide support reflects Yuyao City’s relatively good comprehensive strength, ongoing economic growth, and good fiscal metrics.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key role in providing comprehensive public services in Yuyao City; (2) high sustainability of public service; (3) good access to fundings; and (4) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) transferring out of several subsidiaries; (2) high debt leverage and moderate asset liquidity; and (3) high exposure to contingent liabilities.

Corporate Profile

Established in 2015, Yuyao Shuncai is the largest local infrastructure investment and financing company (“LIIFC”) in Yuyao City in terms of total assets. It consolidates most of the key LIIFCs controlled by the Yuyao City State-owned Asset Management Office (“Yuyao SAMO”). The Company engages in diversified businesses through its subsidiaries, mainly including public businesses such as infrastructure construction, land development and reclamation, resettlement housing development, as well as public services such as utilities and transportation. As of 31 March 2024, Yuyao Shuncai was 90% directly owned by Yuyao SAMO, its ultimate controlling shareholder, and 10% owned by Zhejiang Financial Development Co., Ltd.

Rating Rationale

Credit Strengths

Key role in providing comprehensive public services in Yuyao City. Yuyao Shuncai is one of the key LIIFCs in Yuyao City, holding the largest amounts of assets in the region with strong regional monopoly advantage. However, in March 2024, some of its subsidiaries were transferred out to other LIIFC in Yuyao City, resulting in a contraction of its business scope.

High sustainability of public service. Yuyao Shuncai continues to play key role in state-owned assets operation and conducting government’s macro plans for city development. The Company is responsible providing comprehensive public services in the region, such as infrastructure construction, land development and reclamation, resettlement housing, utilities,

and transportation services on the urban area of Yuyao City. Despite the transfer of some subsidiaries, the Company's public policy businesses maintain high sustainability due to the significant number of construction projects in the pipeline.

Good access to funding. Yuyao Shuncai has sufficient stand-by liquidity and diversified funding channels. As of 31 March 2024, the Company's total credit facilities from banks amounted to around RMB150.4 billion, of which the undrawn amount was around RMB72.6 billion. Yuyao Shuncai has good track record of bond issuance in the capital market. Besides, the Company has low non-standard financing exposure, which accounted for less than 1% of its total debts as of 31 March 2024. However, Yuyao Shuncai's refinancing ability is subject to the tightening in financing policies for China's LIIFCs.

Good track record of receiving government payments. Yuyao Shuncai has a good track record of receiving payments from the local government in terms of capital injections and financial subsidies. Yuyao Shuncai received government operating subsidies totally of RMB495.8 million in 2023. Furthermore, Yuyao Shuncai continues to receive government payments from its public services, such as infrastructure construction, and land consolidation and reclamation projects.

Credit Challenges

Transferring out of several subsidiaries. In March 2024, in accordance with the latest government planning, the Company's three subsidiaries were transferred out of the Company to other LIIFC in Yuyao City. After the asset consolidation, the Company will no longer undertake the development and construction of Yuyao High-speed Rail New City, Yuyao Industrial Park, and Yuyao Economic Development Zone.

High debt leverage and moderate asset liquidity. With the transferred out of several subsidiaries, the Company's total debt (including perpetuals) decreased from RMB107.1 billion at end-2023 to RMB91.0 billion as of 31 March 2024. However, due to the continuous investment and external financing for construction projects, the Company's debt leverage still maintains high level with the total capitalization ratio of 57.7% as of 31 March 2024. Yuyao Shuncai's asset liquidity is moderate. As of 31 March 2024, its inventories, other non-current assets, and other receivables assets accounted for 59.8% of total assets.

High exposure to contingent liabilities. Yuyao Shuncai's external guarantee exposure remains high. The Company's external guarantees was RMB21.6 billion as of end-2023, accounting for 26.0% of its net assets. However, all the external guarantees are provided to the state-owned enterprises in Yuyao City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on Yuyao Shuncai's rating reflects our expectation that Yuyao City Government's capacity to provide support will remain stable, and the Company will maintain its strong business position in Yuyao City.

What could upgrade the rating?

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as a substantial reduction in external guarantees or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Yuyao City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

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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