

CCXAP assigns first-time long-term credit rating of A_g- to Yuyao Jinrui Investment Group Co., Ltd., with stable outlook

Hong Kong, 28 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of A_g- to Yuyao Jinrui Investment Group Co., Ltd. (“YJIG” or the “Company”), with stable outlook.

The A_g- long-term credit rating of Yuyao Jinrui Investment Group Co., Ltd, (“YJIG” or the “Company”) reflects (1) Yuyao City Government’s very strong capacity to provide support; and (2) the local government’s extremely 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, fast 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) strong position in industrial development and public projects in Yuyao City; (2) high sustainability of infrastructure construction and land consolidation projects; (3) good access to fundings and sufficient standby liquidity; and (4) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) high debt leverage and moderate asset liquidity; and (2) moderate exposure to commercial business activities.

Corporate Profile

Established in 1993 as Yuyao Finance and Financial Development Company, the Company has changed its name and controlling shareholder, along with receiving equity injections of several significant subsidiaries in 2024. After the consolidation, the Company has become one of the most important local infrastructure investment and financing company (“LIIFC”) in Yuyao City. Its business has diversified and includes public businesses such as infrastructure construction, land development and resettlement housing. In addition, the Company is also engaged in commercial businesses including industrial development and operation of cultural and tourism resources. As of 31 March 2024, YJIG was 100% owned and ultimately controlled by Yuyao City State-owned Asset Management Office (“Yuyao SAMO”).

Rating Rationale

Credit Strengths

Strong position in industrial development and public projects in Yuyao City. After the completion of consolidation in May 2024, the Company became one of the two major LIIFCs in Yuyao City that encompasses functions including infrastructure construction, land development and resettlement housing, industrial real estate development, park operation management, tourism investment and development, as well as guarantee and credit enhancement. Considering the YJIG’s dominant position in undertaking public policy projects and essential role in industrial development in Yuyao City, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

High sustainability of infrastructure construction and land consolidation projects. The Company has abundant reserves of ongoing and planned projects in infrastructure and land consolidation, covering north-western area, high-speed railway station area and Yuyao industrial park. Besides, the Company also owns cultural and tourism-related infrastructure facilities. However, these projects require significant investments and are subject to uncertainties related to the land market conditions and the government's policy planning. It is essential to closely pay attention to the subsequent land transfers and financing conditions.

Good access to fundings and sufficient standby liquidity. YJIG has sufficient stand-by liquidity and diversified funding channels. As of 31 December 2023, the Company's total credit facilities from banks amounted to around RMB65.6 billion, of which the unutilized portion was around RMB32.9 billion. They were mainly provided by diversified large domestic banks such as China Construction Bank and Industrial and Commercial Bank of China.

Good track record of receiving government payments. YJIG has regularly received support from the local government in the form of government subsidies and assets transfer. From 2022 to 2023, the Company received government subsidies for its public policy business, with total amount of RMB210.2 million. Furthermore, the government transferred equity of regional state-owned enterprises, increasing capital reserve by RMB8.0 billion from end-2022 to end-2024Q1 and strengthening company's regional importance significantly. Given its status as key role of conducting public policy business in Yuyao City, we believe that the local government will continue to provide support to the Company.

Credit Challenges

High debt leverage and moderate asset liquidity. YJIG has a high debt leverage because of ongoing fundings for the public policy projects, with a total capitalization ratio of 56.6% as of 31 March 2024. Positioned as key role of conducting public policy business in Yuyao City, the Company will continue to undertake agent construction and land consolidation projects in the region. Given the large capital expenditure needs from public projects, we expect the debt leverage of the Company to remain at high level in the next 12 to 18 months. YJIG's asset liquidity is moderate, and its assets are mainly comprised of inventories and receivables.

Moderate exposure to commercial business activities. YJIG has moderate business risks as the proportion of commercial business assets of its total assets is around 15%. It has participated in commercial businesses such as tourism investment and development, trading, and hotel operation.

Rating Outlook

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

What could upgrade the rating?

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in asset quality 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 or a substantial reduction in government payments.

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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