

## **CCXAP upgrades Yancheng City Assets Investment Group Company Limited's long-term credit rating to A<sub>g</sub>-, with stable outlook.**

Hong Kong, 28 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Yancheng City Assets Investment Group Company Limited (“YCAI” or the “Company”) to A<sub>g</sub>- from BBB<sub>g</sub>+, with stable outlook.

The rating upgrade reflects the stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth and YCAI's important role in the social and economic development of Yancheng City. The long-term credit rating of YCAI reflects (1) the Yancheng Municipal Government's very strong capacity to provide support; and (2) the local government's high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of the Yancheng Municipal Government's capacity to support reflects Yancheng City's growing economic and fiscal strengths as well as sustainable industrial development.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong position as the largest LIIFC in Yancheng City, specializing in local infrastructure construction, primary land consolidation and public services; (2) good track record of receiving government support; and (3) good access to different financing channels. However, the rating is constrained by the Company's (1) medium risk exposure to commercial activities; (2) high debt leverage with large investment needs; and (3) large exposure to external guarantees.

### **Corporate Profile**

Founded in 2003, YCAI, previously known as Yancheng City Urban Assets Operation Co., Ltd., is wholly owned by the Yancheng Municipal Government and directly supervised by the Yancheng State-owned Assets Supervision and Administration Commission (“Yancheng SASAC”). It is one of the key local state-owned enterprises in Yancheng City, specializing in infrastructure construction as well as state-owned asset operation and management. YCAI has undertaken major infrastructure construction and land development projects in Yancheng City. It also diversifies into utilities including water supply and sewage treatment, and commercial activities such as property development, property leasing and security services.

### **Rating Rationale**

#### **Credit Strengths**

**The largest LIIFC in Yancheng City, specializing in local infrastructure construction, primary land consolidation and public services.** YCAI is the largest and most important entity that provides infrastructure construction and land consolidation in the main district of Yancheng City, and plays a vital and irreplaceable role in the city. YCAI is primarily responsible for infrastructure projects, such as roads, bridges, and sewage pipelines, as well as land consolidation and shantytown renovation in Yancheng City. YCAI is engaged in utility services



including water supply and sewage treatment in Yancheng City with strong franchise advantages. Its business scope covers most of the areas in Yancheng City.

**Good track record of receiving government support.** YCAI has received ongoing support from the Yancheng Municipal Government, including capital injections, asset transfers, and financial subsidies. In 2023, the Yancheng Municipal Government injected around RMB2.1 billion worth of stakes and physical assets into YCAI, enhancing its capital strength. From 2021 to 2023, the local government provided stable operating subsidies with a total of around RMB78 million.

**Good access to different financing channels.** YCAI's refinancing pressure could be partly mitigated by its strong financing ability from banks and debt capital market. As of 31 December 2023, it obtained total bank credit facilities of RMB74.8 billion with an available portion of RMB26.2 billion. The Company also has a track record of issuing different kinds of bond products such as PPNs, MTNs, asset-backed securities, and corporate bonds. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

#### Credit Challenges

**Medium risk exposure to commercial activities.** YCAI has moderate exposure to commercial activities in terms of scale. These activities mainly include property development, security services, property leasing and some construction projects under the self-operation model in Yancheng City. We consider that the risks of YCAI's commercial activities remain controllable as we expect such scale will remain at a medium level relative to its public activities.

**High debt leverage with large investment needs.** YCAI relies on external financing to raise funds for business development and project construction, which could increase its debt burden and undermine its credit profile. In recent years, YCAI's debt leverage, measured by the total capitalization ratio, has remained very high. Considering a large outstanding investment of approximately in its key pipeline projects, and the long payback period from the government, we expect the Company will still rely on external financing to fund the funding gap and debt leverage will remain at a high level in the next 12 to 18 months.

**Large exposure to external guarantees.** YCAI has provided large numbers of external guarantees of RMB15.4 billion as of 31 December 2023, accounting for 41.5% of the Company's adjusted net assets (excluding perpetual debt and other items treated as debt in minority interests). Large exposure to guarantees will increase YCAI's contingent liability risk. Nevertheless, we believe that the credit risk of these guarantees is manageable, as most of them are provided to local state-owned enterprises ("SOEs").

#### Rating Outlook

The stable outlook on YCAI's rating reflects our expectation that the Company will maintain its strategic position in local public services and infrastructure construction in Yancheng City over the next 12 to 18 months.

#### What could upgrade the rating?



The rating could be upgraded if (1) the Yancheng Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increased importance in public-policy activities, material decrease in external guarantees or improved debt management.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the Yancheng Municipal 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 the decrease in the importance of its policy role, material decrease in government payments, or deteriorated refinancing ability.

#### **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**

CCXAP's Rating Symbols and Definitions are available on its website at:

[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

[http://www.ccxap.com/en/rating\\_services/category/9/](http://www.ccxap.com/en/rating_services/category/9/)

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at [www.ccxap.com](http://www.ccxap.com) (Rating Results) and may be distributed through media and other means.

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](mailto:kelly_liang@ccxap.com)



Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656