

## Credit Opinion

29 June 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable

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## Yancheng City Assets Investment Group Company Limited

### Surveillance credit rating report

**CCXAP affirms Yancheng City Assets Investment Group Company Limited's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

CCXAP has affirmed the long-term credit rating of Yancheng City Assets Investment Group Company Limited ("YCAI" or the "Company") at BBB<sub>g</sub>+. The credit rating of YCAI reflects the Yancheng Municipal Government's very strong capacity to provide support and its very 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 and primary land consolidation; (2) solid track record of receiving government support; and (3) good access to different financing channels.

However, the Company's rating is constrained by its (1) moderate level of commercial business risks; (2) high debt leverage with large investment needs; and (3) large exposure to external guarantees.

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.

## Rating Drivers

- The largest LIIFC in Yancheng City, with growing importance in public services
- Moderate level of commercial business risks
- Solid track record of receiving government support
- Good access to different financing channels
- High debt leverage with large investment needs
- Large exposure to external guarantees while mainly provided to other local SOEs

## Rating Sensitivities

### 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 a material decrease in its exposure to 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.

## Key Indicators

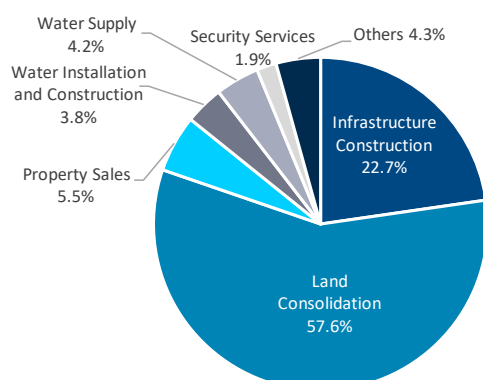
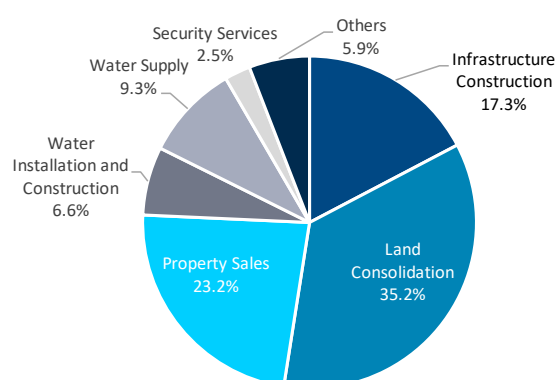
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	86.2	102.3	119.1	125.6
Total Equity (RMB billion)	26.1	31.0	35.0	35.4
Total Revenue (RMB billion)	5.4	6.1	6.6	1.1
Total Debt/Total Capital (%)	66.5	66.7	68.7	70.1

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## 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 businesses such as property development, property leasing and security services.

**Exhibit 1. Revenue Structure in 2022****Exhibit 2. Gross Profit Structure in 2022**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Yancheng Municipal Government has very strong capacity to provide support given its growing economic and fiscal strengths as well as sustainable industrial development.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, its total gross regional product ("GRP") amounted to RMB12.3 trillion, growing by 2.8% year-over-year ("YoY"). The GRP per capital was RMB144,390 for the same period, which was the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which help support sustainable economic growth in the long run. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8<sup>th</sup> among 13 municipals in Jiangsu Province. On the back of steady economic growth and optimized upgrading of the industrial structure, the general budgetary revenue increased year by year. In 2022, the Yancheng Municipal Government reported a general budgetary revenue of RMB45.3 billion, of which taxes income accounted for around 65.6%. If excluding the impact of tax rebates, the general budgetary revenue increased by 8.1%. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) was at a moderate level of 40.5%. As of the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion, accounting for about 21.7% of GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Yancheng City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	595.3	661.7	708.0
GRP Growth (%)	3.5	7.7	4.6
General Budgetary Revenue (RMB billion)	40.0	45.1	45.3
General Budgetary Expenditure (RMB billion)	97.4	105.3	111.8
Local Government Debt (RMB billion)	137.0	147.3	153.5

Source: Statistics Bureau of Yancheng City, CCXAP research

## Government's Willingness to Provide Support

### The largest infrastructure construction and primary land consolidation company in Yancheng City

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 the infrastructure projects, such as roads, bridges, and sewage pipelines, as well as land consolidation and shantytown renovation in Yancheng City. YCAI is also engaged in the construction of resettlement housing, which is sold to target households at a designated price decided by the government. As of 31 March 2023, YCAI completed infrastructure construction projects with a total investment of RMB4.0 billion. It also completed land consolidation with a total area of 1,735.1 mu, and completed 2 resettlement housing projects. These projects are economically and socially important to the development of the city.

YCAI's infrastructure business is mainly operated under an entrusted construction model. The Company is responsible for the financing and investment of these entrusted construction projects, and the Company recognizes a markup on total cost as revenue after examinations of projects by the government. For the land consolidation business, the Company operates under the framework agreement signed with the Yancheng Land Reserve Center, and books 110% of total investment cost as revenue according to the realized investment each year. For the affordable housing business, the Company raises funds for developing the project and sells it to relocated households after completion of construction. Such businesses are stable as the Company's positioning and business model have not changed in recent years. In addition, YCAI's business sustainability is supported by its large outstanding investment of around RMB12 billion in projects under construction, and the Company is expected to carry out such projects according to the planning of the local government.

In the first quarter of 2022, according to the restructuring plan of the local government, YCAI transferred its culture and tourism sectors whose book net assets were RMB2.2 billion as of end-2021 to Yanwu Group Co., Ltd. ("Yanwu Group") and, in return, received 40.1% shares of Yanwu Group. We believe that the asset restructuring does not impair YCAI's position in Yancheng, as culture and tourism were not the core businesses of YCAI, and the restructuring has a marginal impact on YCAI's financial statement.

### Growing importance in public services of Yancheng City

YCAI engages 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.

YCAI is the sole water supplier in the central region of Yancheng City, except Dafeng District, and some towns and villages. The capacity of the water supply and the number of households covered increased year by year. As of 31 March 2023, it had around 5,506 km of water supply pipelines, with a designed daily water supply capacity of 600 thousand tons and serving around 583.3 thousand households. Furthermore, the Company is responsible for installing and maintaining water pipelines in its water supply area to ensure the safe use of residential water.

In 2020, YCAI was delegated by the government to integrate sewage treatment resources and take the responsibility for the construction, operation and maintenance of sewage treatment facilities all over Yancheng City. Currently, the Company's sewage treatment business has covered most of the areas of Yancheng City. It has integrated a total of 86 sewage treatment plants with a designed daily sewage treatment capacity of 764.4 thousand tons. The Company mainly treats domestic sewage and some industrial wastewater. However, as the sewage treatment business is still at the initial stage and the charging system is just built, the benefits of running sewage treatment has not fully been reflected.

### **Moderate level of commercial business risks**

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. The commercial activities generally undertake higher business risks than its infrastructure construction and public services businesses. Direct government support flow is less likely for YCAI's commercial business. The increasing participation in self-operation projects such as car parks, office buildings, and industrial investments in Xianfeng Island Project will enlarge the capital needs for YCAI. 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.

The Company has also invested in some construction projects under the self-operation model such as scenic spots, parking lots, fitness centers and commercial buildings. Investment returns for these projects are mainly through leases and sales. The Company kept investing in projects under construction in 2022 and the outstanding investment was around RMB3.5 billion as of 31 March 2023. However, some of these projects have long payback periods and high uncertainty in returns compared with the infrastructure construction business.

YCAI had a good operating track record in property development of commercial housing projects in the past, with good project margins. In 2022, as the completed commercial housing projects were almost sold out, the income from commercial housing mainly came from the developing project, Tianchenfu project, and it decreased greatly to RMB359 million from RMB2.0 billion in 2021. As of 31 March 2023, the Company did not have planned new commercial housing projects and left only one developing project, Tianchenfu, with an invested amount of around RMB2.4 billion. The Company will still face uncertainty in the sales of Tianchenfu during the downturn of property market in China.

### **Solid track record of receiving government support**

YCAI has received ongoing support from the Yancheng Municipal Government, including capital injections, asset transfers, and financial subsidies. Since its establishment and until 31 March 2023, the Company's paid-in capital had increased from RMB400 million to RMB5 billion. In 2022, the Yancheng Municipal Government and Finance Bureau of Yancheng City injected around RMB2.5 billion of houses and land into YCAI, enhancing its capital strength. From 2020 to 2022, the local government provided a total of around RMB53 million in operating subsidies. The Company is expected to receive government payments from the infrastructure construction and land consolidation business. However, such payments may be easily influenced by the fiscal arrangement and land market situation, resulting in a large number of receivables from the government units on its balance sheet.

In addition, YCAI could benefit from Yancheng's standby cash reserves, which is a preemptive fund of RMB5.0 billion launched by the government for local state-owned enterprises. The fund would provide the Company with an additional liquidity buffer when necessary.

Overall, we expect YCAI to continue to play an important role in the development of Yancheng City. Thanks to its key position in infrastructure investment and participation in public services, we believe that the local government will continue to support the Company in the foreseeable future.

### **High debt leverage with large investment needs**

YCAI's current projects under construction include infrastructure construction projects, self-operated projects, land consolidation projects and property development. These projects ensure the sustainability of the

Company's business, but the investment cycle is long and the cash collection lags behind.

Considering the outstanding investment of approximately RMB15.9 billion in its key pipeline projects, and long payback period from the government, the Company will still rely on external financing to fund the funding gap. Overall, we expect that the Company would face high capital expenditure pressure over the next 12 to 18 months, given the mismatch between cash collection and investment, and the financing gap will be made up mainly of bank loans and bond issuances.

#### **Exhibit 4. Projects under Construction as of 31 March 2023**

Project type	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB billion)	amount (RMB billion)	amount (RMB billion)
<b>Project Under Construction</b>				
Infrastructure Construction	7	17.2	9.3	7.9
Self-operated Projects	5	5.3	1.8	3.5
Land Consolidation	12	14.5	12.9	1.6
Affordable Housing	5	5.9	3.4	2.5
Property Development	1	2.8	2.4	0.4
<b>Total</b>	<b>30</b>	<b>45.7</b>	<b>29.8</b>	<b>15.9</b>

Source: Company information, CCXAP Research

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. YCAI's debt leverage remained high. As of 31 March 2023, the Company's total debt (including perpetual bonds) increased to RMB82.9 billion from RMB62.1 billion in 2021 and its capitalization ratio increased to 70.1% from 66.7% in 2021. We expect the Company's debt leverage will remain at a high level, considering its large construction pipelines in the next 12 to 18 months.

#### **Weak balance sheet liquidity moderated by good access to different financing channels**

YCAI's standalone liquidity position weakened as its cash reserves were insufficient to fulfill its short-term debt obligations. As of 31 March 2023, its short-term debt amounted to RMB24.4 billion, accounting for 29.4% of the total debt, and the cash to short-term debt ratio remained at a weak level of around 0.3x. We expect that the Company will need additional funding from external sources to repay its debt and invest in new projects.

YCAI's refinancing pressure could be partly mitigated by its strong financing ability from banks and debt capital market. The Company maintains good relationships with various large domestic banks such as China Development Bank, China CITIC Bank Corporation Limited and Bank of Jiangsu Co., Ltd. As of 31 March 2023, it obtained total bank credit facilities of RMB72.2 billion with an available portion of RMB19.9 billion. In 2022, the Company issued different kinds of bond products such as PPNs, MTNs, asset-backed securities, and corporate bonds. From January to May 2023, it issued an MTN and corporate bond, raising RMB2.6 billion, in the onshore debt market, with a coupon rate of 4.2% and 4.85%, respectively. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

#### **Large exposure to external guarantees while mainly provided to other local SOEs**

YCAI has provided large numbers of external guarantees of RMB14.0 billion as of 31 March 2023, accounting for 36.8% of the Company's net assets. Large exposure to guarantees will increase YCAI's contingent liability risk. Among them, there were around RMB689 million of external guarantees provided to its associates in

property development projects. The Company provides guarantees to them according to its shareholding in the associates. 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 Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

## Appendix

### Exhibit 5. Peer Comparison

	Yancheng High-tech Zone Investment Group Company Limited	Yancheng Oriental Investment & Development Group Company Limited	Yancheng City Assets Investment Group Company Limited
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>	BBB <sub>g</sub> +
Shareholder	Yancheng Municipal Government (100%)	Yancheng Municipal Government (100%)	Yancheng Municipal Government(100%)
Positioning	The largest platform of Infrastructure construction and investment in the Yancheng Hi-tech Zone	The largest Infrastructure investment and financing platforms in the Yancheng ETDZ	One of the largest Infrastructure construction and asset management platforms in Yancheng City
Total Asset (RMB billion)	85.3	67.2	119.1
Total Equity (RMB billion)	27.1	24.7	35.4
Total Revenue (RMB billion)	2.9	2.5	6.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: CCXAP research

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