

Credit Opinion

29 February 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g
Outlook	Stable

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Chongqing Yulong Asset Management Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Chongqing Yulong Asset Management Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Chongqing Yulong Asset Management Co., Ltd. (“YLAM” or the “Company”) reflects the Chongqing Jiulongpo District Government’s strong capacity and very high willingness to provide support to the Company, based on our assessment of the Company’s characteristics.

Our assessment of the Jiulongpo District Government’s capacity to provide support reflects Jiulongpo District’s vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing City by gross regional product (“GRP”).

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) key position as the main state-owned assets operation and management platform in Jiulongpo District; (2) large public project reserves in land consolidation and infrastructure construction; and (3) solid track record of receiving support from the local government and its parent company.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) large capital expenditure pressure from sizable investment in self-operated projects; and (3) rapid debt growth and moderate assets liquidity.

The stable outlook on YLAM’s rating reflects our expectation that the local government’s capacity to support the Company will remain stable, and the Company will maintain its important position in the development of Jiulongpo District.

Rating Drivers

- Key position as the main state-owned assets operation and management platform in Jiulongpo District
- Solid track record of receiving government payments
- Large capital expenditure pressure from sizable investment in self-operated projects
- Medium exposure to commercial activities
- Rapid debt growth and moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in Company's characteristics enhance local government's willingness to provide support, such as decreased exposure to commercial activities and diversified financing channels.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in Company characteristics decrease the local government's willingness to provide support, such as reduced regional significance.

Key Indicators

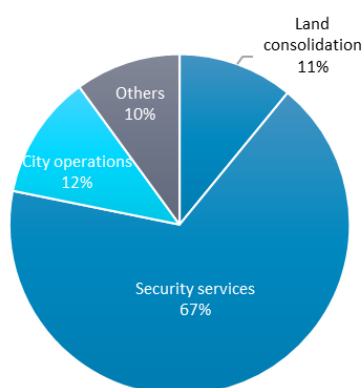
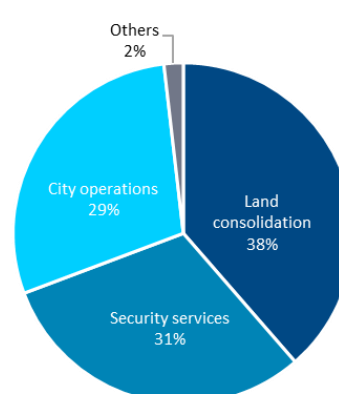
	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	8.3	10.8	17.1	20.8
Total Equity (RMB billion)	2.4	4.3	6.7	7.4
Total Revenue (RMB billion)	0.2	0.5	0.4	1.0
Total Debt/Total Capital (%)	24.7	40.1	45.4	53.7

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

Source: Company data, CCXAP research

Corporate Profile

Established in 2003, YLAM, formerly known as Chongqing Jiulongpo District Tourism Asset Development and Construction Co., Ltd. The Company became one of the important local infrastructure investment and financing Companies ("LIIFCs") in Jiulongpo District after equity transfer and capital increase in 2021. The Company is mainly responsible for land consolidation, shantytown renovation, urban infrastructure construction and state-owned assets operation in Jiulongpo District. It also engages in more commercially driven activities, including security services, property management and leasing, smart parking and self-operated project construction. As of 30 September 2023, the State-owned Assets Supervision and Administration Commission of Jiulongpo District, Chongqing City ("Jiulongpo SASAC") was the ultimate controller of the Company holding 100% stakes of the Company through Chongqing Yulong Asset Management (Group) Co., Ltd. ("CYAM").

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

Source: Company information, CCXAP research

Exhibit 3. Shareholding Structure as of 30 September 2023

重庆市九龙坡区国有资产监督管理委员会 State-owned Assets Supervision and Administration Commission of	100%
重庆渝隆资产经营（集团）有限公司 Chongqing Yulong Asset Management (Group) Co., Ltd.	100%
重庆渝隆资产管理有限公司 Chongqing Yulong Asset Management Co., Ltd.	

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Jiulongpo District Government has a strong capacity to provide support to the Company, given its vital position in Chongqing City, ranking 2nd among 38 districts and counties in Chongqing City by GRP.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. It has formed a pillar industry pattern represented by modern heavy machinery, electronics, chemical and pharmaceutical, as well as the energy industry. Chongqing City's economy has demonstrated a growth trend over the past years. In 2022, Chongqing City's GRP increased by 2.6% year on year ("YoY") to RMB2.9 trillion, ranking 4th among municipalities and prefecture-level cities in China. In 2023, Chongqing City recorded a GRP of RMB3.0 trillion with a GRP growth rate of 6.1% YoY, becoming the first city in western China and one of the five cities in China with a GRP surpassing RMB3.0 trillion. However, mainly due to the tax refund policies, key financial indicators of the Chongqing City were negatively affected in 2022. Chongqing City's tax revenue has decreased from RMB154.4 billion in 2021 to RMB127.09 billion in 2022, resulting in a decline in the general public budget revenue from RMB228.5 billion in 2021 to RMB210.3 billion in 2022. As of the end of 2022, the outstanding direct government debt balance of Chongqing City amounted to RMB1.0 trillion, accounting for 34.6% of its GRP for that year.

Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,500.3	2,789.4	2,912.9
GRP Growth (%)	3.9	8.3	2.6
General Budgetary Revenue (RMB billion)	209.5	228.5	210.3
General Budgetary Expenditure (RMB billion)	489.4	483.5	489.3
Local Government Debt (RMB billion)	679.9	861.0	1007.1

Source: Statistic Bureau of Chongqing City, CCXAP research

Jiulongpo District, located in the western part of the Chongqing City main district, is one of the nine core districts in Chongqing City. Relying on strategic opportunities of the Belt and Road initiative, the Yangtze River Economic Belt, and the construction of a twin-city economic circle in the Chengdu-Chongqing City region, key economic indicators of Jiulongpo District Government were top-ranked among all districts and counties in Chongqing City in recent years. Jiulongpo District Government recorded a GRP of RMB176.4 billion with a GRP growth rate of 2.7% in 2022 and a GRP of RMB186.7 billion with a GRP growth rate of 6.5% in 2023, ranked 2nd among 38 districts and counties in Chongqing City. With continuous growth in industries including automobile and motorcycle manufacturing, non-ferrous metal, electrical machinery and electronic information, Jiulongpo District Government has a relatively good fiscal strength. The general budgetary revenue of Jiulongpo District was RMB5.6 billion in 2022. The percentage of tax revenue to the general budgetary revenue has increased in three consecutive years, to 69.8% in 2022, which demonstrated improving fiscal revenue quality. During the same period, Jiulongpo District had an outstanding direct government debt balance of RMB27.1 billion, accounting for 15.4% of the Jiulongpo District's GRP for that year.

Exhibit 5. Key Economic and Fiscal Indicators of Jiulongpo District

	2020FY	2021FY	2022FY
GRP (RMB billion)	153.3	173.6	176.4
GRP Growth (%)	3.9	9.2	2.7
General Budgetary Revenue (RMB billion)	5.2	5.5	5.6
General Budgetary Expenditure (RMB billion)	8.9	8.3	9.5
Local Government Debt (RMB billion)	22.5	23.6	27.1

Source: Statistic Bureau of Jiulongpo District, CCXAP research

Government's Willingness to Provide Support**Key position as the main state-owned assets operation and management platform in Jiulongpo District**

CYAM is the most important infrastructure construction and state-owned assets operation entity in Jiulongpo District and has the largest business scope and strongest comprehensive strength in Jiulongpo District. The Company, wholly owned by CYAM, has become one of the important land consolidation and state-owned assets operation entities in Jiulongpo District as it is responsible for land consolidation, urban renewal and infrastructure construction within Jiulongpo District outside Jiulong Peninsula area. Considering the Company's high strategic significance to the development of Jiulongpo District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

As the main urban developer in Jiulongpo district, the Company is entrusted by the local government to undertake land consolidation and infrastructure construction through the Company's subsidiary, Chongqing Longjiu Construction Co., Ltd. ("Longjiu Construction"). According to an agreement between the Jiulongpo

District Land Reserve Center, CYAM and the Company, CYAM pays related fees for land demolition and Longjiu Construction carries out land consolidation. Upon project completion, the local government would pay the CYAM based on the land consolidation cost plus the management fee, which is equivalent to 20% of the land consolidation cost. CYAM will pay half of the management fee returned by the local government to Longjiu Construction and the Company recognizes land consolidation income accordingly. As of 30 September 2023, the Company had 3,444 mu of lands under consolidation with a total investment amount of RMB7.5 billion and an outstanding amount of RMB3.3 billion. Moreover, the planned land consolidation projects totaling 565.6 mu of land required a total investment amount of RMB1.2 billion. The large scale of land consolidation ensures the sustainability of the business. However, the income from land development is subject to the land market and government policies. The Company began to recognize revenue from land consolidation in 2022, but the revenue scale was relatively small, at RMB4.3 million.

Since 2019, the Company's infrastructure construction projects have been funded in advance by the local government. According to the contract agreement and construction progress, the local government pays construction fees plus management fees, typically 4% of construction fees to the Company. The Company has successfully delivered a series of large-scale infrastructure projects and public welfare facilities over the past few years, such as roads, schools, and bridges. However, starting in 2020, the Company will no longer be responsible for the construction of infrastructure construction projects, indicating low business sustainability. As of 30 September 2023, the Company's total investment in completed infrastructure construction projects reached RMB1.6 billion, with a cumulative recognized revenue of RMB1.7 billion, and a repayment of RMB1.2 billion has been received.

The Company also conducts shanty town renovation projects through the government purchase service model. The government will buy back the construction upon project completion. As of 30 September 2023, the Company had two shanty town renovation projects under construction with a total investment amount of RMB7.9 billion and an outstanding amount of RMB0.4 billion.

Medium exposure to commercial activities

In addition to public activities, YLAM also engages in various commercial activities, such as security service, property sales, self-operating projects, property leasing and management, and smart parking. We consider YLAM's commercial business exposure to be medium, as its market-driven businesses accounted for around 15-20% of its total assets as of 30 September 2023. However, due to the expansion of self-operated construction projects, we believe that the exposure to commercial activities may increase in the future and it is necessary to keep track of the realization of future returns and fund balancing capacity of these projects.

Security service business is one of the Company's major sources of income, which accounted for 30.6% of the total revenue as of 30 September 2023. Operated by the Company's subsidiary, Chongqing Jiulongpo District Security Service Co., Ltd. ("Jiulongpo Security"), the security service business has a monopoly position in Jiulongpo District, integrating business including civil defense, technique defense, security equipment sales, property management and car rental. The security service business remains a stable customer base, of which the civil defense has more than 100 customer units with around 3,000 security personnel reserved while the technique defense has more than 300 customer units, providing services to enterprises and institutions in Jiulongpo District, such as banks, central enterprises, kindergartens and schools. In 2022, Jiulongpo Security broadened its business scope to smart parking with 8,206 parking units in operation within Jiulongpo District, of which 3,886 parking units have a franchise period from 1 January 2021 to 1 January 2036 and 4,320 parking units have a franchise period from 1 March 2022 to 28 February 2037. Given the smart parking business is still

in the early stage of development and more than 10,000 new parking units are planned to be built, we expect the smart parking business can generate more cash flow and profit in the future.

The Company also undertakes affordable housing construction under a self-operation model. The Company acquires the lands in the public auction market, and conducts the construction by self-raised funds. As of 30 September 2023, the Company had a total saleable area of 19,400 square meters, with a total saleable amount of RMB376.0 million. At the same time, the Company had one affordable housing project under construction, with an outstanding amount of RMB145 million, a planned saleable area of 43,608 square meters and a planned saleable amount of RMB298 million. Overall, the Company's stock of affordable housing has a large area for sale. However, sales progress is relatively slow due to government planning.

Meanwhile, the Company also engaged in self-operated projects including commercial properties and urban renewal projects, such as the Democratic Village project and Shiqiaopu Commercial District Urban Renewal Project, which help to attract high-quality industries, promote local industry, and improve people's livelihood. After these projects are completed, the Company generates profits from property leasing and operations for fund balance. As of 30 September 2023, the Company had 7 self-operated projects under construction or planning, with a total investment amount of RMB6.4 billion and an outstanding amount of RMB5.4 billion. Most of the capital expenditure of the Democratic Village project was funded by CYAM, totaling RMB2.0 billion, which covers 86.4% of the total investment amount. However, since the Company's property sales and self-operated projects are affected by the market conditions, and the initial investment is large, there is uncertainty in the cash collection and investment return. Given the large initial investment amount on these projects, coupled with relatively long construction and payback periods, we believe the Company will face large capital expenditure pressure and debt repayment pressure.

The Company is also involved in the property leasing business, mostly consisting of office buildings. Due to the acquisition of new office buildings in 2023, the total leasable area has increased greatly to approximately 87.2 thousand sqm and an unleased area of 27.4 thousand sqm, with an occupancy rate of 68.6% as of 30 September 2023. In addition, the Company also provides property management services to local enterprises, commercials and schools. The Company's property management business customers are mainly industrial enterprises, accounting for more than 80% of its total customer base.

Solid track record of receiving government payments

As a significant state-owned assets operation entity in Jiulongpo District, YLAM has received recurring financial support, including financial subsidies, asset and capital injection, from CYAM and the Jiulongpo District Government. In December 2021, CYAM transferred 100% of its equity interests in Longjiu Construction, Jiulongpo Security, and Chongqing Jiding Machinery Equipment Co, Ltd. to the Company, to support YLAM's capital and profitability. Total cash payments and paid-in capital injections were RMB3.0 billion in 2021 and RMB7.2 billion in 2022, which is equivalent to 69.8% and 108.1% of YLAM's shareholder's equity at end-2021 and 2022, respectively. In addition, YLAM also received subsidies totaling RMB16.3 million from 2020 to 2023Q3. Given YLAM's important strategic role in the region, we expect the Company will continue to receive support from the government and its parent in the future.

Exhibit 6. Government Support from 2020 to 2023Q3

(RMB million)	2020FY	2021FY	2022FY	2023Q3
Government Subsidies	3.4	6.2	6.7	-
Capital Injections	-	1,550.0	2,343.8	654.0
Asset Injection	-	1,499.2	4,888.7	26.3
Total	3.4	3,055.4	7,239.2	680.3

Source: Company information, CCXAP research

Rapid debt growth and moderate asset liquidity

Due to subsidiaries being transferred to the Company and ongoing capital expenditure for land consolidation and construction projects, YLAM's total debt has increasingly grown since 2020. The Company's total debt had increased to RMB8.5 billion as of 30 September 2023 from RMB0.8 billion as the end of 2020 while the total capitalization ratio has risen to 53.7% from 24.7% in the same period. In addition, as of 30 September 2023, its short-term debt accounted for about 23.1% of its total debt, and cash to short-term debt ratio was 0.2x, indicating certain short-term debt servicing pressure. Considering that the Company may continue to rely on external financing for its financing needs of construction projects, we expect the Company will maintain a relatively fast debt growth for the next 12-18 months. Fortunately, some of the Company's infrastructure project capital expenditure can be supported by government special bonds, which can partially alleviate the Company's debt burden.

In addition, YLAM has moderate asset liquidity. The Company's total asset mainly consists of inventories and receivables, which accounted for 55.9% of its total assets as of 30 September 2023. Inventories were mainly resettlement housing for sale and investment costs for infrastructure construction projects, while receivables were mainly unreceived payments from the agencies of government or other state-owned companies, all of which are considered low liquidity. In addition, 11.7% of the Company's total assets were intangible assets mainly consisting of parking units and investing property at the same period, which can generate parking income and rental income as a stable supplementary.

As of 30 September 2023, the total amount of external guarantees of the Company was RMB237.0 million, representing 3.4% of its net assets. All these external guarantees were provided to Chongqing Yulong Cultural Tourism Development Co., Ltd., which is a local state-owned enterprise in Jiulongpo District and a subsidiary of the CYAM. As a result, we consider that the Company's contingent liability risk is relatively controllable.

Stable access to financing channels

The Company shows stable access to funding as its financing channels are mainly bank loans and non-standard financing. Shareholder allocations are also an important channel for the Company to supplement funds. From 2021 to 2023Q3, the cash received by the Company from investment reached RMB1.3 billion, RMB2.3 billion and RMB0.7 billion, respectively. As of 30 September 2023, around 84.4% of the Company's debt financing was provided by domestic banks with a total credit facility of RMB10.3 billion and available credit facilities of RMB2.9 billion, indicating a moderate liquidity buffer. Around 15.6% of debt financing was provided by non-standard financing, including financial leasing and trust. Its financing average cost is relatively high, which was around 6.3% at end-2023Q3. We expect the Company will continue to broaden its financing channels by increasing credit facilities and issuing onshore bonds.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. YLAM assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

YLAM is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Jiulongpo District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. YLAM believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

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

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