

Credit Opinion

17 June 2024

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

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Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Yidu State-owned Assets Investment, Operation and Holding Group Co., Ltd. (“YDSI” or the “Company”) reflects Yidu City Government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Yidu City Government’s capacity to provide support reflects Yidu City’s good economic fundamentals, ranking top among all county-level cities in Hubei Province, but with moderate fiscal strength.

The rating also reflects the local government’s willingness to provide support, based on the Company’s (1) crucial role in the local economic and social development as one of the most important state-owned enterprises (“SOEs”) in Yidu City; (2) good track record of receiving government support; and (3) diversified funding channels including bank loans and bond issuances.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) relatively high short-term debt repayment pressure; and (3) weak asset liquidity.

The stable outlook on YDSI’s rating reflects our expectation that Yidu City Government’s capacity to provide support will remain stable, and the Company will maintain its crucial role in the economic and social development of Yidu City over the next 12-18 months.

Rating Drivers

- Crucial role in the local economic and social development as one of the most important SOEs
- Medium exposure to commercial activities
- Relatively high short-term debt repayment pressure
- Weak asset liquidity
- Good track record of receiving government support
- Diversified funding channels including bank loans and bond issuances

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Yidu City Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to provide support, such as lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Yidu City Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, decrease in government support or higher exposure to risky commercial activities.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	40.2	49.4	57.3
Total Equity (RMB billion)	16.6	22.5	28.0
Total Revenue (RMB billion)	3.5	3.7	3.4
Total Debt/Total Capital (%)	53.1	46.9	42.1

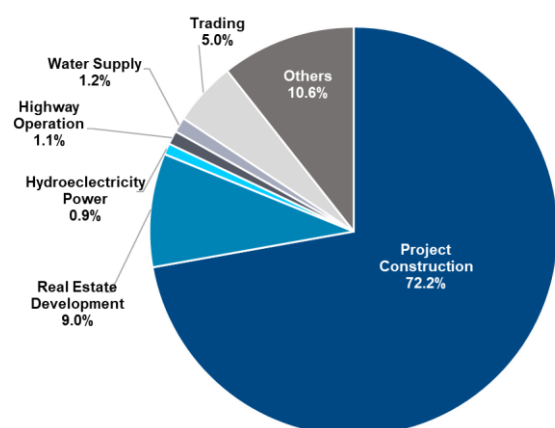
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Established in 1997, YDSI is one of the most important SOEs and one of the largest SOEs in terms of total assets in Yidu City, Yichang City. It is mainly responsible for managing and operating state-owned enterprises and assets, as well as industrial development in Yidu City. YDSI plays an important role in the local economic and social development, undertaking various public projects and providing public services in the city, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply. The Company also engages in commercial activities, such as property development, trading, hotel service, property leasing, as well as equity investment. As of 31 December 2023, YDSI was wholly owned and controlled by the State-owned Assets Supervision and Administration Bureau of Yidu City Government ("Yidu SASAB").

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Yidu City Government has a relatively strong capacity to provide support given its good economic fundamentals, ranking top among all county-level cities in Hubei Province, but with moderate fiscal strength.

Yichang City is a prefecture-level city located in the southwest part of Hubei Province. Hubei Province is the seventh largest province in China by gross regional product ("GRP") in 2023, with a solid foundation in different industries such as metallurgy, automobiles, chemicals, building materials, food, machinery manufacturing, textiles, electronics, and shipbuilding. Yichang City has moderate economic and fiscal strength, ranking top among prefecture-level cities in Hubei Province. After years of development, it has formed 9 pillar industries such as green chemical, equipment manufacturing, food and drink, biomedicine, building materials, textile clothing and stationery, new generation information technology, clean energy, as well as aerospace and ocean engineering. In 2023, its GRP was RMB575.6 billion, representing a year-over-year ("YoY") growth of 7.1%, with the GRP growth rate ranking 2nd among all prefecture-level cities in Hubei. The local government's general budgetary revenue was in line with the economic trend. In 2023, its general budgetary revenue also increased to RMB26.9 billion from RMB21.8 billion in 2022. The fiscal stability was good with tax revenue contributing more than 75% to the general budgetary revenue over the past three years. However, its moderate fiscal balance ratio (general budgetary revenue/general budgetary expenditure in 2023:39.6%) indicated that it relied on support from high-tier government and land transfer income. As of 31 December 2023, the outstanding government debt of Yichang City was RMB98.7 billion, accounting for 17.1% of its GRP.

Exhibit 2. Key economic and fiscal indicators of Yichang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	502.3	550.3	575.6
GRP Growth (%)	16.8	5.5	7.1
General Budgetary Revenue (RMB billion)	19.8	21.8	26.9
General Budgetary Expenditure (RMB billion)	48.8	56.4	67.9
Local Government Debt (RMB billion)	80.5	92.6	98.7

Source: Yichang Municipal Government, CCXAP research

Yidu City is a county-level city under the administration of Yichang City with a good geographical location and convenient transportation network. The city is included in the Three Gorges-Yichang Half-hour Economic Circle and has developed six pillar industries including fine chemicals, biomedicine, equipment manufacturing, new energy, and new materials. Over the past three years, by GRP, Yidu City ranked top among the counties/districts of Yichang City. In 2023, Yidu City recorded a robust GRP growth of 7.2% on a YoY basis, to RMB92.7 billion. It also ranked 63rd among the CCID Top 100 counties in China in 2023. Supported by strong economic recovery, its general budgetary revenue also increased by 30.4% in 2023, reaching RMB3.0 billion. The fiscal balance of the Yidu City Government remained moderate. In 2023, the reported fiscal balance ratio was around 52.3%, and support from the upper-tier government is important for fiscal balancing. As of 31 December 2023, the outstanding government debt of the Yidu City Government amounted to RMB8.2 billion, accounting for 9.1% of the GRP.

Exhibit 3. Key economic and fiscal indicators of Yidu City

	2021FY	2022FY	2023FY
GRP (RMB billion)	80.0	90.0	92.0
GRP Growth (%)	19.7	7.6	7.2
General Budgetary Revenue (RMB billion)	2.0	2.3	3.0
General Budgetary Expenditure (RMB billion)	3.9	4.8	5.7
Local Government Debt (RMB billion)	6.3	7.7	8.2

Source: Yidu City Government, CCXAP research

Government's Willingness to Provide Support

Crucial role in the local economic and social development as one of the most important SOEs

YDSI is the largest entity in terms of total assets and the most important one under the control of the Yidu SASAB in Yidu City. It is responsible for various public activities, including infrastructure construction, affordable housing construction, highway operation, hydroelectricity power, and water supply, which are crucial to local economic and social development.

YDSI carries out infrastructure construction projects through agent construction and self-operation mode. As of end-2023, the Company had 6 major infrastructure projects under construction or planning, with a total investment amount of RMB3.6 billion and an uninvested amount of RMB2.9 billion, indicating sufficient project reserves in hand. However, the Company's payment collection progress has lagged in recent years. As of the end of 2023, YDSI collected payments of RMB2.5 billion; at the same time, the Company had RMB6.8 billion in accounts receivables of infrastructure construction from the Yidu City Finance Bureau. In addition, due to the economic downturn, the future income generated from self-operated projects is also uncertain, depending on regional development and the operating conditions of tenants.

YDSI undertakes affordable housing construction through agent construction and self-operation mode in Yidu City. Under self-operation mode, the Company sells affordable houses to relocated householders at prices below the average of local commercial houses and achieves the fund balancing by selling additional houses at market prices, selling or leasing parking lots as well as providing property management services. As of end-2023, YDSI had invested around RMB560.8 million in an affordable housing project under construction, with an uninvested amount of around RMB56.1 million.

YDSI also provides essential public services in Yidu City, including highway operation, hydroelectric power, and water supply. As of end-2023, the Company held and managed two highways, including Yiyang first-grade

highway and Luyu first-grade highway, with traffic mileage of 50.3 kilometers and 51.7 kilometers respectively. These two highways are important trunk lines in Yidu City and help promote the development of regions along the route. YDSI is the main hydroelectric power provider in Yidu City and owns 3 power plants with a total installed capacity of 44,770 KW. Affected by the dry weather in 2023, revenue of this segment was down by 7.4% as of 2023 compared with 2022. Moreover, the Company is the sole water supplier in Yidu City, covering both urban and rural areas. The Company has franchise advantages in providing such public services in Yidu City, however, given their public nature, the profitability of public services is relatively low and highly relies on government subsidies.

Medium exposure to commercial activities

YDSI participates in different commercial activities mainly including property development, engineering construction, trading, hotel service, property leasing, as well as equity investment. Based on our assessment, YDSI's exposure to commercial activities is medium with the assets of commercial activities accounting for less than 20% of total assets.

The Company is engaged in property development in Yidu City through its subsidiary. As of end-2023, YDSI had completed 4 key projects, which were almost sold, with a payment collection of RMB1.1 billion. Meanwhile, YDSI had 1 project under construction, located at Lucheng Subdistrict, with a total investment of around RMB550.0 million and an uninvested amount of around RMB189.2 million. During the general downturn in China's property market, the sales of this property development project would be exposed to more uncertainties.

Moreover, YDSI has engaged in engineering construction since the acquisition of Hubei Guotong Lingyu Construction Group Co., Ltd. in 2020. The Company acquires projects through open market bidding and selected bidding. In 2023, the engineering construction business recorded a decline in revenue due to a smaller value of completed projects during the year. Nevertheless, the Company still held a large number of contracts under construction (end-2023: 55), which mainly came from local SOEs.

The Company also developed other businesses such as trading, hotel, and leasing, which generated a revenue of around RMB285.0 million in 2023, accounting for around 10.6% of total revenue. The Company mainly focuses on trading building materials such as gravel and steel which are provided to local construction projects. The Company runs three major hotels that generate stable revenue. As the Company received the exclusive operating rights of the piling of phosphogypsum resources in 2023, the commercial business will be further diversified. Meanwhile, the Company's exposure to commercial business may increase accordingly as well.

Relatively high short-term debt repayment pressure and weak asset liquidity

YDSI's total debt increased slightly from RMB19.8 billion in 2022 to RMB20.3 billion in 2023. As of end-2023, the financial leverage improved as the total capitalization ratio remained at a moderate level of 42.1% (2022:46.9%). However, the Company's short-term debt repayment pressure is relatively high. As of end-2023, the cash-to-short-term debt ratio recorded 0.5x and short-term debt still accounted for around 34.6% of its total debt. Considering ongoing investment and debt repayment needs, we expect the Company may continue to rely on external financings such as bank loans and bond issuances and the total debt may further increase over the next 12-18 months.

YDSI has weak asset liquidity and financial flexibility. As of end-2023, around 8.6% of total assets were restricted, mainly cash or cash equivalent, land, and highway toll rights. At the same time, the receivables, other receivables, as well as non-current assets accounted for around 88.1% of total assets, which mainly consist of

government-related receivables and intangible assets. We believe the liquidity of these assets to be low. Meanwhile, the external guarantee provided by the Company as of the end of 2023 was only RMB1.1 billion, representing less than 3.9% of its net assets.

Good track record of receiving government support

The Company has a good track record of receiving support from the local government in terms of subsidies, special bond funds, asset injection, and equity transfer. In 2023, the government continued to demonstrate its commitment to the Company, evidenced by the total subsidy package of RMB5.5 billion given to the Company. Notably, the government provided an asset injection of RMB4.8 billion in 2023, including land use rights with green projects and exclusive operating rights for the piling of phosphogypsum resources. Besides, the government directly provided a financial subsidy of RMB482.8 million to the Company, which effectively improved the capital structure and operating cash flow. Considering the Company's status as one of the most important SOEs of Yidu City, we expect YDSI will continue receiving support from the local government.

Diversified funding channels including bank loans and bond issuances

The Company has diversified funding channels, such as policy and commercial banks as well as the bond markets, which may release the pressure on refinancing and capital expenditure. Bank loans and bonds accounted for most of the total debt. The Company has built long-term and close relationships with different banks. As of end-2023, the available credit facilities from banks amounted to RMB4.9 billion. In 2024, the Company issued 3 bonds in the offshore bond market, with a total amount of RMB1.4 billion and a coupon rate of 6.3%~6.9%. Yidu Guotong Investment & Development Co., Ltd., the key subsidiary of the Company, has a track record of access to the onshore bond market and has issued various products including corporate bonds, CPs and MTNs. The Company also has manageable exposure to non-standard financing, which accounted for less than 15.0% of total debt as of the end of 2023.

ESG Considerations

YDSI is exposed to environmental risks due to undertaking engineering construction and river sand mining. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the start of the projects and close monitoring during the construction phase.

YDSI bears social risks as it plays a crucial role in the development of Yidu City. Demographic changes, public awareness, and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

YDSI's governance considerations are also material as the Company is subject to oversight by Yidu City Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

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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