

Credit Opinion

26 June 2024

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

Analyst Contacts

Vincent Tong +852-2860 7130
Assistant Director of Credit Ratings
vincent_tong@ccxap.com

Allen Lin +852-2860 7128
Credit Analyst
allen_lin@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- long-term credit rating of Yinchuan Tonglian Capital Investment Operation Group Co., Ltd. ("YCTL" or the "Company") reflects (1) Yinchuan Municipal Government's very strong capacity to support, and (2) the local government's high willingness to support, based on our assessment of the Company's characteristics.

Our assessment of Yinchuan Municipal Government's capacity to support reflects its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, but constrained by its relatively weak fiscal balance and high debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant role in local infrastructure construction projects; (2) important position as the sole public utility services provider; and (3) good track record of receiving government payments.

However, the Company's rating is constrained by its (1) high exposure to commercial activities; (2) large refinancing pressure; and (3) moderate exposure to contingent risk.

The stable outlook on YCTL's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will continue to play an essential role in local infrastructure projects and public service delivery in Yinchuan City.

Rating Drivers

- Dominant role in local infrastructure construction projects
- Important position as the sole public utility services provider in Yinchuan City
- High exposure to commercial activities
- Good track record of receiving government payments
- Improving debt structure but with large refinancing pressure
- Moderate exposure to contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Yinchuan Municipal Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and strengthens funding ability.

What could downgrade the rating?

The rating could be downgraded if (1) Yinchuan Municipal Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, further weakened funding ability, or decreased government supports.

Key Indicators

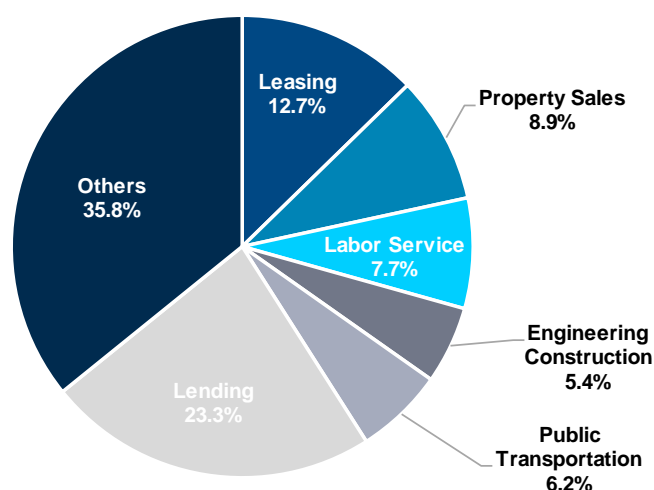
	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	41.2	46.3	49.7	49.8
Total Equity (RMB billion)	21.0	23.3	22.9	22.8
Total Revenue (RMB billion)	1.6	1.2	1.5	0.3
Total Debt/Total Capital (%)	43.7	41.6	44.8	45.5

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2008, YCTL is a local infrastructure investment and financing company ("LIIFC") with the largest total assets in Yinchuan City. The Company plays a dominant role in implementing the local government's blueprint for urban planning and municipal construction. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, public transportation, and gas supply. Meanwhile, the Company has commercial operations, fixed assets operation, property development, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, as well as financial services. As of 31 March 2024, the Company was direct and wholly owned by the State-owned Assets Supervision and Administration Commission of Yinchuan City ("Yinchuan SASAC").

Exhibit 1. Revenue structure in 2023

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe Yinchuan Municipal Government has very strong capacity to provide support given its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, but constrained by its relatively weak fiscal balance and high debt burden.

Yinchuan City is the economic and political center of Ningxia Hui Autonomous Region and is the window for China to open-up to the west. Yinchuan City focuses on developing high-end equipment manufacturing, new materials, logistics, new energy vehicles, and life & health industries. In 2023, Yinchuan City's total Gross Regional Product ("GRP") increased by 7.2% year-over-year ("YoY") to RMB268.6 billion, ranking 1st in terms of GRP among prefecture-level cities in Ningxia Hui Autonomous Region and accounting for around 51% of its GRP. However, it showed a lower ranking as compared to other capital cities. Yinchuan City had a good revenue structure, reporting general budgetary revenue of RMB19.8 billion with 17.1% YoY increase, of which tax revenue accounted for 72.6% of general budgetary revenue. Yinchuan City's general budgetary revenue contributed around 39% to that of Ningxia Hui Autonomous Region. However, its performance was constrained by weak fiscal self-sufficiency as the general budgetary revenue could only cover 45.1% of the general budgetary expense. Moreover, Yinchuan City reported an outstanding government debt of RMB72.9 billion as of 31 December 2023, accounting for 27.1% of its GRP and indicating a relatively high debt pressure.

Exhibit 2. Key economic and fiscal indicators of Yinchuan City

	2021FY	2022FY	2023FY
GRP (RMB billion)	229.6	255.4	268.6
GRP Growth (%)	6.4	4.1	7.2
General Budgetary Revenue (RMB billion)	14.6	17.5	19.8
General Budgetary Expenditure (RMB billion)	26.8	33.3	43.8
Local Government Debt (RMB billion)	60.8	63.0	72.9

Source: Yinchuan Municipal Government, CCXAP research

Government's Willingness to Provide Support**Dominant role in local infrastructure construction projects**

YCTL is the largest LIIFC in Yinchuan City in terms of asset size as of year-end 2023 and the most primary government-authorised infrastructure constructor in the region. According to Yinchuan Municipal Government's restructuring plan of "2+7+2+N" for state-owned enterprises in Yinchuan City, the Company acts as one of the two most important platforms to promote local social and economic development.

YCTL is primarily responsible for the infrastructure construction projects such as construction of municipal roads, affordable housing projects, water facilities, and educational institutions. The Company engages in the business through entrusted construction model and self-operation model. Under entrusted construction model, the Company signs an entrusted construction agreement with the government before each project is developed, and transfers the project ownership to the government or related parties after the project is completed. The government will pay the total cost plus a few percentage markups after examining the projects. As of 31 March 2024, the total investment and scheduled government payment of YCTL's completed projects amounted to approximately RMB8.8 billion and RMB12.0 billion, respectively. The Company had switched construction model from entrusted construction model to self-operation model. Under self-operation model, the Company expects to achieve fund balancing through fees, sales, buyback payments and other revenue income. As of 31 March 2024, there were 5 self-operated projects under construction, including gas pipeline, parking lots, as well as recycled water projects, with a total investment amount of RMB1.3 billion and an uninvested amount of RMB846 million. At the same time, the Company had 10 projects under planning with a total investment amount of RMB1.9 billion. The certain number of projects in pipeline are beneficial for the sustainability of Company's infrastructure construction business, but they also bring certain capital expenditure pressure for the Company.

The Company also engages in engineering construction with relevant qualifications. Most projects of this business are municipal engineering projects, including road maintenance, lighting improvement, as well as street light installation, which can be generally completed construction in a short period. The Company generally acquires these municipal engineering projects through public bidding or designation by government departments. However, these projects were relatively small-scale with a short construction period.

Important position as the sole public utility services provider in Yinchuan City

YCTL is the sole public transportation operator in Yinchuan City, covering the downtown area of Yinchuan City and nearby counties including Helan County and Yongning County, representing approximately 60% of the urban public passenger transportation (buses, vans, and taxis) in the region. As of 31 March 2024, the Company had 2,649 public vehicles operating in 198 routes, with a total length of routes amounting to 3,660.3 kilometers. However, the Company has recorded large losses from the public transportation business due to its public welfare nature and has received government subsidies to make up for the losses. Yinchuan Municipal Government subsidizes the Company for the bus operation, with nearly RMB588 million from 2023 to the first quarter of 2024.

The Company also offers a comprehensive set of gas supply services in Yinchuan City, providing bottled liquefied petroleum gas for the residents in Yinchuan City and some of the urban catering industry, and compressed natural gas mainly for car refilling. Additionally, the Company engages in heat supply in some residential communities such as Tanglai, Hubin, Yinhu, and Xihuan with a total heating area of more than 2 million square meters. The Company transports the steam to the self-built heat exchange station of each residential community through the heating pipe network. The communities subsequently convert the steam through their heat exchange stations and transport it to the residents in the community.

We believe that the Company's business scale will further enlarge and the replacement cost for the Company's role is high as these public services are essential for the residents.

High exposure to commercial activities

YCTL's major commercial activities include fixed assets operation, property development, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, and financial services. We estimate the Company's risk exposure to commercial business is relatively high, accounting for more than 30% of total assets as of 31 December 2023.

YCTL leases multiple residential and commercial investment properties to the government departments, schools, and merchants. As of 31 March 2024, the Company owned 7 key properties through acquisition or self-construction, with a total leasable area of 448.7 thousand square meters and average occupancy rate of more than 93%. Yinchuan Greenland Center North Tower is one of the landmark commercial property projects in Yinchuan City located at Yuehai Bay CBD, with an estimated total investment of RMB2.0 billion and invested amount of around RMB1.4 billion, respectively. The project's fund balancing is expected to achieve through selling and leasing, which may have higher uncertainty in future income as compared to the return of projects under agency construction model. Moreover, the project development has been affected by the recent weak demand for investment properties in Yinchuan City. The target tenants of the project are the local municipal state-owned enterprises ("SOEs"), which may bring certain support for the future rental business.

YCTL's subsidiary conducts property development business, which mainly includes commodity housing projects and talent apartments. As of 31 March 2024, the Company had 2 key property development projects under construction, with total investment amount of RMB1.6 billion and an uninvested amount of RMB551.0 million. During the downturn in China's property market, this project's sales collection may suffer from high volatility due to the uncertainty of construction and sales progress. At the same time, the Company planned to use 2 pieces of land stock for property development focusing on commercial residential housing development. The total estimated investment amount of the planning projects is RMB2.0 billion and the Company plans to complete the projects in several phases.

YCTL undergoes industrial investment in the forms of direct equity investment, fund investment, and lending to promote local industrial development. However, the return of these investments contains investment risk because it highly depends on the operational and financial performance of the investee. Moreover, the Company takes part in the lending business and has contributed a certain degree of income in past years, providing financial support to other state-owned enterprises and private-owned enterprises. As of 31 March 2024, the outstanding amount of lending business was around RMB6.5 billion. The lending business makes it bear certain risk exposure to private-owned enterprises, which have higher operation risk during market downturns. Until now, several clients have also been involved in legal disputes and ran into financial distress that have relatively high collection risk.

Additionally, the Company participates in diversified business operations such as commodity sales, cultural tourism, secured transport service, and operation of parking lots, providing supplementary income to the Company. However, these businesses are purely market-oriented operations, which may exert larger uncertainties on the Company's operation. Overall, we expect that YCTL's commercial activities will continue to expand instead of concentrating on public-policy projects due to the Company's business restructuring plans guided by the local government.

Good track record of receiving government payments

YCTL has received strong support from the Yinchuan Municipal Government, including subsidies, capital injections, asset injections and government payments for previous construction projects. From 2021 to 2024Q1,

the local government injected cash, operating assets, and gratuitously transferred share of several companies to the Company, which increased YCTL's capital reserve from RMB3.9 billion to RMB5.1 billion. Meanwhile, the Company has received different types of government subsidies of approximately RMB2.4 billion. In 2023, the Company received capital injection of RMB85.0 million from the local government. Taking into account the Company's strong public policy role with stable business development in providing public service, we expect the Company will continue to receive government support over the next 12 to 18 months.

In May 2023, under the leadership of the Ningxia Hui Autonomous Region Government, the state-owned enterprises in the autonomous region and Yinchuan City jointly invested to establish the Ningxia State-owned Enterprise Credit Guarantee Fund. The initial scale of the fund is RMB1 billion, which plays a certain role in preventing and resolving financial risks in the region. Moreover, the fund can provide guarantee or loans to support the local state-owned enterprises. In addition, the Yinchuan Municipal Government actively applied for special refinancing bonds and was approved for a quota of approximately RMB8.0 billion in 2023. YCTL received the special refinancing funds of around RMB700 million from Yinchuan Municipal Government to repay the debts in 2023.

Improving debt structure but with large refinancing pressure

YCTL's total debt increased from RMB16.3 billion at the end-2021 to RMB19.0 billion at 2024Q1, while its total capitalization ratio increased from 43.7% to 45.5%. As of 31 March 2024, through the replacement of short-term debt by long-term debt, the Company had improved its debt structure as seen by lower short-term debt ratio. YCTL's short-term debt to the total debt ratio decreased to 31% as of 31 March 2024 from 62% as of 31 December 2022. In March 2024, the Company received syndication loans of totally RMB2.6 billion to swap its bonds and non-standard financing from the policy bank and large state-owned commercial banks. These syndication loans have longer tenor and lower financing cost, which partially mitigate YCTL's refinancing pressure and improve its debt structure. However, the unrestricted cash or cash equivalent of the Company remained that only covered around 22% of the short-term debt as of 31 March 2024.

We expect that YCTL's refinancing pressure remains large in 2024 and 2025. As of 31 March 2024, the Company reported around RMB3.2 billion and RMB6.7 billion in outstanding debts (including puttable bonds) due within 2024 and 2025 in the public bond markets, respectively. We opine YCTL still bears concentrated bond maturity pressure. Bond issuance has been the major financing channel for YCTL and accounted for around 60% of its total debt. Moreover, the Company's financing ability weakened because of the deteriorated financing condition of China's northwestern cities including Yinchuan City and the tightening financing policies on LIIFCs. Under the 2023 debt reduction policy in China, Ningxia Hui Autonomous Region is one of the regions whose debt growth is under tight control by the central government. YCTL may face challenges on new debt issuance and pressure on debt reductions. The Company plans to obtain syndication loans from policy banks and state-owned banks to swap its maturing debts to further improve its debt structure. However, there is a certain degree of uncertainty in the implementation of relevant countermeasures.

YCTL's sufficient bank facilities could partially mitigate the refinancing risk. It maintains close relationships with nationwide domestic banks in China. As of 31 March 2024, the total credit facilities and the available credit facilities from banks amounted to RMB28.4 billion and RMB6.5 billion, respectively.

Considering the YCTL's dominant role as the largest platform to participate in state-owned asset operations and providing essential public services in Yinchuan City, we expect the Company to retain fair access to funding and refinancing capabilities. We also believe Yinchuan Municipal Government will have high incentive to provide

direct and timely financial support, in case any credit events occur. We will keep following the Company's repayment process and the recovery of refinancing ability.

Moderate exposure to contingent risk

The Company bears moderate exposure to contingent risk given its relatively large number of external guarantees. As of 31 March 2024, YCTL's outstanding amount of external guarantees was RMB4.9 billion, accounting for 21.6% of its net assets. The external guarantees are all provided to state-owned enterprises but some entities are involved in multiple litigation disputes, with higher operating risk. If a credit event occurs, the Company may face certain contingent risks, which could inversely impact its reputation, operations, and financial conditions. Overall, we believe that the contingent risk of the external guarantee is moderately controllable, considering the state-owned enterprises' important strategic position in their respective regions with the local government's support in a timely manner.

ESG Considerations

YCTL faces environmental risks because it has undertaken infrastructure construction projects and property projects. In January 2024, the Company's important subsidiary Yinchuan Municipal Construction Development Investment Group Co., Ltd. (CDIG) was fined RMB1 million by regulators for sewage discharge.

YCTL bears social risks as it implements public policy initiatives by providing essential public services in Yinchuan 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.

YCTL's governance considerations are also material as the Company is subject to oversight by Yinchuan Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity. However, at the end of 2023, CDIG owed RMB 78.3 million in corporate income tax and RMB 10.7 million in value-added tax due to the communication problem during the negotiation between CDIG and local taxation bureau on tax exemptions. CDIG is actively working on resolving this issue.

Rating Methodology

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

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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656