

Credit Opinion

30 November 2023

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

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Yixing City Construction Culture Tourism Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Yixing City Construction Culture Tourism Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Yixing Construction Cultural Tourism Group Co., Ltd. ("YCCT" or the "Company") to BBB_g+, from BBB_g, reflecting our expectation of the increasing willingness to provide support from the Yixing City Government.

The BBB_g long-term credit rating of YCCT reflects (1) Yixing City Government's very strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Yixing City Government's capacity to provide support reflects Yixing City's status as the third largest county-level city by gross regional product ("GRP") in Wuxi City, with ongoing economic growth and good fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic position in urban and rural infrastructure construction in Yixing City; (2) good access to funding with reduced reliance on non-standard financing; and (3) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; and (2) high level of contingent liabilities resulting from external debt guarantees.

The stable outlook on YCCT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in Yixing City.

Rating Drivers

- Clear and important strategic position in Yixing City
- Medium exposure to commercial activities
- Good track record of receiving government payments
- Improved debt management that helps mitigate financial pressure
- Good access to funding with reduced reliance on non-standard financing
- High level of contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduction in exposure to commercial activities or increase in policy importance.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	14.5	15.8	17.5	19.1
Total Equity (RMB billion)	5.5	6.4	6.5	6.6
Total Revenue (RMB billion)	1.2	1.5	1.8	0.8
Total Debt/Total Capital (%)	59.4	57.4	59.7	61.7

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

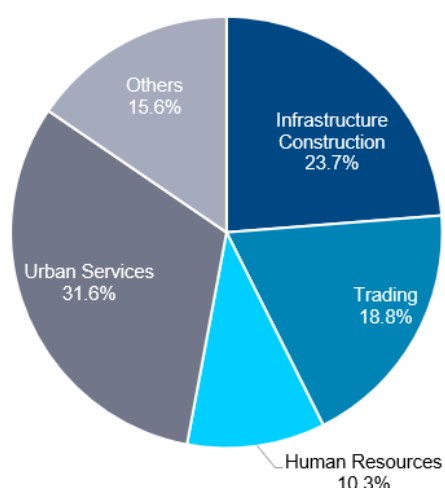
Source: Company information, CCXAP research

Corporate Profile

Established in 2002, YCCT is one of the key local infrastructure investment and financing companies ("LIIFCs") in Yixing City, Wuxi City. It is mainly responsible for the construction and maintenance of public and infrastructure facilities. It also participates in different business segments such as engineering construction, urban services, human resources service and trading. As of 30 June 2023, it was wholly owned by the State-owned Assets Supervision and Administration Commission of Yixing City Government ("Yixing SASAC"), with a paid-in capital of RMB758.0 million.

In October 2023, according to the local government's new plan to manage the tourism resources in Yixing City, the Company transferred out the subsidiary, Jiangsu Yixing Tourism Industry Group Co., Ltd. ("YXTI"), at the negotiated price to another local state-owned enterprise. YCCT will focus on the operation of tourism resources in the main urban area of Yixing City such as Longbei Mountain Forest Park and Tuanjiu Scenic Area in the future.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that Yixing City Government has very strong capacity to provide support for the Company, given its ongoing economic growth and good fiscal stability.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemicals, and textile enterprises, and is the second largest province in China by gross regional products ("GRP"), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, year-over-year ("YoY") increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country.

Located in the southern part of Jiangsu Province and on the northern shores of Taihu Lake, Wuxi City is one of the core cities of the Yangtze River Delta and the Suzhou-Wuxi-Changzhou metropolitan area. Wuxi City's pillar industries include the Internet of Things, integrated circuits, biomedicine, software, and new energy industry. Wuxi City has strong economic strengths with ongoing growth and strong fiscal profiles. The GRP of Wuxi City ranked third among 13 prefecture-level cities in Jiangsu Province for more than 5 consecutive years. In 2022, it recorded a GRP of RMB1.5 trillion with a YoY growth rate of 3.0%. From 2020 to 2022, its general budgetary revenue exceeded RMB100 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) of above 80%. As of 31 December 2022, the local government's outstanding debt was RMB187.4 billion, accounting for 12.6% of the GRP. In the first three quarters of 2023, Wuxi City recorded a GRP of RMB1,100.1 billion, a YoY growth rate of 5.8%.

Exhibit 2. Key Economic and Fiscal Indicators of Wuxi City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,237.0	1,400.3	1,485.1
GRP Growth (%)	4.7	8.8	3.0
General Budgetary Revenue (RMB billion)	107.6	120.1	113.3
General Budgetary Expenditure (RMB billion)	121.5	135.8	136.6
Local Government Debt (RMB billion)	142.1	160.8	187.4

Source: Statistics Bureau of Wuxi City, CCXAP research

Yixing City is located in the southwest of Wuxi City, which is known as China's "Pottery City" because of its famous purple clay pottery. Its main industries include ceramic manufacturing, cable industry, and environmental protection. In 2022, Yixing City recorded a GRP of RMB223.7 billion with a YoY increase of 3.2%, which maintained a solid economic growth above that of the national level and Wuxi City. In 2023Q3, the GRP of Yixing City increased to RMB168.9 billion with a YoY growth of 5.8%. With the support of ongoing economic development, Yixing City's fiscal resources show an overall upward trend potential. It reported a public budgetary revenue of RMB13.2 billion in 2022, with a YoY growth rate of 0.5% after excluding the factor of tax refunds. And tax income accounted for around 80% over the past three years, representing a solid source of revenue. Yixing City Government's fiscal balance rate remained relatively high level over 70% over the past three years. As of end-2022, Yixing City's government debt balance was RMB18.8 billion, accounting for 8.4% of GRP and 60.0% of its fiscal revenue in the year.

Exhibit 3. Key Economic and Fiscal Indicators of Yixing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	183.2	208.2	223.7
GRP Growth (%)	3.0	8.8	3.2
General Budgetary Revenue (RMB billion)	12.8	14.2	13.2
General Budgetary Expenditure (RMB billion)	17.2	18.8	18.9
Local Government Debt (RMB billion)	13.6	15.6	18.8

Source: Statistics Bureau of Yixing City, CCXAP research

Government's Willingness to Provide Support Clear and important strategic position in Yixing City

There is a clear functional positioning for the LIIFCs in Yixing City, supporting the long-term development of YCCT. The Yixing City Government continued to optimize the structure of its state-owned assets and enterprises in 2023. After the transformation in 2023, YCCT's positioning has become clearer among the local SOEs, focusing on the three main businesses of urban development and construction, urban operation services and urban-rural integrated development. The Company is committed to being a comprehensive urban operator that engages in the investment, construction, operation and providing services, as well as the main force in industrial development.

There are some other LIIFCs in Yixing City, including Yixing City Development Investment Co., Ltd. ("YCDI"), Jiangsu Yixing Economic Development Zone Investment Development Co., Ltd. ("YEDI") and Yixing Communications Industry Group Co., Ltd. ("YCIG"). YCDI is responsible for the primary land development, drainage system maintenance and infrastructure construction for the urban area; YEDI is responsible for primary land development and resettlement housing construction in Yixing Economic Development Zone; YCIG is responsible for the investment, financing, construction, and management of the transportation infrastructure projects in Yixing City. We believe that the strategic role of YCCT in Yixing City's economic development and public welfare is irreplaceable in the short-to-medium time period.

Undertaking major infrastructure construction projects in Yixing City

YCCT has undertaken a large number of infrastructure construction projects over the past years mainly through agency construction mode. Projects include building roads, bridges, greening, urban renewal, and public facility upgrades which have greatly increased the social welfare of Yixing City. Key completed projects include the Chengdong Xincheng Road Network, Cultural Center, Jiefang West Road and other old urban areas, and other

infrastructure maintenance projects. At the end of 2022, the Company's infrastructure projects under construction include the Nanshun Flour Mill Industrial Heritage Renovation Project and Yangxian Tourism Resort parking lot supporting projects, with a total planned investment amount of RMB2.8 billion and invested amount of RMB1.1 billion. In terms of projects under planning, as of end-2022, the Company's main proposed projects include the renovation project of old residential areas in Yicheng Street, the improvement and renovation project of open parking lots, and the swimming pool construction project of Yixing Middle School in Jiangsu Province, with the total investment amount of RMB715 million. We believe that the Company's long pipelines for projects will ensure YCCT's future revenue sustainability.

The Company carries out government infrastructure construction projects through bidding, and recognizes revenue based on the completion progress. The newly signed amount of construction projects increased yearly and amounted to RMB906.0 million in 2022. In addition, as of end-2022, the Company had contracts in hand with a total of RMB1.0 billion.

Medium exposure to commercial activities

Apart from public services, YCCT has also been engaged in diversified commercial activities, mainly including human resources service, tourism and trading businesses. Although the commercial activities can bring in supplemental income, they may also pose certain operating risks to the Company. We estimate the Company's risk exposure to commercial business remained at moderate level and the commercial assets account for 20%-25% of total assets.

For the tourism business, the tourism assets transferred out in 2023 mainly include Shanjuandong Scenic Area and Zhuhai Scenic Area. Both of these two scenic areas could bring in ticket revenue but require the Company to bear operating losses and capital expenditure pressure. After the equity transfer, YCCT is mainly responsible for operating tourism resources within the center of the city, including Longbei Mountain Forest Park and Tuanjiu Scenic Area. Since these scenic spots are free for tourists, the Company generates operation income such as various consumption-oriented projects within the scenic spots and receives government subsidies to maintain its operation. The revenue from tourism will drop significantly after 2023 and the future revenue highly depends on the recovery of the consumer market. In 2022 and the first half of 2023, the tourism business has achieved revenue of RMB55.7 million and RMB56.5 million respectively.

The Company expanded to human resources services through its subsidiaries transferred by the local government. In 2022, the revenue from human resource business was RMB192.2 million, accounting for 10.5% of the total revenue. YCCT's urban services mainly include inspection, lighting, parking management and garden engineering, with increasing importance as its source of revenue. Its revenue from urban services increased to RMB577.8 million in 2022 from RMB317.2 million in 2021. As the government continues to allocate operating assets to the Company, the number of business lines undertaken by the Company increases which increases operational pressure and related risks for the Company.

To promote the development of rural areas, the Company started fish pond business including the management of tailwater and the construction of high-standard fish ponds, which will achieve income from rental and sale of products from fish farming. The Company already has obtained 20-year tidal flat use right so far. The initial funds of construction would be mostly covered by the government special bonds and subsidies. However, the long investment period and exposure to the agricultural market bring more business risks to the Company.

In order to mitigate repayment risk, the Company decided to suspend the trading business in 2023. The termination of this business reduced the sources of the Company's revenue, while the impact on overall

profitability was limited due to the low profit of trading business.

Good access to funding with reduced reliance on non-standard financing

It has seen an improvement in YCCT's financing ability with optimized debt structure and lower costs, and we expect the Company will maintain good funding access to bank borrowing and bond issuances over the next 12-18 months. Its primary funding sources are major domestic banks such as joint-stock commercial banks and large state-owned commercial banks, and the public bond market, which collectively accounted for over 90% of its debts. It has a small exposure to non-standard debt such as leasing which accounts for around 5% of the total debt. In addition, as YXTI transferred out of the Company, the exposure to non-standard financing with relatively high costs is expected to decrease. Bank credit facilities have expanded as the Company mandated more major projects in the city. As of 30 June 2023, it obtained total credit facilities of RMB12.4 billion with an unused amount of RMB1.3 billion. The Company also has a good track record of fund-raising activities in the capital market with low credit spreads over the past 24 months. In 2023, the Company raised debt of RMB1.8 billion via three tranches of private corporate bonds with coupon rates from 3.15% to 3.63%. Both Wuxi City and Yixing City are well-developed cities in China, with strong economic strengths and good financial environment. Benefiting from good recognition from the market, YCCT's overall average funding cost further declined to around 4.56% in 2023H1 from 6.0% in 2020.

Improved debt management that helps mitigate financial pressure

The Company demonstrated an improvement in debt management. On one hand, the Company is committed to controlling the growth rate of total debt; on the other hand, it strives to diversify the operating revenue through its resources in Yixing City. YCCT's debt scale increased to RMB9.7 billion in 2022 from RMB8.0 billion in 2020, with a CAGR of around 10%, and further increased to RMB10.7 billion as of 30 June 2023. The growth rate slows down to a relatively reasonable level and is aligned with the development of Yixing City. The total capitalization ratio gradually increased to 61.7% as of 30 June 2023 from 59.4% in 2020. The Company maintained a reasonable debt structure with short-term debt accounting for around 25% over the past three years. The cash to short-term debt ratio decreased to 0.6x as of 30 June 2023.

In addition, with the coordination of the local government, the Company liquidate part of its tourism assets with one-off consideration. As shares of YXTI were traded at around RMB1.6 billion with a premium, the debt leverage is expected to be moderate. By the end of 2022, YXTI's total assets were RMB3.4 billion with a high financial leverage (total liabilities/total asset) of 86.2%. Calculated based on the semi-annual report data of 2023, the Company's total assets decreased by 8.2% to RMB17.5 billion and net assets increased by 6.7% to RMB7.1 billion after the equity transformation. Meanwhile, the Company's operating income did not change much and decreased by RMB61.0 million, while the total profit increased from RMB96.0 million to RMB557.0 million. We expect that the Company will maintain good debt management over the next 12-18 months.

Good track record of receiving government payments

YCCT has received ongoing support from the Yixing City Government, including capital injections, asset transfers, project grants, and financial subsidies. In 2021, the Company received cash injections of RMB58.0 million. In 2022, the Company received equity transfer of a total amount of RMB70.3 million. By the end of 2022, the Company's capital reserve has increased to RMB3.6 billion from RMB2.9 billion as of the end of 2020. In addition, YCCT also has a good track of receiving government payments. In 2022, YCCT continues to receive government subsidies with a total amount of RMB241.5 million and infrastructure construction repayments of RMB407.8 million. However, the settlement of projects is susceptible to government discretion, which increases

the volatility of YCCT's financial performance. The cash payments of projects are considered timely and take one to two years on average. We believe that the Yixing City Government will provide YCCT with ongoing operational and financial support such as assets injections, operating subsidies and continuous repayments, given its high strategic importance in Yixing City.

Exhibit 4. Government support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Capital injection			
- Cash injection	200.0	58.0	-
- Asset injection	631.9	311.7	70.3
Construction project payments	161.1	289.4	407.8
Government subsidies	140.8	212.4	241.5
Total	1,133.8	871.5	719.6

Source: Company information, CCXAP research

High level of contingent liabilities from external debt guarantees

YCCT had a high level of contingent liabilities resulting from its external guarantees, which could potentially increase its repayment obligations. It is mainly the cross-guarantee with other state-owned enterprises in Yixing City, such as YCDI. If a credit event occurs in the region, it may lead to large-scale cross-effects. However, we believe that the credit risk of the guarantee is moderately controllable, taking into account the local government's support to local SOEs. In addition, the Company has strict plans to control its risk from external guarantees and also the absolute amount. As of 30 June 2023, the Company's outstanding external guarantees decreased to RMB4.5 billion from RMB5.2 billion on 30 June 2022, which accounted for 68.4% of its net assets.

ESG Considerations

YCCT faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

YCCT bears social risks as it implements public policy initiatives by building public infrastructure in Yixing 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.

YCCT's governance considerations are also material as the Company is subject to oversight by Yixing 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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