

Credit Opinion

8 December 2023

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

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Yuyao Shuncaï Investment Holding Co., Ltd.

Surveillance credit rating report

CCXAP affirms Yuyao Shuncaï Investment Holding Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Yuyao Shuncaï Investment Holding Co., Ltd. ("Yuyao Shuncaï" or the "Company") reflects (1) Yuyao 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 Yuyao City Government's capacity to provide support reflects Yuyao City's relatively good comprehensive strength, ongoing economic growth, and good fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong business position in Yuyao City; (2) essential policy role in the provision of public services in Yuyao City; (3) good access to fundings; and (4) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) moderate asset liquidity; (2) high debt leverage and fast debt growth; and (3) high exposure to contingent liabilities.

The stable outlook on Yuyao Shuncaï's rating reflects our expectation that Yuyao City Government's capacity to provide support will remain stable, and the Company will maintain its strong business position in Yuyao City.

Rating Drivers

- Strong market position in Yuyao City
- Essential policy role in the provision of public services in Yuyao City
- High debt leverage and fast debt growth
- Moderate asset liquidity
- Good access to fundings
- Good track record of receiving government payments
- High exposure to contingent liabilities

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Yuyao City Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as a substantial reduction in external guarantees or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Yuyao City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as a reduction in importance of its policy role, a substantial reduction in government payments, or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	145.6	158.9	171.4	193.6
Total Equity (RMB billion)	52.6	60.6	67.0	69.8
Total Revenue (RMB billion)	10.3	10.5	9.6	5.5
Total Debt/Total Capital (%)	61.1	57.7	57.6	60.1

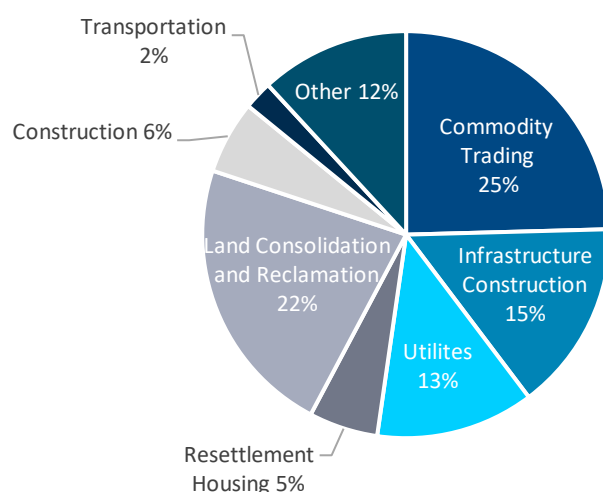
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

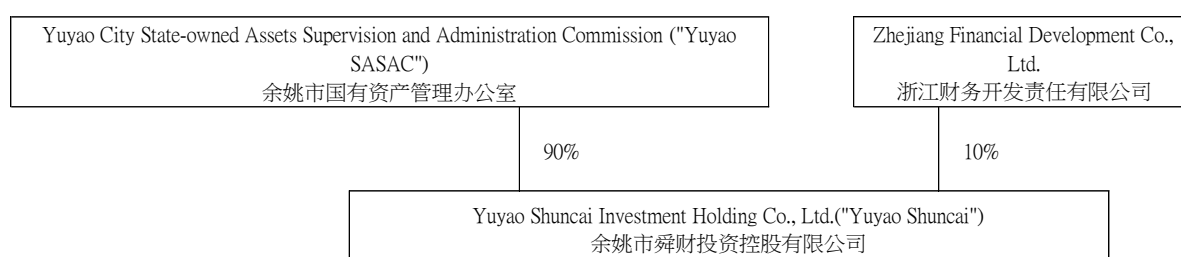
Established in 2015, Yuyao Shuncaï is the largest local infrastructure investment and financing company ("LIIFC") in Yuyao City in terms of total assets. It consolidates most of the key LIIFCs controlled by the Yuyao City State-owned Assets Supervision and Administration Commission ("Yuyao SASAC"). The Company engages in diversified businesses through its subsidiaries, mainly including public businesses such as infrastructure construction, land development and reclamation, resettlement housing development, as well as public services such as utilities and transportation. As of 30 September 2023, Yuyao Shuncaï was 90% directly owned by Yuyao SASAC, its ultimate controlling shareholder, and 10% owned by Zhejiang Financial Development Co., Ltd.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholder structure as of 30 September 2023



Source: Company information

Rating Considerations

Government's Capacity to Provide Support

We believe the Yuyao City Government has a very strong capacity to provide support, based on Yuyao City's relatively good comprehensive strength, ongoing economic growth and good fiscal metrics.

Located in the middle of China's southeast coastline, Ningbo City is the second largest city among the five centrally planned cities by gross regional product ("GRP") and the economic center in south part of Yangtze River Delta. Ningbo City owns one of the busiest ports in the world – Ningbo Zhoushan Port, ranking the top by port cargo throughput and the third by port container throughput. Ningbo City's industrial development is good with automotive industry, electrical machinery and equipment, chemical and textile industry as its pillar industries. Currently, Ningbo Municipal Government also promotes new industries such as artificial intelligence and digital economy industry. Ningbo City has good comprehensive strength. In 2022, it reported a GRP of RMB1,570.4 billion and the general budgetary revenue of RMB168.0 billion, both ranking the second among all cities under Zhejiang Province. The fiscal metrics were also good with a financial self-sufficiency ratio (tax/general budgetary revenue) of 82.3% and a fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 76.8% in 2022. The Ningbo Municipal Government's outstanding debt amounted to RMB288.6 billion in 2022, accounting for 18.4% of Ningbo City's GRP.

Exhibit 3. Key economic and fiscal indicators of Ningbo City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,240.9	1,459.5	1,570.4
GRP Growth (%)	3.3	8.2	3.5
General Budgetary Revenue (RMB billion)	151.1	172.3	168.0
General Budgetary Expenditure (RMB billion)	174.2	194.4	218.8
Local Government Debt (RMB billion)	216.1	254.9	288.6

Source: Statistics Bureau of Ningbo City, CCXAP research

Yuyao City is a county-level city under the administration of Ningbo City. It has relatively good comprehensive strength, ranking 12th among China's Top 100 Counties in 2023. It is a key production area of plastic and mold production. Yuyao City has developed traditional industries such as instrument, electronic, plastic, machinery and metallurgy industry, and improved the industrial structure by developing emerging industries and High-tech industries. Yuyao City has demonstrated ongoing economic growth in recent years, albeit with fluctuation. The GRP of Yuyao City increased from RMB144.2 billion in 2021 to RMB151.4 billion in 2022, with GRP growth rate slowing down to 1.9% due to the COVID-19 pandemic. In the first three quarters of 2023, Yuyao City's GDP has achieved to RMB113.4 billion, with GRP growth rate improving to 5.2% YoY. Meanwhile, Yuyao City Government's fiscal strength also weakens, with the general budgetary revenue decreasing from RMB13.0 billion in 2021 to RMB12.1 billion in 2022. However, its fiscal metrics remain good, with financial self-sufficiency ratio (tax/general budgetary revenue) of 78.1% and fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 81.1% in 2022. The Yuyao City Government's outstanding debt amounted to RMB19.5 billion in 2022, accounting for 12.9% of Yuyao City's GRP.

Exhibit 4. Key economic and fiscal indicators of Yuyao City

	2020FY	2021FY	2022FY
GRP (RMB billion)	122.1	144.2	151.4
GRP Growth (%)	5.1	9.1	1.9
General Budgetary Revenue (RMB billion)	11.4	13.0	12.1
General Budgetary Expenditure (RMB billion)	12.9	14.3	14.9
Local Government Debt (RMB billion)	14.8	15.4	19.5

Source: Statistics Bureau of Yuyao City, CCXAP research

Government's Willingness to Provide Support**Strong business position in Yuyao City**

Positioned as the largest state-owned capital operation entity in Yuyao City, Yuyao Shuncaï is mandated by the local government to control and manage most of the key LIIFCs and state-owned assets in the region. The Company's businesses are mainly operated by its six first-level subsidiaries, namely Ningbo Shunjian Group Co., Ltd. ("Shunjian Group"), Ningbo Shuntong Group Co., Ltd. ("Shuntong Group"), Ningbo Shunnong Group Co., Ltd. ("Shunnong Group"), Yuyao High-speed Rail-Station Construction Investment Co., Ltd. ("Yuyao HS Rail"), Zhejiang Yuyao Industrial Park Development and Construction Investment Co., Ltd. ("Yuyao Industrial Park Development"), and Yuyao Economic Development Zone Construction Investment and Development Co., Ltd. ("Yuyao EDZ Construction"). Shunjian Group primarily focuses on municipal infrastructure construction, resettlement housing construction and land development projects in the main urban area and is also the exclusive provider of wastewater treatment in Yuyao City. Shuntong Group specializes in the construction,

operation and maintenance of transportation networks and is responsible for the management and operation of more than 70% of the operating routes within the public transportation system in Yuyao City, while Shunnong Group mainly undertakes water conservancy infrastructure construction projects in Yuyao City. Yuyao HS Rail, Yuyao Industrial Park Development and Yuyao EDZ Construction are the main development and construction entities of Yuyao High-speed Rail New City, Yuyao Industrial Park, and Yuyao Economic Development Zone, respectively. Given its important position in Yuyao City, we believe that the Company is unlikely to be replaced in the foreseeable future.

Essential policy role in the provision of public services in Yuyao City

Yuyao Shuncaï plays an essential and active role in managing state-owned assets and implementing the Yuyao City Government's major strategic initiatives for urban planning and municipal development. It is responsible for the provision of various public services, such as infrastructure construction, land development and reclamation, resettlement housing development, and provision of utilities and transportation services in Yuyao City, including the main urban area, Yuyao High-speed Rail New City, Yuyao Industrial Park, and Yuyao Economic Development Zone. With considerable construction projects in the pipeline, we believe that the sustainability of the Company's public policy businesses is high.

As the leading infrastructure construction entity in Yuyao City, Yuyao Shuncaï plays a key role in the construction of urban infrastructure, transportation infrastructure, and water conservancy infrastructure in Yuyao City. Its subsidiaries are entrusted by the relevant government units to conduct infrastructure construction, and will receive payments from the responsible government units equivalent to project construction costs and a construction service fee. As of 30 September 2023, the Company had 42 projects under construction with a total investment of RMB42.7 billion and an uninvested amount of RMB15.0 billion; it also had 9 projects under planning, with a total investment amount of RMB4.6 billion. Overall, the infrastructure construction business is sustainable given the considerable construction projects in the pipeline.

Yuyao Shuncaï is an important primary land developer, responsible for resident relocation, land demolition, levelling and primary development in the authorized areas in Yuyao City. Such land primary development projects help improve people's living conditions and industrial development. As of 30 September 2023, the Company has completed 19 key land primary land projects with total investment of RMB8 billion. However, the land projects under pipeline exerted certain capital expenditure pressure to the Company. As present, it has 4 land projects under construction with a total estimated investment of RMB7.8 billion and an uninvested amount of RMB4.4 billion.

Yuyao Shuncaï also conducts social housing projects including affordable housing and resettlement housing provided to residents affected by land demolition. As of 30 September 2023, the Company has completed a number of key resettlement housing projects with investment of RMB6.9 billion. However, the sustainability of the business is subject to uncertainty as there are few projects under construction or planning. As of 30 September 2023, it had 7 projects under construction with a total estimated investment of RMB7.1 billion and an uninvested amount of RMB5.4 billion.

Under the guidance of the local government, the Company is also the sole entity responsible for the Hangzhou Bay River Reclamation Project, with strong market position. It is mainly responsible for funds raising to undertake the work of strengthening structure, regulating rivers, and reclaiming tideland. This project is to cope with floods and effectively utilize tidal flat resources. However, the sustainability of this business is subject to uncertainty due to few projects under construction. As of 30 September 2023, the Company had only one project

under development, with total estimated investment of RMB3.2 billion, and uninvested amount of RMB334 million.

Yuyao Shuncai has a strong regional position in the utility services on the back of its strong shareholder background. It plays an important role in raw water supply, tap water supply, wastewater treatment, and gas supply in the Yuyao City. The scope of water business covers almost the whole cities including urban and rural areas with 3 water plants and total designed water supply capacity of 480,000 cubic meters per day. The Company is the sole wastewater treatment enterprise in Yuyao City, responsible for sewage collection, construction of sewage pipe network, pumping stations and treatment facilities, and drainage projects. As the increase in standard of sewage collection and expansion of pipe network, the sewage collection capacity increased to more than 280,000 tons per day as of 30 September 2023, resulting in the increase in the revenue from wastewater treatment. The Company's gas supply business has formed a monopoly advantage in Yuyao City, which includes the urban areas and half of the rural areas. It includes both gasified natural gas and liquified natural gas, which are provided to both residents and enterprises.

Yuyao Shuncai also undertakes transportation operation including public transportation, long-distance passenger transportation and intercity railway. The utility and transportation businesses generate ongoing cash flow and relatively stable revenue to the Company. However, due to their public welfare nature and limited pricing ability, their profitability is weak and some may rely on government subsidies, such as sewage treatment and bus business.

Exhibit 5. Key public projects under construction and under planning as of 30 September 2023

Project types	Budgeted amount	Outstanding amount
	(RMB billion)	(RMB billion)
Projects Under Construction		
Infrastructure Construction	42.8	15.0
Resettlement Housing	4.2	2.5
Land Development and Reclamation	7.8	4.4
Projects Under Planning		
Infrastructure Construction	4.6	4.6
Resettlement Housing	3.0	3.0
Total	62.4	29.5

Source: Company information, CCXAP Research

Low exposure to commercial business activities

Yuyao Shuncai has low commercial business risks as the proportion of commercial business assets of its total assets is less than 10% by our estimation. Its commercial businesses include commodity trading, and engineering construction.

Yuyao Shuncai's commodity trading business mainly includes trading of electrolytic copper which runs mainly on a back-to-back model. However, its high reliance on top 5 clients and suppliers may pose certain business risks to the Company. It achieved income from commodity trading of RMB2.4 billion in 2022, accounting for 25% of its total revenue, but with a low gross profit margin of 3%.

In 2022, Shuntong Group has further increased its holding shares to 16.53% in its listed subsidiary, Zhenhai Petrochemical Engineering Co., Ltd. ("Zhenhai", stock code: 603637.SH), which was acquired in earlier 2020. Zhenhai conducts engineering construction business focusing on project general contracting and engineering

design entrusted by petrochemical enterprises such as Sinopec Corp. In 2022, the Company recorded revenue from construction business of RMB556.2 million, with gross profit margin of 28.8%.

High debt leverage and fast debt growth

Positioned as the most important LIIFC in Yuyao City, the Company continues to undertake most of the public activities, resulting in fast debt growth and high debt leverage. The total debt (including perpetuals) increased from RMB78.7 billion at end-2021 to RMB101.9 billion as of 30 September 2023, with a total capitalization ratio of 60.1%. Nevertheless, the Company's debt structure improves as the proportion of short-term debt decreased from 32.5% at end-2021 to 25.3% at end of September 2023. We expect the Company's debt leverage to remain at a high level, given its large capital expenditure needs for its extensive construction projects in the pipeline.

Moderate asset liquidity

Yuyao Shuncai's asset liquidity is moderate, and its assets are mainly comprised of inventories and other receivables assets. As of 30 September 2023, its inventories, other non-current assets, and other receivables assets accounted for 62% of total assets. The inventories and other non-current assets mainly consist of development costs from the public policy businesses, while the other receivables consist of project receivables from local state-owned enterprises. The relatively moderate asset liquidity may undermine the financing flexibility of the Company. Nevertheless, the water conservancy and gas supply assets can provide stable income and cash flow to the Company.

Good access to fundings

Yuyao Shuncai has sufficient stand-by liquidity and diversified funding channels. As of 30 September 2023, the Company's total credit facilities from banks amounted to around RMB169.7 billion, of which the undrawn amount was around RMB92.2 billion. They are mainly provided by diversified large domestic commercial banks such as the Industrial and Commercial Bank of China and policy banks such as Agricultural Development Bank of China.

Furthermore, Yuyao Shuncai has a proven track record of financing from both onshore and offshore bond markets. As of 30 September 2023, the Company and its subsidiaries had issued multiple tranches of commercial papers, medium term notes, and corporate bonds in the onshore bond market as well as offshore bonds, with total outstanding amount of around RMB32 billion and USD200 million, respectively. The Company also has manageable non-standard financing exposure, which accounted for less than 10% of its total debts as of 30 September 2023.

Good track record of receiving government payments

Yuyao Shuncai has a good track record of receiving payments from the local government in terms of capital injections, asset injections, financial subsidies, and payments for public policy projects. In 2022, the local government injected large amount of capital into the Company and its subsidiaries, such as cash, assets, and equity shares, enhancing its capital reserves by RMB6.4 billion. From 2020 to 2023Q3, the Company received support from government in operating subsidies totally of RMB1.8 billion. Furthermore, Yuyao Shuncai continues to receive government payments from its public services, such as infrastructure construction, and land consolidation and reclamation projects. From 2020 to 30 September 2023, the Company had received payments for construction projects of around RMB7.2 billion from the local government. Considering Yuyao Shuncai's important position and tight relationship with the local government, we expect the local government will continue to support Yuyao Shuncai over the next 12 to 18 months.

High exposure to contingent liabilities

Yuyao Shuncaï's external guarantee exposure remains high. As of 30 September 2023, its external guarantee amount was RMB26.0 billion, accounting for 38.5% of its total equity (excluding perpetuals). All external guarantees of the Company are provided to state-owned enterprises in Yuyao City. In case a credit event occurs, the Company may face certain contingent liability risks and cross default risks, which could negatively impact its credit quality.

Since 2022, the Company has transferred equity interests of tourism subsidiaries to Yuyao Jinrui Asset Management Co., Ltd, which may have minimal impact on its credit quality.

ESG Considerations

Yuyao Shuncaï is exposed to environmental risks because it has undertaken infrastructure construction and utility projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

The Company is also exposed to social risks as a public services provider in Yuyao City. Demographic changes, public awareness and social priorities shape government's target for Yuyao Shuncaï, or affect the government's propensity to support the Company.

Yuyao Shuncaï's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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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