

Credit Opinion

4 July 2024

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) key role in providing comprehensive public services in Yuyao City; (2) high sustainability of public service; (3) good access to fundings; and (4) good track record of receiving government payments.

However, the rating is constrained by the Company's (1) transferring out of several subsidiaries; (2) high debt leverage and moderate asset liquidity; 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

- Key role in providing comprehensive public services in Yuyao City, with high sustainability of public service
- Low exposure to commercial business activities
- High debt leverage and 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

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	158.9	171.4	207.7	175.6
Total Equity (RMB billion)	60.6	67.0	83.1	68.4
Total Revenue (RMB billion)	10.5	9.6	7.8	1.6
Total Debt/Total Capital (%)	57.7	57.6	56.8	57.7

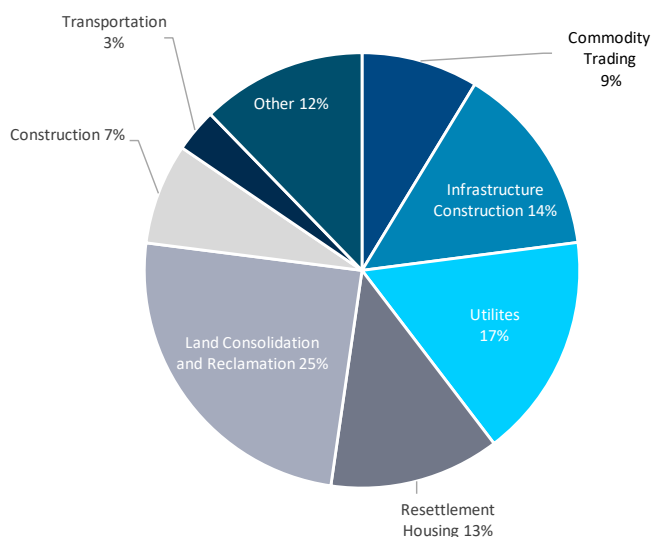
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

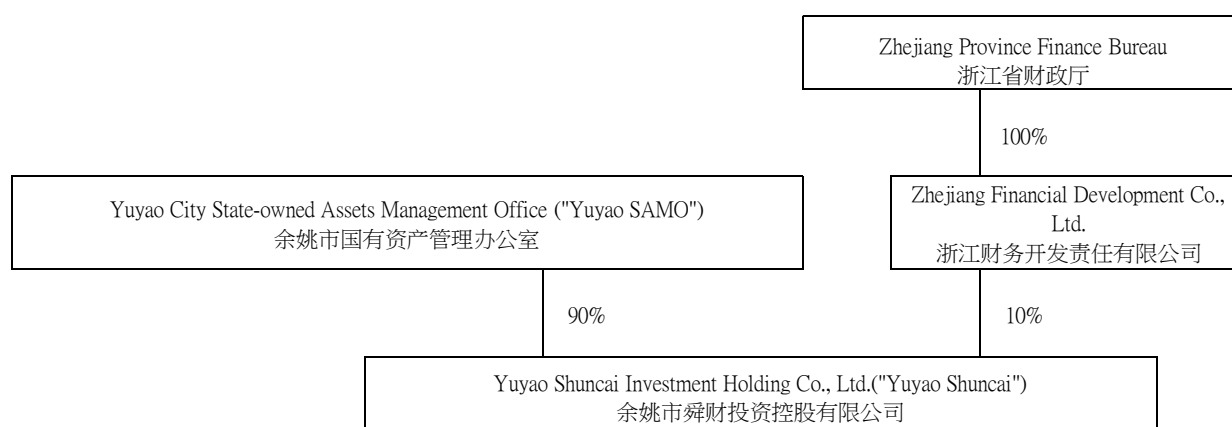
Established in 2015, Yuyao Shuncaï is the largest local infrastructure investment and financing company ("LIIFC") in Yuyao City in terms of total assets. It consolidates most of the key LIIFCs controlled by the Yuyao City State-owned Asset Management Office ("Yuyao SAMO"). The Company engages in diversified 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 31 March 2024, Yuyao Shuncaï was 90% directly owned by Yuyao SAMO, its ultimate controlling shareholder, and 10% owned by Zhejiang Financial Development Co., Ltd.

Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 2. Shareholder structure as of 31 March 2024



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. It has consistently maintained the top position in global ranking for 15 consecutive years in terms of cargo throughput. Ningbo City has formed pillar industries including automotive industry, electrical machinery and equipment, chemical and textile industry. Besides, Ningbo Municipal Government also promotes new industries such as artificial intelligence and digital economy industry. Ningbo City has maintained good comprehensive strength. In 2023, it has achieved a GRP of RMB1,645.3 billion and the general budgetary revenue of RMB178.6 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 82.0% and a fiscal balance ratio (general budgetary

revenue/general budgetary expenditure) of 79.9% in 2023. The Ningbo Municipal Government's outstanding debt amounted to RMB324.9 billion in 2023, accounting for 19.7% of Ningbo City's GRP.

Exhibit 3. Key economic and fiscal indicators of Ningbo City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,459.5	1,570.4	1,645.3
GRP Growth (%)	8.2	3.5	5.5
General Budgetary Revenue (RMB billion)	172.3	168.0	178.6
General Budgetary Expenditure (RMB billion)	194.4	218.8	223.5
Local Government Debt (RMB billion)	254.9	288.6	324.9

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 economy is experiencing a recovery after pandemic and is showing signs of growth. Its GRP increased from RMB151.4 billion in 2022 to RMB157.1 billion in 2023, with GRP growth rate returned to 5.5% compared to 1.9% in 2022. Meanwhile, Yuyao City Government's fiscal strength also has recovered, with the general budgetary revenue increasing from RMB12.1 billion in 2022 to RMB13.3 billion in 2023. Furthermore, the fiscal performance of Yuyao continued to be strong, with financial self-sufficiency ratio (tax/general budgetary revenue) of 86.3% and fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 85.4% in 2023. The Yuyao City Government's outstanding debt amounted to RMB23.4 billion in 2023, accounting for 14.9% of Yuyao City's GRP.

Exhibit 4. Key economic and fiscal indicators of Yuyao City

	2021FY	2022FY	2023FY
GRP (RMB billion)	144.2	151.4	157.1
GRP Growth (%)	9.1	1.9	5.5
General Budgetary Revenue (RMB billion)	13.0	12.1	13.3
General Budgetary Expenditure (RMB billion)	14.3	14.9	15.5
Local Government Debt (RMB billion)	15.4	19.5	23.4

Source: Statistics Bureau of Yuyao City, CCXAP research

Government's Willingness to Provide Support

Key role in providing comprehensive public services in Yuyao City

Yuyao Shuncaï is one of the key LIIFCs in Yuyao City, holding the largest amounts of assets in the region with strong regional monopoly advantage. However, in March 2024, some of its subsidiaries were transferred out to other LIIFC in Yuyao City, resulting in a contraction of its business scope.

The Company's businesses are mainly operated by its three subsidiaries, including Ningbo Shunjian Group Co., Ltd. ("Shunjian Group"), Ningbo Shuntong Group Co., Ltd. ("Shuntong Group"), and Ningbo Shunnong Group Co., Ltd. ("Shunnong Group"). Shunjian Group continues to focus 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.

In March 2024, in accordance with the latest government planning, the Company's three subsidiaries, namely Yuyao High-speed Rail-Station Construction Investment Co., Ltd., Zhejiang Yuyao Industrial Park Development and Construction Investment Co., Ltd. and Yuyao Economic Development Zone Construction Investment and Development Co., Ltd, were transferred out of the Company to other LIIFC in Yuyao City. After the asset consolidation, the Company will no longer undertake the development and construction of Yuyao High-speed Rail New City, Yuyao Industrial Park, and Yuyao Economic Development Zone.

High sustainability of public service

Yuyao Shuncaï continues to play key role in state-owned assets operation and conducting government's macro plans for city development. The Company is responsible providing comprehensive public services in the region, such as infrastructure construction, land development and reclamation, resettlement housing, utilities, and transportation services on the urban area of Yuyao City. Despite the transfer of some subsidiaries, the Company's public policy businesses maintain high sustainability due to the significant number of construction projects in the pipeline.

Continuing to be an essential infrastructure construction entity, Yuyao Shuncaï plays key role in urban infrastructure construction, 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 with project construction costs plus construction service fee. As of 31 December 2023, the Company had 22 projects under construction or under planning, with a total investment of RMB15.4 billion and an uninvested amount of RMB3.2 billion. Considering the substantial number of construction projects in the pipeline, the infrastructure construction business demonstrates a high level of sustainability.

Yuyao Shuncaï continues to serve as an important primary land developer, responsible for resident relocation, land demolition, levelling and primary land development in Yuyao City. Primary land development projects are in line with government plans and aims to improve resident's living environments and promote industrial development. As of 31 December 2023, the Company had completed 19 key land primary land projects with total investment of RMB6.6 billion. Besides, it has 3 land projects under construction or under planning, with a total estimated investment of RMB5.5 billion and an uninvested amount of RMB3.7 billion. However, large amounts of primary land development projects exert high capital expenditure pressure to the Company.

Providing to residents affected by land demolition, the Company continues to conduct social housing projects, including affordable housing and resettlement housing. As of 31 December 2023, the Company has completed 8 social housing projects and has received the projects payments of RMB13.5 billion. However, it had only 1 project under construction at end-2023, with a total estimated investment of RMB947.0 million and an uninvested amount of RMB399.0 million. However, the Company had no resettlement housing projects under planning as of end-2023, indicating low business sustainability and uncertain future. Furthermore, this business is largely susceptible to land market conditions and government policies.

Yuyao Shuncaï continues to be the sole entity conducting Hangzhou Bay River Reclamation Project. It is mainly responsible for prior funds raising, rivers regulation, and tideland reclaiming. This project is to cope with floods and effectively utilize tidal flat resources. However, as of 31 December 2023, the Company had only one project

under development, with total estimated investment of RMB3.2 billion and uninvested amount of RMB222.0 million. However, this business makes small contribution to the Company's profitability.

Backed by its strong shareholder background and high competitiveness, Yuyao Shuncaï has maintained its strong regional position in providing utilities service. It plays an important role in raw water supply, tap water supply, wastewater treatment, and gas supply in the Yuyao City. As of 31 December 2023, 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 445,000 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 continuous expansion of pipe network, the sewage collection capacity increased to 250,700 tons per day as of 31 December 2023. The Company's gas supply business has achieved monopoly status in Yuyao City, providing both gasified natural gas and liquified natural gas. In 2023, the Company supplied gas of 146.8 million cubic meters totally. As the primary water supply entity in Yuyao City, the Company possesses a strong business monopoly advantage, and has consistently generated stable revenue from its water supply operations.

Besides, Yuyao Shuncaï also undertakes transportation operation business including public transportation and long-distance passenger transportation in Yuyao City. After the transfer of its subsidiary, the Company will no longer be responsible for inter-city railway operation, which decreases the revenue generated from this sector. Overall, the utility and transportation businesses generate stable revenue and continuous cash flow to the Company. Besides, the government regularly provides subsidies to the Company for operating sewage treatment and public bus business.

Low exposure to commercial business activities

Yuyao Shuncaï has low exposure to commercial business activities since the proportion of commercial assets of total assets is less than 10%. Its commercial businesses include commodity trading, and engineering construction.

Yuyao Shuncaï's commodity trading business runs mainly on a back-to-back model and trading products only remains steel bar. The Company experienced a significant decline in revenue due to the impact of recognizing trade business income on a net basis with income from commodity trading of RMB676.2 million in 2023, accounting for 8.7% of its total revenue. In March 2024, after the equity of subsidiaries was transferred out, the Company's trading business further contracted in scale. Additionally, its reliance on suppliers and downstream customers is high, indicating certain business risks to the Company.

The Company continues to conduct engineering construction business via Zhenhai Petrochemical Engineering Co., Ltd. (stock code: 603637.SH), focusing on project general contracting and engineering design entrusted by petrochemical enterprises such as Sinopec Corp. Shuntong Group holds 29.17% of its equity stake. In 2023, the Company recorded revenue from engineering construction business of RMB583.9 million, with gross profit margin of 27.1%.

High debt leverage and moderate asset liquidity

With the transferred out of several subsidiaries, the Company's total debt (including perpetuals) decreased from RMB107.1 billion at end-2023 to RMB91.0 billion as of 31 March 2024. However, due to the continuous investment and external financing for construction projects, the Company's debt leverage still maintains high level with the total capitalization ratio of 57.7% as of 31 March 2024. Furthermore, the Company's debt structure

improves as the proportion of short-term debt was 21.4% as of 31 March 2024. We expect the Company's debt leverage to remain high level, given its large capital expenditure needs for its construction projects in the pipeline.

Yuyao Shuncai's asset liquidity is moderate, and its assets are mainly comprised of inventories and other receivables assets, all with low liquidity. As of 31 March 2024, its inventories, other non-current assets, and other receivables assets accounted for 59.8% 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 uncollected receivables from local state-owned enterprises and government departments. 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 31 March 2024, the Company's total credit facilities from banks amounted to around RMB150.4 billion, of which the undrawn amount was around RMB72.6 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. Yuyao Shuncai has good track record of bond issuance in the capital market. Nevertheless, due to the transferring out of its several subsidiaries, Yuyao Shuncai has experienced a reduction in available financing options from both onshore and offshore bond markets, with outstanding bond amounts of RMB12.2 billion as of 31 March 2024. Besides, the Company has low non-standard financing exposure, which accounted for less than 1% of its total debts as of 31 March 2024. However, Yuyao Shuncai's refinancing ability is subject to the tightening in financing policies for China's LIIFCs.

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 and financial subsidies. Yuyao Shuncai received government operating subsidies totally of RMB495.8 million in 2023. Furthermore, Yuyao Shuncai continues to receive government payments from its public services, such as infrastructure construction, and land consolidation and reclamation projects. 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 Shuncai's external guarantee exposure remains high. The Company's external guarantees was RMB21.6 billion as of end-2023, accounting for 26.0% of its net assets. However, all the external guarantees are provided to the 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.

ESG Considerations

Yuyao Shuncai 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 Shuncai, 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 \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison

	Yuyao Shuncaï Investment Holding Co., Ltd.	Yuyao Jinrui Investment Group Co., Ltd.
Long-Term Credit Rating	BBB _g +	A _g -
Shareholder	Yuyao SAMO (90%), Zhejiang Financial Development Co., Ltd. (10%)	Yuyao SAMO (100%)
Positioning	Key role in providing comprehensive public services in Yuyao City.	Strong position in industrial development and public projects in Yuyao City
Total Asset (RMB billion)	175.6	104.7
Total Equity (RMB billion)	68.4	40.2
Total Revenue (RMB billion)	1.6	0.4
Total Debt/Total Capital (%)	57.7	56.6

All ratios and figures are calculated using CCXAP's adjustments as of 2024Q1.

Source: Company information, CCXAP research

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