

Credit Opinion

28 June 2024

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

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Yancheng City Assets Investment Group Company Limited

Surveillance credit rating report

CCXAP upgrades Yancheng City Assets Investment Group Company Limited's long-term credit rating to A_g-, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Yancheng City Assets Investment Group Company Limited ("YCAI" or the "Company") to A_g- from BBB_g+, reflecting the stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth and YCAI's important role in the social and economic development of Yancheng City.

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

Our assessment of the Yancheng Municipal Government's capacity to support reflects Yancheng City's growing economic and fiscal strengths as well as sustainable industrial development.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) strong position as the largest LIIFC in Yancheng City, specializing in local infrastructure construction, primary land consolidation and public services; (2) good track record of receiving government support; and (3) good access to different financing channels.

However, the rating is constrained by the Company's (1) medium risk exposure to commercial activities; (2) high debt leverage with large investment needs; and (3) large exposure to external guarantees.

The stable outlook on YCAI's rating reflects our expectation that the Company will maintain its strategic position in local public services and infrastructure construction in Yancheng City over the next 12 to 18 months.

Rating Drivers

- The largest LIIFC in Yancheng City, providing essential public services as well as engaging in infrastructure construction and land consolidation
- Medium risk exposure to commercial activities
- Good track record of receiving government support
- Good access to different financing channels
- High debt leverage with large investment needs
- Large exposure to external guarantees while mainly provided to other local SOEs

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the Yancheng Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increased importance in public-policy activities, material decrease in external guarantees or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the Yancheng Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as the decrease in the importance of its policy role, material decrease in government payments, or deteriorated refinancing ability.

Key Indicators

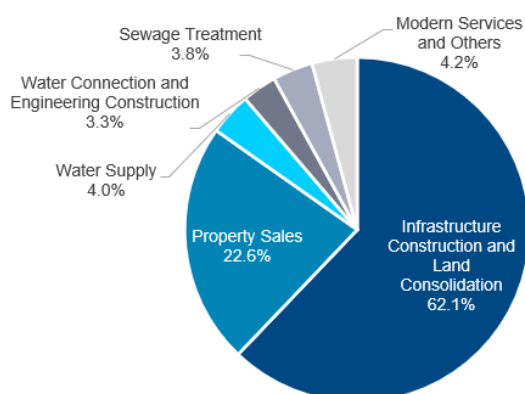
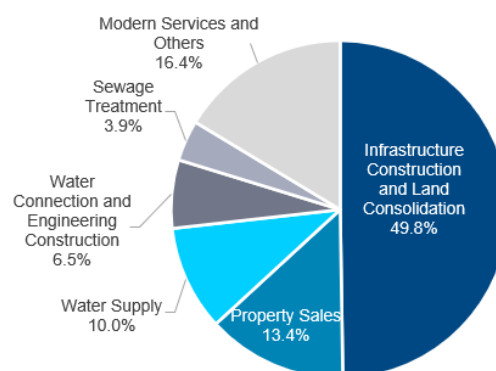
	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	102.3	119.1	138.1	139.9
Total Equity (RMB billion)	35.0	38.0	43.0	43.7
Total Revenue (RMB billion)	6.1	6.6	7.3	2.0
Total Debt/Total Capital (%)	66.7	68.7	71.5	71.8

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2003, YCAI, previously known as Yancheng City Urban Assets Operation Co., Ltd., is wholly owned by the Yancheng Municipal Government and directly supervised by the Yancheng State-owned Assets Supervision and Administration Commission ("Yancheng SASAC"). It is one of the key local state-owned enterprises in Yancheng City, specializing in infrastructure construction as well as state-owned asset operation and management. YCAI has undertaken major infrastructure construction and land development projects in Yancheng City. It also diversifies into utilities including water supply and sewage treatment, and commercial activities such as property development, property leasing and security services.

Exhibit 1. Revenue structure in 2023**Exhibit 2. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Yancheng Municipal Government has very strong capacity to provide support given its growing economic and fiscal strengths as well as sustainable industrial development.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total gross regional product ("GRP") amounted to RMB12.8 trillion, growing by 5.8% year-over-year ("YoY"). The GRP per capita was RMB150,487 for the same period, which was the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, Yancheng City achieved a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9th among 13 municipals in Jiangsu Province. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, as the influence of the large-scale value-added tax credit refund weakened, the Yancheng Municipal Government achieved a general budgetary and tax revenue of RMB48.3 billion and RMB34.1 billion, increasing by 6.5% and 14.8% YoY, respectively. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government's outstanding debt increased to RMB165.5 billion, accounting for around 22.4% of GRP.

Exhibit 3. Key economic and fiscal indicators of Yancheng City

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	111.8	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Statistics Bureau of Yancheng City, CCXAP research

Government's Willingness to Provide Support

The largest infrastructure construction and primary land consolidation company in Yancheng City

YCAI is the largest and most important entity that provides infrastructure construction and land consolidation in the main district of Yancheng City, and plays a vital and irreplaceable role in the city. YCAI is primarily responsible for infrastructure projects, such as roads, bridges, and sewage pipelines, as well as land consolidation and shantytown renovation in Yancheng City. YCAI is also engaged in the construction of affordable housing, which is sold to target households at a designated price decided by the government. Over the past three years, YCAI has completed key infrastructure construction projects with a total investment of RMB4.4 billion, key land consolidation with a total investment of RMB8.3 billion, and completed 5 affordable housing projects with a total investment of RMB5.3 billion. These projects are economically and socially important to the development of the city. With ongoing investment in policy and commercial activities, YCAI's total assets increased to RMB139.9 billion as of 31 March 2024, ranking as the largest LIIFC in Yancheng City.

YCAI's infrastructure business is mainly operated under an entrusted construction model. The Company is responsible for the financing and investment of these entrusted construction projects, and the Company recognizes a markup on total cost as revenue after examinations of projects by the government. For the land consolidation business, the Company operates under the framework agreement signed with the Yancheng Land Reserve Center, and books 110% of total investment cost as revenue according to the realized investment each year. For the affordable housing business, the Company raises funds for developing the project and sells it to relocated households after completion of construction. Such businesses are stable as the Company's positioning and business model have not changed in recent years while the scale of public projects may reduce with moderating local infrastructure construction demand. The Company is also engaged in infrastructure construction including schools, hospitals and public facilities in the form of construction management which means the Company does not need to advance funds and receives construction management fee income when the project is completed. Currently, the income from construction management fees is still small.

Important role in public services of Yancheng City

YCAI is engaged in utility services including water supply and sewage treatment in Yancheng City with strong franchise advantages. Its business scope covers most of the areas in Yancheng City. With semi-public attribution, these businesses generate recurring income for the Company and better residents' livelihood and environment.

YCAI is the sole water supplier in the central region of Yancheng City, except Dafeng District, and some towns and villages. The capacity of the water supply and the number of households covered increased year by year. As of 31 December 2023, it had around 6,058 km of water supply pipelines, with a designed daily water supply capacity of 900 thousand tons and serving around 604.2 thousand households. During the past two years, the income from water supply was around RMB900 million in average. Furthermore, the Company is responsible for installing and maintaining water pipelines in its water supply area to ensure the safe use of residential water with strong regional advantages.

In 2020, YCAI was delegated by the government to integrate sewage treatment resources and take responsibility for the construction, operation and maintenance of sewage treatment facilities all over Yancheng City. Currently, the Company's sewage treatment business has covered most of the areas of Yancheng City. It has integrated a total of 86 sewage treatment plants with a designed daily sewage treatment capacity of 764.4 thousand tons. The Company mainly treats domestic sewage and some industrial wastewater. As integration moves forward, the revenue from sewage treatment increased notably to RMB277.2 million in 2023 from

RMB153.1 million in 2022.

Medium risk exposure to commercial activities

YCAI has moderate exposure to commercial activities in terms of scale. These activities mainly include property development, security services, property leasing and some construction projects under the self-operation model in Yancheng City. The commercial activities generally undertake higher business risks than infrastructure construction and public services businesses. Direct government support flow is less likely for YCAI's commercial activities. The increasing participation in self-operation projects will enlarge the capital needs for YCAI. We consider that the risks of YCAI's commercial activities remain controllable as we expect such scale will remain at a medium level relative to its public activities.

The Company has also invested in some construction projects under the self-operation model such as scenic spots, parking lots and commercial buildings. Investment returns for these projects are mainly through leases and sales. The Company kept investing in projects under construction in 2023 and the outstanding investment was around RMB4.1 billion as of 31 March 2024. However, these projects have long payback periods and high uncertainty in returns compared with the infrastructure construction business.

Benefiting from linked development between land primary and secondary development, YCAI had a good operating track record in property development of commercial housing projects in the past, with good project margins. As the sales of completed projects come to a close and Tianchenfu project was moved out of the scope of consolidation of the financial statement, the income from commercial housing projects just achieved RMB186.5 million in 2023, comparing to RMB359.3 million in 2022. As of 31 December 2023, the Company did not have planned new commercial housing projects and had only one developing project, Liuyuan, with a total investment of RMB3.8 billion. The Company will still face uncertainty in the sales of Liuyuan during the downturn of the property market in China.

Solid track record of receiving government support

YCAI has received ongoing support from the Yancheng Municipal Government, including capital injections, asset transfers, and financial subsidies. Since its establishment and until 31 March 2024, the Company's paid-in capital had increased from RMB400 million to RMB5 billion. In 2023, the Yancheng Municipal Government injected around RMB2.1 billion worth of stakes and physical assets into YCAI, enhancing its capital strength. From 2021 to 2023, the local government provided stable operating subsidies with a total of around RMB78 million. The Company is expected to receive government payments from the infrastructure construction and land consolidation business. However, such payments may be easily influenced by the fiscal arrangement and land market situation, resulting in a large number of receivables from the government units on its balance sheet.

In addition, YCAI could benefit from Yancheng's standby cash reserves, which is a preemptive fund of RMB5.0 billion launched by the government for local state-owned enterprises. The fund would provide the Company with an additional liquidity buffer when necessary.

Overall, we expect YCAI to continue to play an important role in the development of Yancheng City. Thanks to its key position in infrastructure investment and participation in public services, we believe that the local government will continue to support the Company in the foreseeable future.

High debt leverage with large investment needs

YCAI's current projects under construction include infrastructure construction projects, self-operated projects,

land consolidation projects and property development. These projects ensure the sustainability of the Company's business, but the investment cycle is long for commercial activities and the cash collection lags for infrastructure construction and land consolidation businesses behind.

Considering the outstanding investment of approximately RMB4.2 billion in its key pipeline projects, and the long payback period from the government, the Company will still rely on external financing to fund the funding gap. Overall, we expect that the Company will face high capital expenditure pressure over the next 12 to 18 months, given the mismatch between cash collection and investment, and the financing gap will be made up mainly of bank loans and bond issuances.

Exhibit 4. Projects under Construction as of 31 December 2023

Project type	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB billion)	amount (RMB billion)	amount (RMB billion)
Project Under Construction				
Infrastructure Construction	6	11.7	9.9	1.8
Land Consolidation	11	14.5	12.3	2.2
Affordable Housing	1	0.2	0.1	0.1
Property Development	1	3.8	2.2	0.1
Total	19	30.2	24.5	4.2

Source: Company information, CCXAP Research

YCAI relies on external financing to raise funds for business development and project construction, which could increase its debt burden and undermine its credit profile. In recent years, YCAI's debt leverage, measured by the total capitalization ratio, has remained very high. From 31 March 2023 to 31 March 2024, the Company's total debt (including perpetual debt) increased to RMB94.9 billion from RMB82.9 billion; and its total capitalization ratio increased to 71.8% from 70.1%, which remained high. The capital injection from the local government and the Company's effort to reduce financing costs under a downward interest rate environment eased its pressure on high debt leverage to some extent. We expect the Company's debt leverage will remain at a high level, considering its large construction pipelines in the next 12 to 18 months.

Weak balance sheet liquidity moderated by good access to different financing channels

YCAI's standalone liquidity position weakened as its cash reserves were insufficient to fulfill its short-term debt obligations. As of 31 March 2024, its short-term debt amounted to RMB36.1 billion, accounting for 38.0% of the total debt, and the cash to short-term debt ratio remained at a weak level of around 0.4x. We expect that the Company will need additional funding from external sources to repay its debt and invest in new projects.

YCAI's refinancing pressure could be partly mitigated by its strong financing ability from banks and debt capital market. The Company maintains good relationships with various large domestic banks such as China Development Bank, China CITIC Bank Corporation Limited and Bank of Jiangsu Co., Ltd. As of 31 December 2023, it obtained total bank credit facilities of RMB74.8 billion with an available portion of RMB26.2 billion. The Company also has a track record of issuing different kinds of bond products such as PPNs, MTNs, asset-backed securities, and corporate bonds. During the fourth quarter of 2023, it issued two tranches of MTN, raising RMB2.9 billion, in the onshore debt market, with coupon rates of 3.7%. In addition, the Company had moderate exposure to non-standard over 30% of total debt. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

Large exposure to external guarantees while mainly provided to other local SOEs

YCAI has provided large numbers of external guarantees of RMB15.4 billion as of 31 December 2023, accounting for 41.5% of the Company's adjusted net assets (excluding perpetual debt and other items treated as debt in minority interests). Large exposure to guarantees will increase YCAI's contingent liability risk. Among them, there were around RMB549 million of external guarantees provided to its associates in property development projects. The Company provides guarantees to them according to its shareholding of the associates. Nevertheless, we believe that the credit risk of these guarantees is manageable, as most of them are provided to local state-owned enterprises ("SOEs").

ESG Considerations

YCAI bears environmental risks because it undertakes infrastructure construction and property development projects in Yancheng City. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

YCAI is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Yancheng City. Demographic changes, public awareness and social priorities shape the government's development strategy and targets on YCAI, and it will affect the government's propensity to support the Company.

YCAI's governance considerations are also material as it is subject to oversight and reporting requirements to the local 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 \(July 2022\)](#).

Appendix

Exhibit 5. Peer Comparison

	Yancheng City Assets Investment Group Company Limited	Yancheng High-tech Zone Investment Group Company Limited	Yancheng Oriental Investment & Development Group Company Limited
Long-Term Credit Rating	A _g -	BBB _g +	BBB _g +
Shareholder	Yancheng Municipal Government (100%)	Yancheng High-tech Industry Holding Group Co., Ltd. (100%)	Yancheng Municipal Government (100%)
Positioning	The largest Infrastructure construction and asset management platform in Yancheng City	The largest platform of Infrastructure construction and investment in the Yancheng Hi-tech Industrial Development Zone	The largest Infrastructure investment and financing platforms in the Yancheng Economic and Technological Development Zone
Total Assets (RMB billion)	138.1	96.0	78.7
Total Equity (RMB billion)	43.0	30.7	25.4
Total Revenue (RMB billion)	7.3	3.2	2.9

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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