CCXAP assigns BBB$_g$- to Jiangsu Yueda Group Co., Ltd.'s proposed US dollar-denominated bonds

Hong Kong, 28 May 2020 -- China Chengxin (Asia Pacific) Credit Ratings ("CCXAP") has assigned BBB$_g$- to the proposed US dollar-denominated senior unsecured bonds to be issued by Jiangsu Yueda Group Co., Ltd. ("Jiangsu Yueda" or the "Company").

The bonds constitute direct, general, unconditional, and unsecured obligations of Jiangsu Yueda which shall at all times rank pari passu and without any preference among themselves and at least equally with all of Jiangsu Yueda's other present and future unsecured and unsubordinated obligations. The Company intends to use the new proceeds for onshore and offshore business development and refinancing of onshore indebtedness.

The ultimate rating on the proposed US dollar-denominated bonds is contingent upon the receipt of final documents conforming to information already received.

Corporate Profile

Founded in 1989, Jiangsu Yueda is a local state-owned conglomerate in Yancheng City of Jiangsu Province that focuses on 4 core business segments including modern services, energy and mineral resources, industrial manufacturing, and infrastructure investments.

The Company is wholly owned by the Yancheng government, with a registered capital of RMB1.0 billion by the end of 2019, and is supervised by Yancheng State-Owned Asset Supervision and Administrative Commission ("Yancheng SASAC"). The Company is the largest local state-owned enterprise in Yancheng City in terms of total assets, with total consolidated assets of RMB69.6 billion which accounted for approximately 24.3% of Yancheng SASAC's total assets as of 31 December 2019. In 2019, Jiangsu Yueda recorded total revenue of RMB23.6 billion and net profit of RMB858.7 million. In particular, modern services business is the Company's key segment, which accounted for 63.7% of its total revenue in 2019, followed by energy and mineral resources (24.1%), industrial manufacturing (6.9%) and infrastructure investment (3.6%).

Rating Rationale

The rating of the bonds is equal to the Company's long-term credit rating as first-time assigned by CCXAP on 17 April 2020. We believe that bond holders of the Company are not subject to material structural subordination risk, considering that (1) the Company's diversified business profile (with cash flow generation across its operating subsidiaries) can help mitigate structural subordination risk; and (2) solid shareholder support will flow through directly to the holding company given the Company's important status in Yancheng City, thereby mitigating any differences in expected loss that could result from structural subordination.

The BBB_g- long-term credit rating of Jiangsu Yueda is underpinned by the Company's (1) largest state-owned enterprise status in Yancheng City; (2) moderate diversification benefiting from its broad lines of business and quality asset resources; and (3) diversified funding channels. However, the rating is constrained by the Company's (1) business operations that are susceptible to the volatility of fundamental economic changes as well as policy changes of China; (2) modest financial profile with high debt leverage and low debt coverage; and (3) high refinancing pressure.

The outbreak of coronavirus has undermined the economic conditions in China which incurred a 6.8% contraction in GDP in the first quarter of 2020, the first decline since 1992. Secondary and tertiary sectors was significantly affected by the lockdown of many cities in China. This exerts pressure on Jiangsu Yueda's business operations and investment returns. Nevertheless, we expect the Company could enjoy policy support given its important status in Yancheng City. And its diversified business portfolio in different business segments could partially mitigate the negative impact from the epidemic.

Rating Outlook

The stable outlook on Jiangsu Yueda's rating reflects our expectation that the Company would continue to maintain its leading position as a state-owned enterprise in Yancheng City with strong shareholder support and diversified funding channels. Meanwhile, we believe that the Company could continue to benefit from its diversified business portfolio.

What could upgrade the rating?

The rating could be upgraded if (1) the Company's overall business profile improves; or (2) the Company demonstrates better credit metrics including lower total capitalization ratio and higher EBITDA interest coverage ratio.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of shareholder support significantly decreases; (2) there is evidence of weakening overall business profile; or (3) the Company's credit metrics materially deteriorate.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Business and Customer Service Companies (December 2019).

Contacts of Credit Ratings

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

Vincent Tong
Credit Analyst
vincent_tong@ccxap.com

Tel: +852-2860 7121

Guo Zhang
Director of Credit Ratings
guo_zhang@ccxap.com

Tel: +852-2860 7119

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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656