

CCXAP affirms Yangzhou Longchuan Holding Group Co., Ltd's long-term credit rating at BBB_{g-}, with stable outlook

Hong Kong, 15 June 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Yangzhou Longchuan Holding Group Co., Ltd ("Yangzhou Longchuan" or the "Company") at BBB_{g-}, with stable outlook.

The BBB_{g-} long-term credit rating of Yangzhou Longchuan is underpinned by the Company's (1) leading position in urban construction in Jiangdu District, Yangzhou City; (2) regional monopolistic advantage in city operations; and (3) increasing revenue and operating profit. However, the rating is constrained by the Company's (1) high debt leverage; (2) weak asset liquidity; and (3) weak liquidity profile.

We believe Yangzhou Longchuan is likely to receive strong support from the Jiangdu District Government in times of need. Our expectation is based on the Company's (1) key role in the development of Jiangdu District; (2) close relationship with the local government; and (3) good track record of receiving ongoing support.

Corporate Profile

Established in 2001, Yangzhou Longchuan is the most important infrastructure construction and state-owned assets operation entity in Jiangdu District, Yangzhou City. The Company mainly engages in infrastructure construction, resettlement housing construction, construction services, grain trading, water supply, and petrochemical businesses. As of 31 March 2022, Yangzhou Jiangdu District State-owned Capital Investment Operation Group Co., Ltd. held 100% of the Company's shares, and People's Government of Jiangdu District, Yangzhou Municipality ("Jiangdu District Government") is the ultimate controlling shareholder of the Company. The Company's registered capital was RMB9.0 billion.

Rating Rationale

Credit Strengths

High likelihood of receiving support from the local government when needed. Yangzhou Longchuan is mainly responsible for infrastructure construction and resettlement housing construction in Jiangdu District. Since its establishment, the Company has made significant contributions to the economic development and urbanization of Jiangdu District. Furthermore, it also undertakes various city operations such as water supply, grain trading, and security services in Jiangdu District. Yangzhou Longchuan is ultimately controlled by the Jiangdu District Government and it has a good track record of receiving support from the local government in terms of capital injections, asset injections, and financial subsidies.

Leading position in urban construction of Jiangdu District. As the primary state-owned entity in Jiangdu District, Yangzhou Longchuan has undertaken many infrastructure and resettlement housing construction projects based on the Jiangdu District Government's urban development blueprint. Overall, the infrastructure and resettlement housing construction



businesses are sustainable given the Fourteenth Five-year Plan of Jiangdu District to further promote urban-rural integration.

Regional monopolistic advantage in city operations. Yangzhou Longchuan is also an important public service entity in Jiangdu District, undertaking various city operations including water supply, grain trading, and security services. We expect the Company's city operation businesses to be sustainable given their regional monopolistic advantage.

Increasing revenue and operating profit. Yangzhou Longchuan's total revenue has increased significantly in recent years due to its construction services business and its new venture into petrochemical business. From 2019 to 2021, the Company's total revenue soared from RMB9.9 billion to RMB20.5 billion, representing a CAGR of 44.1%. In addition, driven by the new petrochemical business, the Company's operating profit increased slightly from RMB482.3 million in 2020 to RMB492.5 million in 2021.

Credit Challenges

High debt leverage. Yangzhou Longchuan has a high debt burden as a result of slow payment collection and large capital demands. As of 31 December 2021, its total debt (including perpetual securities) was RMB41.7 billion, with a total capitalization ratio of 63.6%.

Weak asset liquidity. The asset liquidity of Yangzhou Longchuan is weak. Its total assets mainly consist of receivables and inventories, both of which have relatively low liquidity. As of 31 December 2021, its total receivables amounted to RMB33.6 billion, accounting for 43.6% of the total assets, while its inventories amounted to RMB19.6 billion, accounting for 25.4% of the total assets.

Weak liquidity profile. The liquidity profile of Yangzhou Longchuan is weak. As of 31 December 2021, the Company's cash to short-term debt ratio was 0.5x, indicating that its cash balance was insufficient to cover its short-term debt of RMB14.6 billion.

Rating Outlook

The stable outlook on Yangzhou Longchuan's rating reflects our expectation that the Company will maintain its vital position in Jiangdu District. We also expect that the Company will continue to receive ongoing government support.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal strength of Yangzhou City and Jiangdu District improves notably; and (2) the Company's stand-alone credit profile improves significantly, such as improvements in business sustainability and operating profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal strength of Yangzhou City and Jiangdu District deteriorates; (2) the likelihood of government support for the Company



decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deterioration in the stability and sustainability of its businesses.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

Regulatory Disclosures

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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.

Peter Chong
Senior Analyst – Credit Ratings
+852-2860 7124
peter_chong@ccxap.com

Elle Hu
Executive Director – Credit Ratings
+852-2860 7120
elle_hu@ccxap.com

Client Services: +852-2860 7111



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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656