

## Credit Opinion

30 December 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Yixing City Urban Comprehensive Service Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Yixing City Urban Comprehensive Service Co., Ltd., with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Yixing City Urban Comprehensive Service Co., Ltd. ("YXCS" or the "Company") reflects the Company's (1) strong regional market franchise as a comprehensive urban service entity in Yixing City; and (2) diversified business structure.

However, the rating is constrained by the Company's (1) moderate profitability; (2) moderate debt leverage; and (3) modest debt servicing capacity.

The rating also reflects a high likelihood of support from the parent company, Yixing City Construction Culture Tourism Group Co., Ltd. ("YCCT"), which is based on the Company's (1) status as the core subsidiary of YCCT undertaking urban operation and urban-rural integration; and (2) close business and legal linkages with YCCT. YCCT is one of the key local infrastructure investment and financing companies ("LIIFCs") in Yixing City, mainly responsible for the construction and maintenance of public and infrastructure facilities.

The stable outlook on YXCS's rating reflects our expectation that the Company will maintain its strong regional competitiveness in urban service in Yixing City over the next 12-18 months, and the support from the parent company is unlikely to change during the period.

## Rating Drivers

- Comprehensive urban service entity with a strong regional market franchise in Yixing City
- Diversified business structure but a thin profit margin
- Moderate profitability and fair cost control ability
- Improved debt leverage supported by parent company
- Modest debt servicing capacity
- High likelihood of support from the parent company

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the parent company's willingness and capacity to provide support increases; or (2) the Company's standalone credit profile improves significantly, such as strengthened profitability or improved solvency ratios.

### What could downgrade the rating?

The rating could be downgraded if (1) the parent company's willingness and capacity to provide support decreases; or (2) the Company's standalone credit profile weakens significantly, such as deterioration in credit metrics or weakened liquidity position.

## Key Indicators

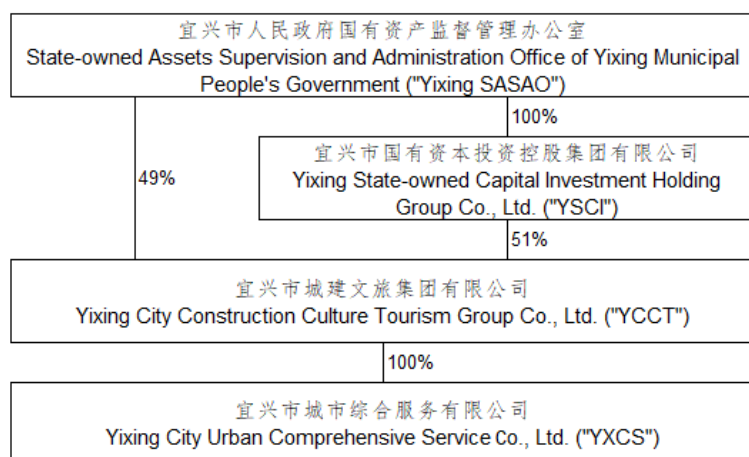
	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	2.1	5.4	7.9
Total Equity (RMB billion)	0.7	0.8	4.0
Total Revenue (RMB million)	385.4	429.0	384.1
Net Profit (RMB million)	15.6	20.8	2.1
EBIT Margin (%)	7.5	8.5	4.6
Return on Assets (%)	-	1.0	-
Total Debt/Total Capital (%)	66.7	70.1	39.2
Total Debt/EBITDA (x)	26.3	34.8	-
EBITDA/Interest (x)	9.0	8.2	6.7
FFO/Total debt (%)	1.6	0.9	-

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

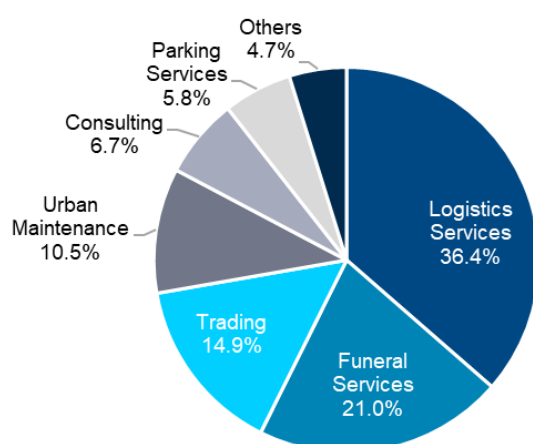
Source: Company data, CCXAP research

## Corporate Profile

Established in 2001, YXCS was reorganized in 2024 through several equity injections from its parent company, YCCT. The Company is an important urban operation service and urban-rural integrated development entity in Yixing City and has a diversified business portfolio, covering logistics support, parking services, funeral services and cemetery sales, fishery business, urban maintenance, and commodity sales. As of 30 September 2024, the Company is wholly owned by YCCT and ultimately controlled by the State-owned Assets Supervision and Administration Office of Yixing Municipal People's Government ("Yixing SASAO").

**Exhibit 1. Shareholding chart as of 30 June 2024**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company information, CCXAP research

**Rating Considerations****Business Profile****Comprehensive urban service entity with a high regional market franchise in Yixing City**

YXCS is an important urban operation service and urban-rural integrated development entity in Yixing City. It has developed a comprehensive range of urban operation businesses, including logistics support, parking services, funeral services, and cemetery sales. There are relatively high entry barriers for YXCS's business sectors which have relatively strong public and regional characteristics. On the back of the local government, the Company has a strong regional competitiveness and stable market shares in those sectors despite its small scale and high business geographical concentration.

YXCS is the sole logistics support services entity with a state-owned background in Yixing City, which mainly includes providing delivery of fresh ingredients and meal services. Stable revenue scale and business experience made it a good competitive advantage. The Company has established cooperation with upstream suppliers in and around Yixing City, which are mainly agricultural and sideline food supply companies. Public

bidding is the main way to obtain service contracts. At present, its customers are mainly comprised of government units, schools and state-owned enterprises (“SOEs”) in Yixing City.

YXCS operates the public parking business within the urban area of Yixing City (excluding towns and villages), by obtaining a 30-year franchise through bidding with RMB1.0 billion in 2024. The Company takes the responsibility to manage all parking spaces in Yixing City and at the same time charges parking fees which are highly regulated by the local government. The franchise encompasses a total of 33,229 parking spaces (including 23,677 on-street parking spaces and 9,552 off-street parking spaces) and allows the Company to increase toll parking spaces year by year from 3,906 to 17,176 at the end of 2033, which is expected to generate additional revenue for the Company.

In respect of the funeral services business, YXCS runs the only state-owned cemetery in Yixing City, Jinji Mountain Cemetery, and provides relative funeral services. The Company realizes revenue by conducting tombstone sales within Yixing City, with good cash collection. Funeral services are public welfare services and prices are government-regulated, which will generate recurring income for the Company.

The Company also developed businesses related to construction including trading of building materials, urban maintenance, architectural design and engineering project testing. The majority of the urban maintenance projects are commissioned by the Yixing Municipal Government and local state-owned enterprises, providing a relatively reliable source of projects. The Company also obtains architectural design and engineering project testing projects from the market through public bidding and from its parent, YCCT. YCCT is an important entity for local infrastructure construction with large construction project reserves which could support the sustainable development of YXCS.

YXCS has started the fishery business in recent years and will achieve income mainly through the rental of breeding ponds, and comprehensive development of the aquaculture industry chain such as sales of fish farming products. The related government units assist in gaining rental contracts for breeding ponds with holders in villages and towns in Yixing City and issue tidal flat breeding certificates to the Company during the lease period. The estimated total investment of the projects is RMB1.1 billion, including the construction and upgrade of breeding ponds and ecological environment. The local government has provided special funds of RMB590.0 million for the project. As of 30 June 2024, the Company has invested RMB510.0 million and has already obtained a 20-year tidal flat use right. Given the capital expenditure pressure, the Company still faced challenges on operational performance and investment return.

Overall, given its state-owned shareholder background and consistent growth strategy, we anticipate that the Company will retain its position in urban operations in Yixing City in the short to medium term. In addition, with the expansion of business mainly the parking lots and fishery sectors, we anticipate a potential future growth in revenue.

### **Diversified business structure but a thin profit margin**

YXCS has achieved a diversified business structure in order to mitigate business risk and enlarge revenue sources. Logistics represents the primary source of YXCS's revenue, accounting for 36.4% of the total revenue in 2023, followed by funeral and cemetery business (21.0%), trading (14.9%), and urban maintenance (10.5%). YXCS has achieved sustained growth in operating income. From 2022 to 2023, its revenue increased from RMB385.4 million to RMB429.0 million. During the first three quarters of 2024, its revenue increased by 29.1% year-on-year, reaching RMB 384.1 million. The revenue of urban maintenance fluctuated from 2022 to 2024Q3,

which were RMB19.1 million, RMB45.0 million, and RMB138.8 million, respectively, because of the lagged settlement with the local government.

However, the public welfare nature of most of the Company's business and the Company's low willingness to maximize profits made a thin profit margin. As a local SOE, the Company's main targets are to provide essential urban services and promote the society and economic development of Yixing City. The Company's main business is mainly asset-light operations. The main components of costs are the material purchase cost and labor cost. The prices of logistics support, parking services, funeral services and cemetery sales are regulated or under control and remained relatively stable, and correspondingly, most of the gross margin profit fell with the increasing costs over the past years. The gross margin of the trading industries is generally modest. From 2022 to 2024Q3, the Company's overall gross operating margin decreased from 18.1% to 12.9%.

## **Financial Profile**

### **Moderate profitability and fair cost control ability**

YXCS's revenue improved yearly but the overall profitability is modest. The Company's EBIT is mainly comprised of operating profit and government subsidies. In 2023, the gross profit declined mainly affected by the narrowing profit margins of logistics and urban maintenance businesses. The Company has showed a fair cost control ability over the past years. The Company's period cost, including selling, G&A and financing expenses, remained stable at around RMB50.0 million in 2022 and 2023. The period cost ratio (calculated as period cost to total revenue) gradually decreased as revenue increased, from 13.0% in 2022 to 11.7% in 2023, and further down to 9.1% in 2024Q3. The Company receives government awards and grants during the operation. In 2023, the subsidies to the funeral services, cemetery sales and fishery sectors led to an increase in EBIT. The EBIT margin also increased to 8.5% in 2023 and the two-year average EBIT margin was 8.0%. With the further marketization of the Company's business, government subsidies are considered to be unsustainable. In the first three quarters of 2024, the Company's EBIT fell by 27.9% YoY, largely due to a decline in government subsidies.

### **Improved debt leverage supported by parent company**

YXCS's debt leverage was high resulting from the increasing debt level while weak capital strengthens. Benefiting from the parent support, the debt leverage was significantly improved in 2024. In June 2024, the Company received a capital injection of RMB1.0 billion in cash and its subsidiaries received capital injection of RMB2.2 billion from YCCT, totally increasing YXCS's capital by RMB3.2 billion. As a result, as of 30 September 2024, the total capitalization ratio, calculated by total debt to total capital, declined to 39.2% from 70.1% in 2023. The Company debt level kept increasing from 2022. As of 30 September 2024, the total debt increased to RMB2.6 billion from RMB1.3 billion at end-2022. Given the Company is at the fast development stage and has large capital expenditure needs for investments such as fish ponds and cemetery construction, there is still a high reliance on external financing and shareholder support. We expect that the debt level will continue to increase and thus debt leverage may increase in the next 12 to 18 months.

YXCS's asset scale kept increasing along with business development and parent support. Its assets mainly consist of inventories (44.4%), other receivables (25.4%), and cash and cash equivalent (5.2%). The inventories mainly consist of land to be developed which are acquired through assets transfer or purchases. The other receivables mainly represent current accounts with parent company and other state-owned enterprises. Overall, the Company's assets are of modest liquidity and profitability.

## Modest debt servicing capacity

YXCS's debt-serving metrics are relatively weak, given its increasing debt level and moderate profit-creating capability. From 2022 to 2023, although YXCS's EBIT and EBITDA achieved growth, under the fast increase of total debt, its total debt to EBITDA ratio and the EBITDA interest coverage ratio weakened. The average total debt/EBITDA ratio was around 30.6x and the average EBITDA interest coverage ratio was around 8.2x. Moreover, the short-term debt-serving metrics have weakened. The Company's short-term debt ratio increased from 25.9% at end-2022 to 43.0% as of 30 September 2024, and the cash to short-term debt ratio declined from 0.8x to 0.4x. In terms of cash flow, YXCS kept recording net operating cash outflow in 2022 and 2023, and the two-year average FFO to total debt ratio was low at 1.3%. In 2024, the net operating cash outflow has further enlarged mainly due to the increase in current payments to the parent company. As a result, the FFO dropped significantly.

Given the limited reconsolidation period for the Company, YXCS's external financing channels concentrated on bank loans, with a proportion of more than 80% of the interest-bearing debt. As of 30 June 2024, the Company had bank credit facilities with an unutilized amount of RMB2.2 billion as of the same date. YXCS also utilize non-standard funding such as financial leasing as a supplement, which accounted for 18.9% of the total debt.

## External Support

### High likelihood of support from the parent company

We expect a relatively high likelihood of receiving support from YCCT in times of need. Our expectation incorporates the considerations of the Company's (1) status as the core subsidiary of YCCT in urban operation and urban-rural integration; and (2) close business and legal linkages with YCCT. Meanwhile, we believe that YCCT has a strong capacity to support the Company, given its (1) important strategic position in urban and rural infrastructure construction in Yixing City; and (2) good track record of receiving government support.

Yixing City is located in the southwest of Wuxi City, and has ranked top in comprehensive strength among the top 100 counties in China for years according to CCID. Yixing City's main industries include ceramic manufacturing, cable industry, and environmental protection. In the first three quarters of 2024, the GRP of Yixing City amounted to RMB176.5 billion with a YoY growth of 6.2%.

Established in 2002, YCCT is one of the key LIIFCs in Yixing City, Wuxi City. It is mainly responsible for the construction and maintenance of public and infrastructure facilities, focusing on the three main businesses of urban development and construction, urban operation services and urban-rural integrated development. As of 30 June 2024, Yixing SASAO and Yixing State-owned Capital Investment Holding Group Co., Ltd. held 49% and 51% of YCCT's equity, respectively. Yixing SASAO was the ultimate controller of YCCT.

YXCS has a very important position in YCCT's operations as the primary operating subsidiary in urban operation and urban-rural integration. The Company contributes a large portion of assets and revenues for YCCT, accounting for 36.6% of YCCT's total assets as of 30 June 2024 and 41.1% of YCCT's total revenue in 2024H1, respectively. YXCS also has a close legal linkage with the parent company. YCCT provided guarantees on more than 90% of the Company's total debt. Meanwhile, the Company also received capital and asset injection from YCCT over the past 24 months. In order to enhance its asset scale and operational strength, YCCT transferred several subsidiaries to YXCS. Additionally, in June 2024, YCCT injected capital of RMB1.0 billion in cash to the Company. As of 30 September 2024, the Company's paid-in capital and capital reserves were RMB1.0 billion and RMB3.0 billion, respectively.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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