

## Credit Opinion

10 May 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub>
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Jiangsu Yueda Group Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Jiangsu Yueda Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Jiangsu Yueda Group Co., Ltd. ("Jiangsu Yueda" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, reflecting the improving quality of the Company's investment portfolio and our expectation of solid support from the Yancheng Municipal Government to be sustained.

The BBB<sub>g</sub> long-term credit rating of Jiangsu Yueda is underpinned by the Company's (1) investment portfolio in line with Yancheng City's industrial development strategy; (2) good access to quality investments; and (3) diversified funding channels.

However, the rating is constrained by the Company's (1) exposure to high volatility from its investments in cyclical industries; (2) modest financial profile with relatively weak profitability and high financial leverage; and (3) high refinancing needs in the near term.

The rating also reflects a high likelihood of government support from the Yancheng Municipal Government when needed, which is based on the Company's (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) high strategic and economic importance in Yancheng City as one of the largest local state-owned enterprises ("SOE"); and (3) solid track record of receiving ongoing government support, including subsidies and capital injections.

The stable outlook on Jiangsu Yueda's rating reflects our expectation that the Company will continue to receive solid support from the Yancheng Municipal Government. We also expect the Company to maintain a stable and prudent investment strategy over the next 12 to 18 months.

## Rating Drivers

- High likelihood of support from the Yancheng Municipal Government
- Investment portfolio in line with Yancheng City's development strategy
- Good access to quality investments
- Exposure to high volatility from its investments in cyclical industries
- Modest financial profile with low profitability and high financial leverage
- High refinancing needs mitigated by its diversified funding channels

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of support from the Yancheng Municipal Government increases; (2) the quality of the Company's investment portfolio materially improves, such as having a higher level of asset liquidity and generating better recurring cash flow from investees; or (3) the Company's credit metrics improve, for example, a lower debt-to-investment income ratio and a higher cash-to-short-term debt ratio.

### What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of support from the Yancheng Municipal Government decreases; (2) the Company's credit metrics deteriorate, such as a significant increase in debt-to-investment income ratio or a decrease in investment income-to-interest ratio; or (3) the Company shows weakened access to funding and eroded liquidity profile.

## Key Indicators

<b>Consolidated Level</b>	<b>2020FY</b>	<b>2021FY</b>	<b>2022FY</b>
Total Assets (RMB billion)	70.5	73.0	79.4
Total Equity (RMB billion)	24.0	26.7	29.5
Total Revenue (RMB billion)	16.8	18.5	21.8
Net Profits (RMB billion)	0.1	0.4	0.9
Return on Equity (%)	0.4	1.5	3.2
<b>Holding Company Level (HoldCo)</b>	<b>2020FY</b>	<b>2021FY</b>	<b>2022FY</b>
Total Assets (RMB billion)	34.2	34.0	38.9
Total Equity (RMB billion)	9.1	8.5	10.8
Return on Equity (%)	13.4	5.3	1.5
Debt/Investment Income (x)	12.2	11.1	12.9
Cash/Short-term Debt (x)	0.1	0.2	0.1

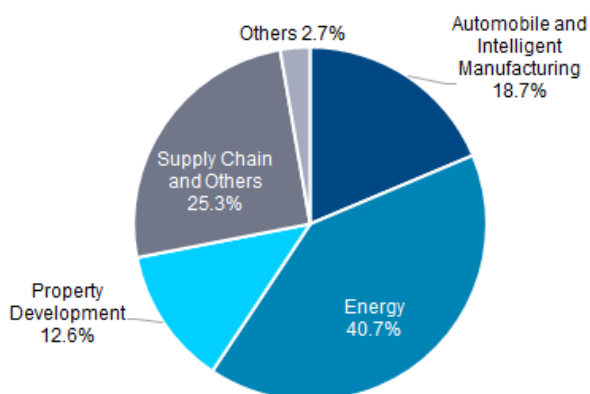
All ratios and figures are calculated using CCXAP's adjustments.  
Source: Company information, CCXAP research

## Corporate Profile

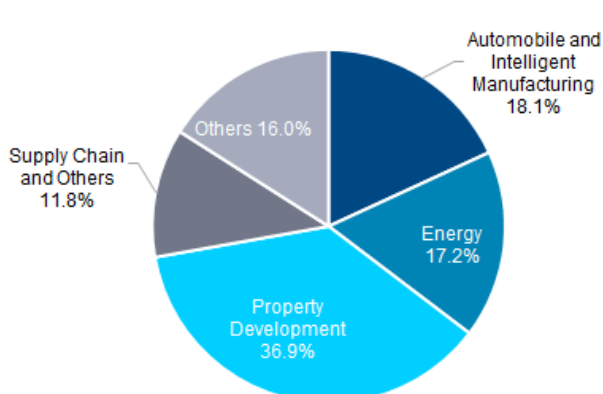
Founded in 1991, Jiangsu Yueda is a state-owned conglomerate that is owned by the Yancheng Municipal Government and supervised by the Yancheng State-owned Assets Supervision and Administration Commission ("Yancheng SASAC"). It is an important platform to manage the state-owned assets on behalf of the Yancheng Municipal Government, with the aim to securitize and maximize the value of the state-owned assets. Jiangsu Yueda has four key strategic investment segments, namely (1) automobile and intelligent manufacturing, (2) energy, (3) property development, and (4) supply chain and others.

Jiangsu Yueda's key operating subsidiaries include Jiangsu Yueda Investment Co., Ltd (600805.SH) ("Yueda Investment"), Yueda International Holdings Limited (00629.HK) ("Yueda Holdings"), Shanghai Yueda New Industrial Group Go., Ltd., Jiangsu Yueda South Holding Co., Ltd., Yue Da Group (H.K.) Co., Limited and Yueda Capital Co., Ltd. The Company is approximately 91.3% owned by the Yancheng Municipal Government and 8.7% by the Jiangsu Provincial Finance Bureau. As of 31 December 2022, Jiangsu Yueda reported a total asset of RMB79.4 billion and a net asset of RMB29.5 billion.

**Exhibit 1. Revenue structure in 2022**

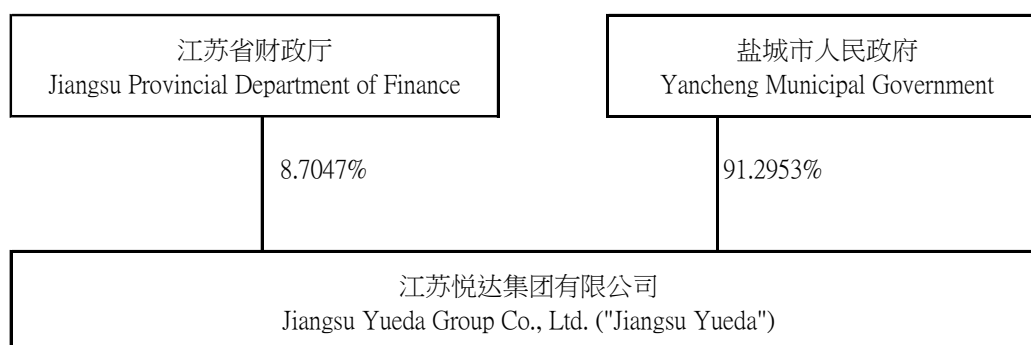


**Exhibit 2. Gross profit structure in 2022**



Source: Company information, CCXAP research

**Exhibit 3. Shareholding and organization chart as of 31 December 2022**



Source: Company information, CCXAP research

## Rating Considerations

### Investment portfolio in line with Yancheng City’s development strategy

Jiangsu Yueda is initially entrusted by the government to cultivate the development of local industries, particularly automobile manufacturing, which is one of the pillar sectors of Yancheng City. Along with the ongoing economic development of Yancheng City, Jiangsu Yueda adheres to the “1+2+1” development strategy covering segments in automobile and intelligent manufacturing, energy and healthcare, and the supply chain. Jiangsu Yueda has gradually developed a large investment portfolio in different segments. Its investees are across multiple sectors including automobile manufacturing, intelligent manufacturing, electric utilities, mining, toll roads, real estate, commercial circulation, and financial services. Key investments in automobile manufacturing include Jiangsu Yueda Kia Motor Co., Ltd. (a joint venture with South Korean automobile maker, Kia Motors Car Corporation) and Aunde Yueda Automotive Interior Ltd. (a joint venture with Aunde Group SE). The Company has also entered into the new energy sector by investing in Jiangsu Runyang Photovoltaic Technology Co., Ltd. (“Runyang Photovoltaic”) which produces high-efficiency crystalline silicon batteries. Its investment portfolio consists mainly of privately held equities which have relatively low asset liquidity. However, we expect the liquidity and value of Jiangsu Yueda’s investment portfolio to improve with more investees going public. The Company also received higher dividend income from its investments. It reported dividend income of RMB2.3 billion in 2022 at consolidated level, increasing by 39.2% year-over-year (“YoY”), indicating an improvement in the investment portfolio.

### Good access to quality investments

Jiangsu Yueda has good access to quality investments as underpinned by strong support from the Yancheng Municipal Government. The Company has obtained quality projects with strong dividend income over the past years, such as toll collection rights for the Beijing – Shanghai Expressway (Jiangsu section) and Xi’an-Tongchuan Expressway, and coal mines of Shaanxi No.2 Huangling Coal Mine Co., Ltd. (“No.2 Huangling”). As of the end of 2022, the Company held the majority shares of 1 coal mining company and the minority shares of 6 coal mining companies. Among them, No.2 Huangling generated around RMB2.7 billion in dividends over the past three years with an increasing trend.

Jiangsu Yueda also has a long investment track record in the car industry and the Company has developed a portfolio covering the upstream and downstream of the car industry including car parts production, vehicle production, transport, car dealership, auto finance, test site, and research center. In 2021, with the purpose of consolidating sources of the car industry and promoting the development of the car industry in Yancheng City, Jiangsu Yueda established Jiangsu Yueda Automobile Group Co., Ltd. (“Yuda Automobile”) under the guidance of Yancheng Municipal Government. Yueda Automobile held mainly three car brands, namely Yueda Kia, Human Horizons New Energy, and Guoxin New Energy. Guoxin New Energy was transferred from the local government, which focuses on new energy vehicles. Among them, Jiangsu Yueda Kia Motor Co., Ltd. made an outstanding achievement and generated continuous dividend income before the event of South Korea considered the THAAD deployment in 2017.

Jiangsu Yueda has a sound record of cultivating investees going public listings. For example, one of its key investees, namely, Catarc Automotive Proving Ground Co., Ltd. (Stock code: 301215.SZ) was listed on ChiNext in March 2022, of which the Company held 29.25% of shares. The listing application of Runyang Photovoltaic was agreed by the ChiNext committee in November 2022.

### **Exposure to high volatility from its investments in cyclical industries**

Jiangsu Yueda's investment portfolio covers multiple industries or sectors, however, some of them face cyclical volatilities, such as coal and metal mining, commercial trading, real estate development and automobile sales. As most of Jiangsu Yueda's investments were located in China, they are correlated with China's economic conditions and policy changes. For example, the coal and metal mining segments are subject to high price volatility and policy changes, which could affect the return of these assets. In addition, the recent downturn in China's real estate market could weaken the development prospect of its investments in residential property development segment. Nevertheless, we believe that Jiangsu Yueda's diversified investment portfolio could partially mitigate the negative effect of its exposure to cyclical industries.

### **Modest financial profile with relatively weak profitability and high financial leverage**

Jiangsu Yueda's financial profile is considered modest with relatively weak profitability and high debt leverage. Jiangsu Yueda's profitability is mainly driven by its investment income. In 2022, the Company reported a net income of RMB896.1 million at consolidated level, increasing by 133.7% YoY. Its investment income at consolidated level increased to RMB2.6 billion from RMB1.6 billion in 2021. Nevertheless, the Company's profitability remains relatively weak as seen by its low ROE of 1.5% at holding company level and 3.2% at consolidated level in 2022. The low profitability of Jiangsu Yueda will weaken its ability to repay debts through its internal financial resources. The Company's investment income only covered 1.3 times of its annual interest expense in 2022.

In addition, Jiangsu Yueda has relatively high debt leverage driven by its debt-funded business expansion model over the past few years. It reported a total debt of RMB24.0 billion at holding company level and a total debt of RMB40.8 billion at consolidated level, as of the end of 2022. It has a high asset-liability ratio of 72.2% at holding company level and 62.8% at consolidated level, as of the same date. We expect the Jiangsu Yueda's debt leverage will become lower at consolidated level over the next 12-18 months given its ongoing deleveraging process and improving value in key investments.

### **High refinancing needs mitigated by its diversified funding channels**

Jiangsu Yueda's refinancing needs are high given its high level of short-term debt. As of 31 December 2022, the short-term debt was around RMB16.1 billion at holding company level, representing 67.0% of its total debt, and RMB27.9 billion at consolidated level, representing 68.7% of its total debt. The Company remained a low cash to short-term debt ratio of 0.1x at end-2022 at holding company level, which means that the Company needs to obtain significant refinancing from external sources in the next 12 months.

Furthermore, the Company has substantial scale of assets pledge for its loans, which would limit its flexibility in asset realization and its ability to obtain additional funding when needed. The Company pledged its key assets (such as shares in listed subsidiaries, rights in expressways and coal mining assets) as collateral for loans to the Company and its subsidiaries. As of 31 December 2022, the Company had total restricted assets of approximately RMB15.1 billion, representing 19.0% of its total assets.

Nevertheless, the high refinancing pressure could be alleviated by its diversified funding channels, underpinned by its state-owned status. Jiangsu Yueda has a good presence in the onshore capital markets. For example, in 2022, the Company issued several tranches of SCPs and corporate bonds with coupon rates ranging from 4.7% to 5.5%. In the first 4 months of 2023, the Company also issued 4 tranches of SCPs with coupon rates ranging from 4.99% to 5.45%. The Company has established long-term financing relationships with reliable domestic

banks and financial institutions. As of 31 December 2022, the Company had total credit facilities of RMB36.5 billion with an undrawn amount of RMB7.5 billion.

We expect that the Company's plans to optimize its debt structure through increasing debt duration and other measures launched by the government to prevent debt stress for the local state-owned enterprises could also help relieve its refinancing pressure.

## External Support

### High likelihood of support from the Yancheng Municipal Government

We expect a high likelihood of government support from the Yancheng Municipal Government to Jiangsu Yueda in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Yancheng Municipal Government; (2) strategic and economic importance in Yancheng City as one of the largest state-owned enterprises under the Yancheng Municipal Government; and (3) solid track record of receiving ongoing government support from the Yancheng Municipal Government, including subsidies, capital injections and asset transfers.

Yancheng SASAC maintains a high degree of control over Jiangsu Yueda's operations, including the formulation of business strategies and the appointment of the board of directors and key management personnel. As of 31 December 2022, all the members of board of directors were appointed directly by Yancheng SASAC. The Company is also required to report its annual budget, objectives, plans and performance to Yancheng SASAC.

In terms of total assets, the Company is one of the largest local state-owned enterprises in Yancheng City. Its consolidated assets amounted to RMB79.4 billion as of 31 December 2022. Jiangsu Yueda has created more than 14,000 jobs for local citizens in Yancheng City. As the strategic platform in industrial investment, the Company also assumes the role of cultivating local automobile manufacturing development and cooperating with foreign investors.

Jiangsu Yueda receives solid support from the Yancheng Municipal Government, given its strategic and economic importance in industrial investment in Yancheng City. From 2020 to 2022, the Company received total subsidies of around RMB880 million from the government to support the development of relevant industries. In 2022, the local government injected RMB1.7 billion cash as capital into the Company. Furthermore, Jiangsu Yueda is also on the list of Yancheng City's standby cash reserve, a pre-emptive fund with total fund size of RMB5.0 billion launched by the government to provide periodic liquidity for the local state-owned enterprises. As a member of the Yiqiyin scheme, the Company also enjoys the benefit of additional credit facilities, which was launched by the government and China Zheshang Bank Co., Ltd to prevent funding risks for the key state-owned enterprises in Yancheng City.

## Structural Consideration

Jiangsu Yueda's senior unsecured debt rating is equal to its long-term credit rating. We did not notch the rating for structural subordination, 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) the shareholder support will flow through directly to the holding company in a financially distressed scenario given the Company's important status in Yancheng City, thereby mitigating any differences in expected loss that could result from structural subordination.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [Investment Holding Companies \(December 2016\)](#).

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