

## CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub> to Yueyang Tianfu City Development Group Co., Ltd, with stable outlook

Hong Kong, 25 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Yueyang Tianfu City Development Group Co., Ltd (“YTCD” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of YTCD reflects Yueyang Municipal Government’s (1) very strong capacity to provide support; and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yueyang Municipal Government’s capacity to provide support reflects Yueyang City’s economic importance in Hunan Province, with its economic and fiscal strengths continuing to grow.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) ultimate control by Yueyang Municipal Government; (2) monopoly position in infrastructure construction and important role in tourism operation of Nanhu New Area; and (3) good track record of receiving government support. However, the Company’s rating is constrained by the Company’s (1) medium exposure to commercial activities, with moderate commercial risks; and (2) moderate debt growth and weak asset liquidity.

### Corporate Profile

Established in 2014, YTCD is the sole local infrastructure investment and financing company (“LIIFC”) in Nanhu New Area of Yueyang City. The Company is mainly engaged in infrastructure construction in Nanhu New Area. It has also participated in commercial activities such as engineering construction, cultural and tourism operation, and trading. As of 30 September 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of Yueyang City.

### Rating Rationale

#### Credit Strengths

**Monopoly position in infrastructure construction of Nanhu New Area.** YTCD is the sole LIIFC in Nanhu New Area, conducting infrastructure construction projects in the region through the Company itself and its subsidiaries. It is also one of the key infrastructure construction entities in Yueyang City, responsible for key infrastructure construction projects in Nanhu New Area. Since its establishment, the Company has completed large amount of infrastructure projects, making great contributions to the economic and social development of Nanhu New Area. Considering that YTCD owns the most state-owned assets in Nanhu New Area, we believe that the Company will not be easily replaced by other state-owned enterprises in the foreseeable future.

**Good track of receiving government support.** YTCD has regularly received support from the local government in the form of asset transfer, operating subsidies and project payments. Nanhu New Area Management Committee transferred land assets of RMB1.5 billion to the Company in 2016. From 2018 to 2019, the Company received capital injection of RMB4.4 billion.



Besides, from 2020 to 2023Q3, the Company totally received government subsidies of about RMB638.3 million. Furthermore, the Company also regularly receives project payments for the completed infrastructure projects from the local government, with RMB4.6 billion as of 30 September 2023. Given its key role in the infrastructure construction of Nanhu New Area, we believe that the local government will continue to provide support to the Company.

**Access to funding from banks and bond market.** YTCD mainly relies on bank loans and bond issuance for funding. The Company has an approved line of credit from both commercial banks and policy banks, such as Bank of Communications and Agricultural Development Bank of China. As of 30 September 2023, it had obtained total credit facilities of RMB8.7 billion, with available credit facilities of RMB235.0 million. The Company also has access to bond market via its subsidiary Yueyang Nanhu City Construction and Investment Co., Ltd., which raised RMB1.6 billion on onshore bond market in 2023. In addition, YTCD has low exposure to non-standard financing, which accounted for less than 10% of its total debts at end-2023Q3.

#### Credit Challenges

**Low exposure to commercial activities, with moderate commercial risks.** In addition to public activities, YTCD is also engaged in commercial businesses, mainly including trading, cultural and tourism operation, and engineering construction businesses. At present, the Company's exposure to commercial businesses is low, accounting for less than 10% of its total assets. However, the cultural and tourism projects exert capital expenditure pressure to the Company. The Company's trading business is conducted via its subsidiary under demand-driven model, mainly involving trading of steels. In 2022, revenue from trading business was RMB1.9 billion, but with low profit margin of 1.2%. YTCD's cultural and tourism operation business involves providing tour bus, wedding, promotional video, and music festival services in Dongting Lake Tourist Resort. In recent years, revenue generated from the Company's tourism operation business has been growing, but the scale is relatively small and gross profit margin is still negative.

**Moderate debt growth and weak asset liquidity.** YTCD has moderate debt growth over the past three years. The Company's total debt had increased from RMB7.1 billion at end-2020 to RMB8.3 billion at end-2023Q3, with total capitalization ratio of 51.3%. The increase in debt is mainly attributable to the ongoing external financing for the infrastructure construction projects. YTCD's asset liquidity is weak, which may undermine its financial flexibility. The Company's assets mainly consist of inventories, and receivables, all with relatively low liquidity, totally accounting for about 83.1% of total asset as of 30 September 2023. However, the Company has certain amount of cash reserves to support its daily operations and debt repayment. As of 30 September 2023, its cash reserves amounted to RMB1.2 billion, accounting for about 6.9% of total asset.

#### Rating Outlook

The stable outlook on YTCD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will continue to play an important role in infrastructure construction of Nanhu New Area.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as strengthened regional significance or reduction in the exposure to commercial activities.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

#### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

#### **Regulatory Disclosures**

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