

CCXAP assigns first-time long-term credit rating of BBB_g- to Yibin Nanxi Urban and Transportation Construction Group Co., Ltd., with stable outlook.

Hong Kong, 31 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Yibin Nanxi Urban and Transportation Construction Group Co., Ltd. (“YNUT” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of YNUT reflects Nanxi District Government’s (1) relatively strong capacity to provide support, and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Nanxi District Government’s capacity to provide support reflects that Nanxi District has rich mineral resources, with fast-growing fiscal income, but is constrained by its small economic scale.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) important status as the major infrastructure construction and public transportation operation entity in Nanxi District; (2) reasonable debt leverage; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) low but increasing exposure to commercial activities; (2) limited financing flexibility and relatively high financing cost; and (3) moderate asset liquidity.

Corporate Profile

Founded in 2018 and formerly known as Sichuan Yibin Yishuo Mineral Resources Co., Ltd. After the consolidation of other local state-owned enterprises in Nanxi District, YNUT has become an important urban infrastructure construction and public transportation operation entity in Nanxi District. It is primarily engaged in infrastructure construction and public transportation operations in Nanxi District. It also undertakes commercial activities such as the construction of self-operating projects, sandstone trading, and engineering construction. As of 30 June 2023, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision, Administration and Financial Bureau of Nanxi District, Yibin City (“Nanxi SASAFB”).

Rating Rationale

Credit Strengths

Major infrastructure construction and public transportation operation entity in Nanxi District. YNUT undertakes infrastructure construction projects such as resettlement housing, and roads mainly with self-raised funds. After the consolidation of Yibin Nanxi District Hengtong Transportation Investment Co., Ltd. (“Hengtong Transportation”), the Company is also responsible for the public transportation operation in Nanxi District.

Good track record of receiving government support. YNUT has a good track record of receiving support from the local government in the past few years, including government subsidies, cash injections, and asset injections. Considering the important strategic role of the Company, we expect the Company will continue to receive support from the local government in the future.

Reasonable debt leverage. Due to the injection of several subsidiaries, YNUT's total debt had increased from RMB1.6 billion at the end of 2020 to RMB3.2 billion as of 30 June 2023, while its capitalization ratio slightly increased from 17.2% to 19.7% over the same period, maintained at a reasonable level.

Credit Challenges

Moderate asset liquidity. The Company has moderate asset liquidity, which may undermine its financial flexibility. The Company's total asset mainly consists of other non-current assets, and receivables, accounting for 74.3% of its total assets as of 30 June 2023.

Low but increasing exposure to commercial activities. YNUT is also engaged in commercial activities such as the construction of self-operating projects, sandstone trading, and engineering construction. We consider the Company's commercial business risk to be low, because its assets related to commercial activities accounted for less than 15% of its total assets. Given the large number of self-operating projects under construction, we expect the Company's exposure to commercial activities will increase in the future.

Limited financing flexibility and relatively high financing cost. The Company held a total bank credit facility of RMB4.4 billion, and the available credit facility was only around RMB1.3 billion, indicating limited financing flexibility. The Company has a relatively high average financing cost of around 6.93%.

Rating Outlook

The stable outlook on YNUT's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its importance in the development of Nanxi District.

What could upgrade the rating?

The rating could be upgraded if (1) Nanxi District Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved funding ability.

What could downgrade the rating?

The rating could be downgraded if (1) Nanxi District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decreased government support.

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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