

## **CCXAP affirms Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

Hong Kong, 26 June 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yinchuan Tonglian Capital Investment Operation Group Co., Ltd.’s (“YCTL” or the “Company”) long-term credit rating at BBB<sub>g</sub>-, with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of YCTL reflects (1) Yinchuan Municipal Government’s very strong capacity to support; and (2) the local government’s high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Yinchuan Municipal Government’s capacity to support reflects its vital role as the capital city of Ningxia Hui Autonomous Region with ongoing economic growth, but constrained by its relatively weak fiscal balance and high debt burden.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) dominant role in local infrastructure construction projects; (2) important position as the sole public utility services provider; and (3) good track record of receiving government payments. However, the Company’s rating is constrained by its (1) high exposure to commercial activities; (2) large refinancing pressure; and (3) moderate exposure to contingent risk.

### **Corporate Profile**

Founded in 2008, YCTL is a local infrastructure investment and financing company (“LIIFC”) with the largest total assets in Yinchuan City. The Company plays a dominant role in implementing the local government’s blueprint for urban planning and municipal construction. It takes responsibility for major public infrastructure and welfare projects in the region, including infrastructure construction, public transportation, and gas supply. Meanwhile, the Company has commercial operations, fixed assets operation, property development, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, as well as financial services. As of 31 March 2024, the Company was direct and wholly owned by the State-owned Assets Supervision and Administration Commission of Yinchuan City (“Yinchuan SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Dominant role in local infrastructure construction projects.** YCTL is the largest LIIFC in Yinchuan City in terms of asset size as of year-end 2023 and the most primary government-authorised infrastructure constructor in the region. According to Yinchuan Municipal Government’s restructuring plan of “2+7+2+N” for state-owned enterprises in Yinchuan City, the Company acts as one of the two most important platforms to promote local social and economic development.

**Important position as the sole public utility services provider in Yinchuan City.** YCTL is the sole public transportation operator in Yinchuan City, covering the downtown area of Yinchuan City and nearby counties, representing approximately 60% of the urban public passenger transportation (buses, vans, and taxis) in the region. The Company also offers a comprehensive set of gas supply services in Yinchuan City. Additionally, the Company engages in heat supply in some residential communities with a total heating area of more than 2 million square meters.

**Good track record of receiving government payments.** YCTL has received strong support from the Yinchuan Municipal Government, including subsidies, capital injections, asset injections and government payments for previous construction projects. Taking into account the Company's strong public policy role with stable business development in providing public service, we expect the Company will continue to receive government support over the next 12 to 18 months.

#### **Credit Challenges**

**High exposure to commercial activities.** YCTL's major commercial activities include fixed assets operation, property development, property management, merchandise sales, industrial investment, cultural tourism, secured transport service, operation of parking lots, and financial services. We estimate the Company's risk exposure to commercial business is relatively high, accounting for more than 30% of total assets as of 31 December 2023.

**Large refinancing pressure.** We expect that YCTL's refinancing pressure remains large in 2024 and 2025. As of 31 March 2024, the Company reported around RMB3.2 billion and RMB6.7 billion in outstanding debts (including puttable bonds) due within 2024 and 2025 in the public bond markets, respectively. We opine YCTL still bears concentrated bond maturity pressure. Moreover, the Company's financing ability weakened because of the deteriorated financing condition of China's northwestern cities including Yinchuan City and the tightening financing policies on LIIFCs. YCTL may face challenges on new debt issuance and pressure on debt reductions.

**Moderate exposure to contingent risk.** As of 31 March 2024, YCTL's outstanding amount of external guarantees was RMB4.9 billion, accounting for 21.6% of its net assets. The external guarantees are all provided to state-owned enterprises but some entities are involved in multiple litigation disputes, with higher operating risk. If a credit event occurs, the Company may face certain contingent risks, which could inversely impact its reputation, operations, and financial conditions.

#### **Rating Outlook**

The stable outlook on YCTL's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will continue to play an essential role in local infrastructure projects and public service delivery in Yinchuan City.

**What could upgrade the rating?**

The rating could be upgraded if (1) Yinchuan Municipal Government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as materially lowers the exposure to risky commercial activities and strengthens funding ability.

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

The rating could be downgraded if (1) Yinchuan Municipal Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as reduced strategic significance, further weakened funding ability, or decreased government supports.

#### **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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