

CCXAP assigns first-time long-term credit rating of BBB_g+ to Nanyang Urban Investment Holdings Co., Ltd., with stable outlook.

Hong Kong, 12 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Nanyang Urban Investment Holdings Co., Ltd. (“NYUI” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Nanyang Urban Investment Holdings Co., Ltd. (“NYUI” or the “Company”) reflects the Company’s strong regional competitiveness and importance in sewage treatment and parking lots operation businesses in Nanyang City. However, the rating is constrained by the Company’s (1) relatively small revenue scale and weak profitability; and (2) increasing debt burden and modest liquidity position.

The rating also reflects a relatively high likelihood of support from the Nanyang Municipal Government and its parent company when needed, which is based on the Company’s (1) status as the core subsidiary of Nanyang Investment Group Co., Ltd. (“NYIG”); (2) ultimate control by the Nanyang Municipal Government; (3) regional importance in urban operation and industrial development in Nanyang City; and (4) good track record of receiving support from the local government and its parent company.

Corporate Profile

Established in August 2020, NYUI is a local state-owned enterprise in Nanyang City. The Company’s diversified business scope covers trading, real estate development, sewage treatment, engineering construction, and urban operations such as parking lots operation. NYUI is a wholly-owned subsidiary of NYIG, an important state-owned capital investment, construction and operation entity in Nanyang City, responsible for infrastructure construction, urban operation, industrial development, and financial service. NYUI is the core operating subsidiary of NYIG in the urban operation and industrial development in Nanyang City. As of 31 March 2024, the Finance Bureau of Nanyang City is the ultimate controller of the Company.

Rating Rationale

Credit Strengths

Strong regional competitiveness and importance in sewage treatment and parking lots operation businesses. NYUI is the main sewage treatment operating entity in Nanyang City with a relatively strong market position. The total sewage treatment capacity accounted for over 70% of the total capacity in the central urban area of Nanyang City and over 30% of the total capacity of the 13 counties and districts in Nanyang City. Besides, NYUI has a relatively strong regional competitiveness in parking space operation in Nanyang City. The Company obtained a 30-year franchise right to operate parking space in the central area of Nanyang City from the local government in 2023. In addition, the Company obtained a 10-year franchise right for outdoor advertising in the same area. The long-term franchising right ensures the sustainability of the Company’s business.

Relatively high likelihood of support from the Nanyang Municipal Government and the parent company. NYUI receives good support from the Nanyang Municipal Government, given its regional importance in urban operation in Nanyang City. From 2021 to 2023, the local government and NYIG provided capital injections of RMB766.1 million and RMB2.0 billion to the Company, respectively. Furthermore, the Company received government special bonds to support its parking lot projects. In addition, we anticipate a relatively high likelihood of support from NYUI's parent company when necessary. As the primary operating subsidiary in urban operation and industrial development, the Company contributes a large portion of assets and profits for NYIG.

Credit Challenges

Ongoing revenue growth with small revenue scale and weak profitability. Given its recent establishment and that most of its business is operated in Nanyang City, NYUI's revenue scale is comparatively small. Moreover, NYUI's profitability is relatively weak, as reflected by the declining EBIT margin and the weak return on assets. Considering the Company's diversified business portfolio and continuous expansion, we expect the Company's revenue to maintain a growth trend over the next 12 to 18 months. However, the profitability is expected to remain relatively weak.

Increasing debt burden and modest liquidity position. NYUI's total debt continued to increase in the past few years owing to its ongoing investment in construction projects. As of 31 March 2024, the Company's total debt increased to RMB3.9 billion from RMB2.6 billion as of end-2021. Given the Company's large capital expenditure pressure on the real estate development and self-operated projects, we expect the Company's debt level will gradually increase over the next 12-18 months. In addition, NYUI has a modest liquidity position. The Company faces high refinancing pressure considering its high level of short-term debt. Besides, the Company has some assets pledged for loans, which could undermine its financial flexibility.

Rating Outlook

The stable outlook on NYUI's rating reflects our expectation that the Company will maintain its regional competitiveness and importance in Nanyang City over the next 12-18 months. We also expect that the Company will continue to receive ongoing support from the local government and the parent company.

What could upgrade the rating?

The rating could be upgraded if (1) the Company's business strength improves; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and liquidity.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government or parental support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.



Rating Methodology

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

Regulatory Disclosures

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