

## Credit Opinion

15 August 2025

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

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## Yueyang City Operation Investment Group Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Yueyang City Operation Investment Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub>+ long-term credit rating of Yueyang City Operation Investment Group Co., Ltd. ("YCOG" or the "Company") 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 ongoing economic and fiscal growth.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) key role in infrastructure development in Yueyang City; (2) good track record of receiving government support; and (3) good access to funding from banks and the bond market.

However, the rating is constrained by the Company's (1) increasing exposure to commercial activities with high capital expenditure pressure; (2) increasing debt burden and weak asset liquidity; and (3) moderate exposure to external guarantees.

The stable outlook on YCOG'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 transportation infrastructure of Yueyang City.

## Rating Drivers

- Key role in infrastructure development in Yueyang City
- Increasing exposure to commercial activities with high capital expenditure pressure
- Good track record of receiving government support
- Increasing debt burden and weak asset liquidity
- Good access to funding from banks and the bond market
- Moderate exposure to external guarantees

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local 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 provide support, such as decrease in exposure to commercial activities and decrease in exposure to external guarantees.

### 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 material increase in exposure to external guarantees.

## Key Indicators

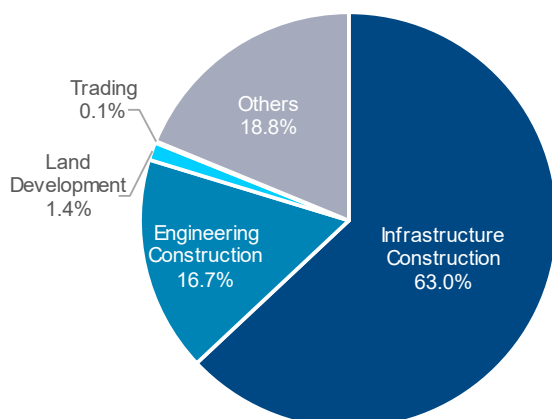
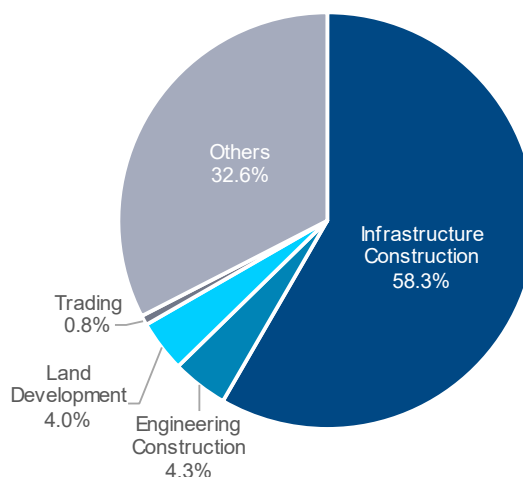
	2022FY	2023FY	2024FY	2025Q1
Total Asset (RMB billion)	49.8	56.7	60.4	61.4
Total Equity (RMB billion)	20.4	22.3	26.0	25.9
Total Revenue (RMB billion)	3.5	3.2	2.2	0.3
Total Debt/Total Capital (%)	54.2	55.8	52.6	52.9

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Founded in April 2012, YCOG is an important infrastructure construction and state-owned asset operation and management entity in Yueyang City. The Company mainly engages in local transportation infrastructure construction, land development, shantytown renovation and affordable housing construction projects. It is also involved in other commercial activities such as engineering construction, trading, and fuel oil sales. As of 31 March 2025, the Company was wholly owned and ultimately controlled by the State-owned Assets Supervision and Administration Commission of the Yueyang Municipal People's Government.

**Exhibit 1. Revenue structure in 2024****Exhibit 2. Gross profit structure in 2024**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Yueyang Municipal Government has very strong capacity to provide support, given its economic importance in Hunan Province with ongoing economic and fiscal growth.

Located in the central part of China, Hunan Province serves as a crucial national base for grain production, energy and raw material, modern equipment manufacturing, and high-tech industries, while also functioning as a comprehensive transportation hub. Benefiting from its strong transportation network and resource advantages, Hunan Province's economic strength improved with general regional product ("GRP") increasing from RMB5.0 trillion in 2023 to RMB5.3 trillion in 2024, maintaining its position as the 9<sup>th</sup> among all provinces in China and the 3<sup>rd</sup> among 6 provinces in central China. Its general budgetary revenue increased from RMB336.1 billion in 2023 to RMB344.9 billion in 2024, of which tax revenue accounting for 62.1%. In the first quarters of 2025, Hunan Province has achieved GRP of RMB1.3 trillion and general budgetary revenue of RMB97.6 billion.

Located in the northeastern part of Hunan Province, Yueyang City serves as a key node in both the Yangtze River Economic Belt and the central Yangtze urban cluster, leveraging its advantageous geographic location and advanced transport networks to enhance regional connectivity. As a major industrial base for petrochemical, paper manufacturing, and power generation, Yueyang City's GRP increased from RMB484.2 billion in 2023 to RMB512.8 billion in 2024, ranking second after Changsha City among all prefecture-level cities in Hunan Province. In the first quarter of 2025, Yueyang City has achieved GRP of RMB117.0 billion. Despite steady economic growth, changes in tax policy led to a decline in the Yueyang City's tax revenue, stabilizing the general budgetary revenue at RMB20.0 billion in 2024. Additionally, Yueyang City has weak fiscal self-sufficiency, as reflected by its average fiscal balance ratio of around 30% over the past three years, relying on land revenue and subsidies from higher-level governments. At the end of 2024, Yueyang City's local government debt balance further increased to RMB132.6 billion, accounting for 25.9% of GRP.

**Exhibit 3. Key economic and fiscal indicators of Yueyang City**

	2022FY	2023FY	2024FY
GRP (RMB billion)	471.1	484.2	512.8
GRP Growth (%)	5.4	4.6	4.9
General Budgetary Revenue (RMB billion)	18.5	20.0	20.0
General Budgetary Expenditure (RMB billion)	55.7	63.2	64.0
Local Government Debt (RMB billion)	92.3	109.9	132.6

Source: Statistics Bureau of Yueyang City, CCXAP research

**Government's Willingness to Provide Support****Key role in infrastructure development in Yueyang City**

YCOG is primarily engaged in infrastructure construction, land development, shantytown renovation, and affordable housing construction in Yueyang City. It also actively participates in urban operations in Junshan District of Yueyang City, such as public transportation services. The Company holds an important market position in executing infrastructure projects in Yueyang City and has significantly contributed to local economic and social progress. Considering its status as an important urban construction entity in Yueyang City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

The transportation infrastructure construction projects of the Company are mainly carried out by its subsidiary, Yueyang Communications Construction Investment Group Co. Ltd ("YCCI"). YCCI carries out infrastructure construction projects using an agency construction model, including road construction, road renovation, and the development of dedicated equipment corridors. As of 31 December 2024, YCCI has seven infrastructure construction projects under construction, all of which are expected to be completed within three years. These projects had a total planned investment of approximately RMB5.8 billion, with around RMB2.4 billion yet to be invested. There are also five proposed projects scheduled to commence within the next two years, involving planned investment of RMB472.0 million. Collectively, these projects represent notable capital expenditure requirements over the coming years.

The Company also operates in Junshan District through YCCI's subsidiary, Yueyang Junshan District City Construction Investment Co., Ltd. ("YJCI"), engaging in infrastructure construction, shantytown redevelopment, land development, and urban operations. YJCI holds a regional advantage in undertaking infrastructure construction and land development projects under agency models within Junshan District. As of 31 December 2024, YJCI had six infrastructure projects under construction with a total estimated investment of about RMB2.2 billion, with uninvested amount of around RMB1.4 billion, indicating certain capital expenditure pressure.

Entrusted by the Junshan District Government, YJCI serves as the sole land developer in Junshan District. In 2024, YJCI recognized revenue of RMB30.0 million on land of 84,069 square meters. The average transfer price remained relatively low, resulting in a year-on-year revenue decline from RMB84.0 million in 2023 to RMB30.0 million in 2024. However, as of the end of 2024, YJCI had no land development projects under construction or in planning, indicating a degree of uncertainty in this business segment. Besides, land development activities are highly sensitive to local land market conditions and land-related policy changes.

In addition, YJCI is the only public transportation service provider in Junshan District, with a strong regional exclusivity. In 2024, its bus operations generated revenue of RMB9.0 million. This business successfully achieved a turnaround benefited from the optimization of bus routes and schedules, recording a gross profit of RMB1.4 million in 2024.

### **Increasing exposure to commercial activities with high capital expenditure pressure**

In addition to public activities, YCOG has expanded its commercial businesses, mainly including self-operated construction projects, engineering construction and trading. We consider the Company's current exposure to commercial businesses to be medium, accounting for about 33.6% of its total assets. However, self-operated construction projects will put great pressure on the Company's future capital expenditures.

YCOG is dedicated to the development of self-operated projects, with a primary focus on hospitals, logistics parks, and parking facilities. As of 31 December 2024, the Company had 5 self-developed projects under construction, with a total planned investment of about RMB7.4 billion and around RMB3.8 billion yet to be invested. Upon completion, these projects are expected to generate returns through leasing, sales, and the operation of supporting facilities. However, the scale of pending investment for ongoing projects is substantial, placing considerable pressure on the Company's capital expenditure and operational capacity.

Additionally, YCOG participates in engineering construction projects in Yueyang City, including roadworks, standardized factory buildings, and talent apartments. As of 31 December 2024, the Company had 5 projects under construction with a total contract value of RMB1.1 billion, of which RMB953.0 million remained unsettled. In 2024, mainly due to intensified industry competition, this segment's revenue decreased from RMB605.6 million in 2023 to RMB369.0 million, accounting for 16.7% of the Company's total revenue.

YCOG conducts trading operations through two subsidiaries, primarily dealing in commodities such as chemical raw materials and agricultural products. Due to the Company's adoption of net revenue recognition for its trading business in 2024, the revenue declined significantly, with gross profit of RMB3.0 million, accounting for 0.8% of total gross profit. This business faces concentration risk due to the Company's high dependence on its top five customers and suppliers.

The Company also has engaged in fuel oil sales through an equity stake held by YJCI since 2021, although the segment has had limited significance to the Company's operations, accounting for only 0.1% of total revenue in 2023. In 2024, the relevant subsidiary was deconsolidated, and no fuel oil revenue was recorded.

### **Good track record of receiving government support**

YCOG continued to receive strong support from the local government through capital injections, asset transfers, and operating subsidies. Ongoing capital injections from the government have significantly enhanced the Company's capital strength. In 2024, the local government injected capital into the Company, increasing the capital reserve by RMB732.0 million. In the meantime, the Junshan District Finance Bureau transferred its 35% equity stake in the Hunan Junshan Agricultural Reclamation Group Co., Ltd. ("HJAR") to the Company, increasing its capital reserve by RMB3.8 billion. In 2024, the Company received government subsidies totaling RMB26.0 million to support its general operations. Considering the Company's important role in infrastructure construction projects and the provision of public services in Yueyang City, we believe that the local government will maintain strong support for the Company.

### **Increasing debt burden**

YCOG's total debt has increased with ongoing financing for the construction projects. The Company's total debt increased from RMB28.2 billion at end-2023 to RMB29.1 billion at end-2025Q1. Although government capital and equity injections reduced the total capitalization ratio to 52.9%, it persisted at a relatively high level. In addition, the Company has certain short-term debt repayment pressure. As of 31 March 2025, its short-term debt represented approximately 24.0% of total debt, while the cash to short-term debt ratio declined to 0.2x from

0.3x at end-2023, indicating a weakened coverage level for short-term obligations. Given its high capital expenditure pressure, we expect the Company's debt burden to continue to increase in the next 12 to 18 months.

### **Weak asset liquidity**

YCOG's asset liquidity is weak, which may constrain its financing flexibility. As of 31 March 2025, low-liquidity assets, including inventories, receivables, other non-current assets, and construction in progress, totally accounting for 72.9% of total assets. Inventories are mainly composed of project development costs, while other non-current assets primarily represent land reserves. Construction in progress largely reflects capital invested in self-operated projects. Besides, the long-term investment accounted for around 11.7% of total assets. The significant increase in long-term equity investments was mainly attributable to the government's transfer of equity in HJAR.

### **Good access to funding from banks and the bond market**

YCOG has good access to funding, as reflected by its sufficient standby liquidity and track record of bond issuance. The Company has approved lines of credit from many commercial and policy banks, including China Construction Bank and Agricultural Development Bank. As of 31 March 2025, it had obtained total credit facilities of RMB29.6 billion, with available credit facilities of RMB6.9 billion. The Company also has access to the bond market. As of 30 June 2025, the Company and its subsidiaries had outstanding domestic bonds totaling RMB4.7 billion, including enterprise bonds, corporate bonds, and MTNs. In addition, the Company's reliance on non-standard financing is low, accounting for below 10% to total debt.

### **Moderate exposure to external guarantees**

YCOG has moderate exposure to external guarantees, which limits its credit rating. As of 31 March 2025, the Company had outstanding external guarantees of about RMB5.1 billion, accounting for 19.8% of its net assets. However, we consider the Company's contingent liability risks to be manageable, as most of the external guarantees are provided to local state-owned enterprises with stable business operations.

## **ESG Considerations**

YCOG faces environmental risks because it has undertaken transportation infrastructure construction and land development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

YCOG bears social risks as it implements public policy initiatives by undertaking transportation infrastructure construction and land development in Yueyang City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

YCOG's governance considerations are also material as the Company is subject to oversight by the Yueyang Municipal Government and has to meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

## **Rating Methodology**

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

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