

# Anqing Yixiu District Beautiful Village Construction Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB-
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	29 April 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Anqing Yixiu District Beautiful Village Construction Co., Ltd. (“AYVC” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yixiu District (“the Yixiu government”) would provide strong support to AYVC if needed, in light of its full ownership of AYVC, AYVC’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for project development in Yixiu District, Anqing City (“Yixiu”), and the linkage between the Yixiu government and AYVC, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Yixiu government may face significant negative impact on its reputation and financing activities if AYVC encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that AYVC’s strategic importance would remain intact while the Yixiu government will continue to ensure AYVC’s stable operation.

### Rating Rationale

**Yixiu Government’s Ownership and Supervision:** The Yixiu government, as the ultimate controller, owns 100% share of AYVC through the Yixiu Finance Bureau. The Yixiu government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Yixiu government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance to Yixiu and Strategic Alignment:** AYVC, as an important LIDC in Yixiu, is primarily responsible for project development, including infrastructure and affordable houses within the region. The company also operates industrial parks to promote local industrial development. AYVC plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government’s development plans.

**Ongoing Government Support:** AYVC received operational and financial support from the Yixiu government. AYVC received ongoing financial subsidy from the local government. In addition, the Yixiu government injected a large amount of assets, including cash capital, mining rights, projects and stated-owned properties into AYVC. Given the strategic of AYVC, we believe it is likely going to receive government support in the future.

**Economy and Fiscal Strength of Yixiu:** Yixiu is a district under the jurisdiction of Anqing City (“Anqing”), Anhui Province. Yixiu maintained a rapid economic growth in the past three years, with economic growth rates recording at 8.1%, 4.0% and 6.3% in 2021, 2022 and 2023, respectively. Yixiu’s GDP reached RMB16.3 billion in 2023. Yixiu focused on three leading industries in recent years, namely green food, new material and new energy.

### Key Figures of Yixiu and AYVC (RMB billion)

Yixiu	2022	2023
GDP	15.5	16.3
GDP growth rate (%)	4.0	6.3
Budgetary revenue	1.1	1.2
Government fund	0.0	0.0
Transfer payment	0.8	0.2
Budgetary expenditure	1.3	1.5
AYVC	2022	2023.9
Asset	7.2	10.5
Equity	4.8	7.2
Revenue	0.45	0.41

Source: Public information, AYVC and Lianhe Global’s calculations

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

Yixiu's aggregate fiscal revenue is mainly derived from budgetary revenue, which increased steadily to RMB1.2 billion in 2023 from RMB1.0 billion in 2021. At end-2023, the Yixiu government's outstanding debt was RMB1.42 billion, up from RMB0.91 billion at end-2020, mainly due to the large increase in special debt to support public projects' development.

**AYVC's Financial Matrix and Liquidity Position:** AYVC's total assets surged to RMB10.5 billion at end-September 2023 from RMB3.1 billion at end-2020, as the company received a large amount of assets injections from the local government, enlarging its capital base to RMB7,196 million from RMB1,394 million. The company also relied on borrowings to fund its project development in Yixiu. Its total debt rose to RMB2,495 million at end-September 2023, more than triple compared with RMB832 million at end-2020. Nevertheless, the company's financial leverage, as measured by debt/capitalization, remained at a moderately low level of 25.7% at end-September 2023, fell from 37.4% at-end 2020, thanks to the local government's asset injections.

AYVC's short-term debt servicing pressure is manageable. At end-September 2023, AYVC had cash of RMB304 million, compared with its debt due within one year of RMB245 million. Furthermore, AYVC may use bank borrowings, bond issuance and other external funding to support its debt repayments and business operations. At end-March 2024, AYVC had unused credit facilities of RMB2.3 billion.

### Rating Sensitivities

We would consider downgrading AYVC's rating if (1) there is perceived weakening in support from the Yixiu government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Yixiu government's ownership of AYVC, or (3) there is a downgrade in our internal credit assessment on the Yixiu government.

We would consider upgrading AYVC's rating if (1) there is strengthened support from the Yixiu government, or (2) there is an upgrade in our internal credit assessment on the Yixiu government.

### Operating Environment

#### Economic Condition of Yixiu

Yixiu is a district under the jurisdiction of Anqing City ("Anqing"), Anhui Province, and located in the northeastern part of Anqing's urban area. Yixiu has jurisdiction over five towns and one street, with a total area of 414 square kilometers. Besides, it also owns a provincial-level economic development zone. According to the 7<sup>th</sup> national census, Yixiu had a residential population of 198 thousand, with an urbanization rate of 86.4%.

Yixiu maintained a rapid economic growth in the past three years, with economic growth rates recording at 8.1%, 4.0% and 6.3% in 2021, 2022 and 2023, respectively. Yixiu's GDP reached RMB16.3 billion in 2023, which was ranked 9<sup>th</sup> among 10 jurisdictions of Anqing. Yixiu's economic growth was mainly fueled by secondary and tertiary industries in the past few years, which accounted for 31.2% and 63.0% in 2023, respectively. Yixiu focused on three leading industries in recent years, namely green food, new material and new energy.

#### Yixiu's GDP and Fixed Asset Investment

(RMB billion)	2021	2022	2023
GDP	14.9	15.5	16.3
-Primary industry (%)	6.3	6.2	5.8

-Secondary industry (%)	31.9	31.7	31.2
-Tertiary industry (%)	61.8	62.1	63.0
GDP growth rate (%)	8.1	4.0	6.3
Fixed asset investment growth rate (%)	10.5	9.2	1.0
Population (thousand)	198	201	-

Source: Public information and Lianhe Global's calculations

## Fiscal Condition of Yixiu

Yixiu's aggregate fiscal revenue is mainly derived from budgetary revenue, which increased steadily to RMB1.2 billion in 2023 from RMB1.0 billion in 2021, with the contribution of the tax revenue elevated to 90.2% from 80.0% over the same period. The fiscal self-sufficiency of the Yixiu government was moderately low and its budget deficit continued to widen from 0.4% in 2021 to 23.2% in 2023.

The outstanding debt of the Yixiu government continued to grow. At end-2023, the Yixiu government's outstanding debt was RMB1.42 billion, up from RMB0.91 billion at end-2020, mainly due to the large increase in special debt to support public projects' development. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had surged to 99.4% from 65.4% over the same period.

<b>Yixiu 's Fiscal Condition (RMB billion)</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Budgetary revenue	1.0	1.1	1.2
Budgetary revenue growth rate (%)	15.7	11.6	14.7
Tax revenue	0.8	1.0	1.1
Tax revenue (% of budgetary revenue)	80.0	89.5	90.2
Government fund income	0.03	0.02	-
Transfer payment	0.5	0.8	-
<b>Aggregate revenue</b>	<b>1.5</b>	<b>1.9</b>	<b>-</b>
Budgetary expenditure	1.0	1.3	1.5
Budget balance <sup>1</sup> (%)	-0.4	-17.4	-23.2

<sup>1</sup> Budget balance = (1-budgetary expenditure / budgetary revenue) \* 100%

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

AYVC was established in June 2013 with an initial registered capital of RMB50.0 million. After an array of equity transfers, the Yixiu Finance Bureau has become the sole shareholder since 2023, and the Yixiu government since is the company's ultimate controller.

## Strategic Importance and Government Linkage

### Strategic Importance of AYVC to Yixiu

AYVC, as an important LIDC in Yixiu, is primarily responsible for project development, including infrastructure and affordable houses within the region. The company also operates industrial parks to promote local industrial development. AYVC plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

### Strong Linkage with the Local Government

AYVC’s linkage with the local government is strong as the Yixiu government holds the full ownership of AYVC through the Yixiu Finance Bureau. The Yixiu government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Yixiu government has assessment mechanism over the company, and it appoints auditors to supervise the operating performance and financial position on a periodic basis.

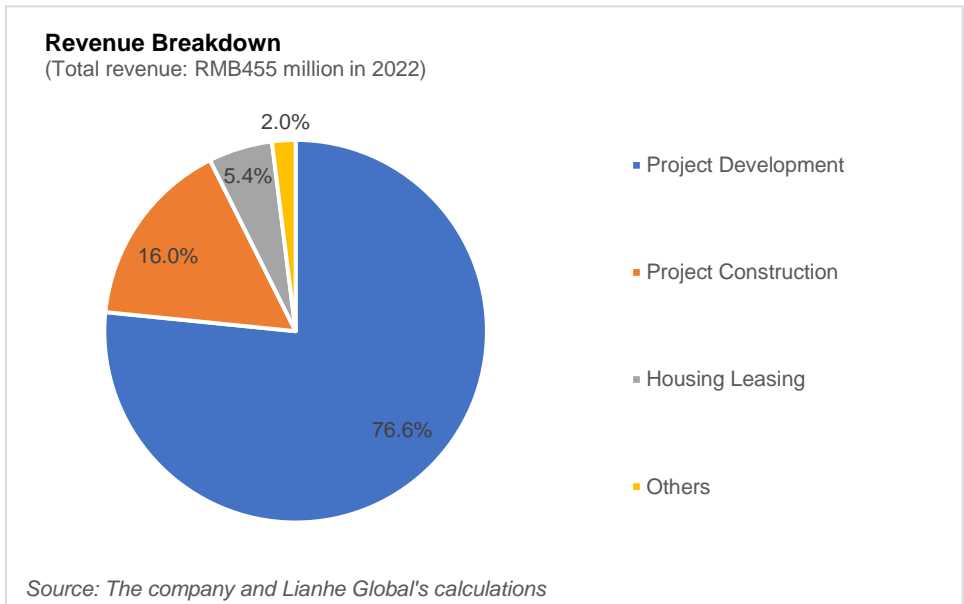
### Ongoing Government Support

AYVC received operational and financial support from the Yixiu government. AYVC received ongoing financial subsidy from the local government. In addition, the Yixiu government injected a large amount of assets, including cash capital, mining rights, projects and stated-owned properties into AYVC. Given the strategic of AYVC, we believe it is likely going to receive government support in the future.

### Business Profile

#### An Important LIDC Responsible for Project Development in Yixiu

AYVC is the most important LIDC that undertakes infrastructure and affordable housing construction, and property leasing in Yixiu, and enjoys a strong regional franchise advantage. The primary sources of the company’s operating income are infrastructure and affordable housing develop, while the company also engages in property leasing, water supply, property management, gravel mining and other activities. The total operating revenue of AYVC was RMB295 million, RMB343 million, RMB455 million and RMB411 million in 2020, 2021, 2022 and the first nine months of 2023, respectively, representing an upward trend.



### Project Development and Construction

AYVC engages in infrastructure and affordable housing development in Yixiu. The company adopts both agent-construction and self-construction modes. Under agent-construction

mode, the company signs agent construction agreements with the entrusting parties and is responsible for the fund raising, construction, examination and delivery of planned projects. The company settles construction costs plus a markup with entrusting parties annually based on the project progress. Under self-construction mode, the company develops projects, then sells or leases to external parties for revenue after completion. AYVC has strong project pipeline, which could support the segment's development in the next two to three years. Yet it put a high capital expenditure pressure on the company.

In addition, AYVC owns an array of general contractor qualifications for construction of buildings and public facilities. The company undertakes construction, public facilities and decoration projects as a contractor, enjoying competitive advantages from its state-owned background.

### Property Leasing and Others

AYVE operates and leases industrial parks to earn rental incomes. The company is also responsible for inviting investment to promote local industrial development. In addition, AYVE participates in water supply, property management, gravel mining and other businesses. These activities further diversify the company's revenue structure.

## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>September-2023</b>
Total Asset	3,118	6,497	7,245	10,505
Equity	1,394	4,601	4,845	7,196
Debt	832	1,137	1,656	2,495
Debt / (Debt + Equity) (%)	37.4	19.8	25.5	25.7
LT Debt	527	965	1,207	2,250
LT Debt / (LT Debt + Equity) (%)	27.4	17.3	19.9	23.8

*Source: Company information and Lianhe Global's calculations*

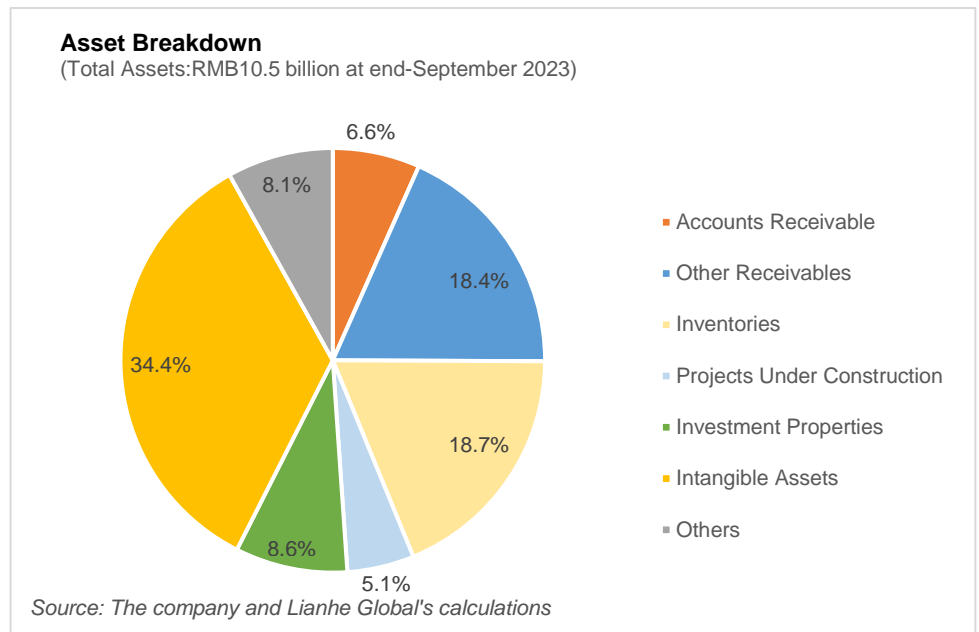
AYVC's total assets surged to RMB10.5 billion at end-September 2023 from RMB3.1 billion at end-2020, as the company received a large amount of assets injections from the local government, enlarging its capital base to RMB7,196 million from RMB1,394 million.

The company also relied on borrowings to fund its project development in Yixiu. Its total debt rose to RMB2,495 million at end-September 2023, more than triple compared with RMB832 million at end-2020. Nevertheless, the company's financial leverage, as measured by debt/capitalization, remained at a moderately low level of 25.7% at end-September 2023, fell from 37.4% at-end 2020, thanks to the local government's asset injections.

However, AYVC's asset quality was moderately weak. Intangible assets, mainly including the gravel mining rights and scenic projects allocated from the government considerably accounted for 34.4% of the company's total assets at end-September 2023. At the same time, the company's project construction activities accumulated sizeable inventories (mainly construction costs) and projects under construction, together accounting for 23.8%. These assets usually take a long time to monetize due to the protracted construction and payment collection period. In addition, the company had a large number of account receivables and



other receivables, primarily due from government departments, which accounted for 25.0%. Their repayment schedules are highly subject to the fiscal conditions of the local government.



### Debt Servicing Capability

AYVC's short-term debt servicing pressure is manageable. At end-September 2023, AYVC had cash of RMB304 million, compared with its debt due within one year of RMB245 million. Furthermore, AYVC may use bank borrowings, bond issuance and other external funding to support its debt repayments and business operations. At end-March 2024, AYVC had unused credit facilities of RMB2.3 billion.



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