

RATING ACTION COMMENTARY

Fitch Affirms Yiwu State-Owned Capital Operation at 'BBB'; Outlook Stable

Sun 18 Aug, 2024 - 10:20 PM ET

Fitch Ratings - Hong Kong/Shanghai - 18 Aug 2024: Fitch Ratings has affirmed China-based Yiwu State-Owned Capital Operation Co., Ltd.'s (YWSCOC) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BBB'. The Outlook is Stable.

Fitch has also affirmed the 'BBB' ratings on the notes issued by YWSCOC's subsidiary, Chouzhou International Investment Limited. The notes are unconditionally and irrevocably guaranteed by YWSCOC.

Fitch deems YWSCOC a government-related entity (GRE). Our rating approach is based on our expectation of a high likelihood of exceptional government support for the entity, if needed.

KEY RATING DRIVERS

Support Score Assessment 'Extremely likely'

We believe that extraordinary support from the Yiwu municipal government to YWSCOC would be 'Extremely Likely' if needed, reflecting a support score of 35 out of a maximum 60 under our Government-Related Entities Rating Criteria. This reflects our assessment of the government's responsibility and incentive to support.

Responsibility to Support

Decision Making and Oversight 'Very Strong'

YWSCOC is tightly controlled and ultimately owned by the Yiwu municipal government. All major events, including strategic developments, annual budgets, major capex and funding plans, need municipal government approval. We believe the Zhejiang provincial government's 9.44% stake through Zhejiang Financial Development Co., Ltd. and the Yiwu government's 5% stake through Yiwu Digital Intelligence Industry Development Group Co., Ltd. do not dilute the municipal government's control over YWSCOC.

Precedents of Support 'Strong'

YWSCOC received government financial subsidies totalling CNY6.1 billion during 2021-2023, accounting for 38% of its Fitch-adjusted EBITDA. The support was mainly for the company's public transportation, water supply and sewage treatment, and urban construction businesses. It also received CNY54 billion in injections and other support in the past three years, including government buyback payments, project capital and special-purpose bonds, equivalent to 90% of its net assets as of end-2023.

Incentives to Support

Preservation of Government Policy Role 'Strong'

YWSCOC is the flagship local government financing vehicle in Yiwu, undertaking a wide range of functional businesses. It is highly integrated into the city's development and daily operations, and relies on continuous access to financing or refinancing to maintain investment, maintenance and operation of completed infrastructure. A default by the company would restrict further borrowing and refinancing and have a direct impact on the continued provision of project investment and public services.

Contagion Risk 'Strong'

YWSCOC's debt is mostly in the form of bonds and bank loans. We regard YWSCOC to be a high-profile GRE in Yiwu because of its close financial and operational ties with the government. The company is the largest GRE in Yiwu with total assets of CNY253 billion as of end-2023, or about 90% of the total assets supervised by the municipal government. The company is also a frequent bond issuer in domestic and offshore capital markets to finance its urban development projects.

Fitch believes that the government has a strong incentive to support YWSCOC, as a default would indicate the government has difficulty in providing timely support despite a willingness to do so. The GREs in Yiwu have good operational records and have not faced any financial tension. Therefore, we believe that a default by YWSCOC is likely to disrupt access to or increase the cost of financing for the government and the city's other GREs.

Standalone Credit Profile

The Standalone Credit Profile (SCP) of 'b' is derived from a 'Midrange' risk profile and 'b' financial profile. We position the company's SCP in the middle among its peers.

Risk Profile: 'Midrange'

Fitch assesses the company's risk profile as 'Midrange', reflecting the combination of revenue, expenditure, and liability and liquidity risk assessments.

Revenue Risk: 'Midrange'

Revenue risk is assessed as 'Midrange', reflecting 'Midrange' demand and pricing characteristics. It has diversified revenue sources with limited concentration, as demand is supported by the city's economic growth, housing and infrastructure projects, and resilient demand for the Yiwu Small Commodity Market, the world's largest wholesale market for small goods. The pricing for YWSCOC's functional businesses is government regulated, albeit mitigated by a solid record of government support and pricing flexibility in its commercialised business.

Expenditure Risk: 'Midrange'

RELATED REGIONS

China

ENTITIES

Chouzhou International Investment Limited
Yiwu State-Owned Capital Operation Co., Ltd

ISSUER CONTENT

惠誉授予义乌国贸运营公司拟发行美元债券'BBB'的评级
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RATINGS KEY	OUTLOOK	WATCH
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Expenditure risk is assessed as 'Midrange', reflecting 'Midrange' operating costs and supply risk and 'Midrange' investment planning. The company has well-identified cost drivers and the supply of resources and labour is adequate, considering the vibrant economy in the Yangtze River Delta. It has satisfactory mechanisms for investment planning and a satisfactory record of execution due to the municipal government's direct supervision.

Liabilities and Liquidity Risk: 'Midrange'

Liability and liquidity risk is assessed as 'Midrange', based on 'Midrange' debt and liability characteristics. YWSCOC operates in an evolving financial market and the national framework for debt and liquidity management, particularly investment and financing behaviour, is largely policy-driven. It has bullet debt with reasonable maturity concentration. The company has adequate access to bond markets, sufficient liquidity for debt servicing and strong relationships with national and local banks.

Financial Profile 'b'

Our financial profile assessment is driven by a 'b' category leverage ratio, which is the primary metric. The leverage ratio averaged 21.6x in 2019-2023. We expect leverage to increase to 23.9x in 2028 under our rating case as result of continued capex and flat EBITDA due to a weakening in the property development segment. This indicates a 'b' financial profile category.

Additional Risk Factors Considerations

Asymmetric risk attributes are assessed as 'Neutral'. This is due to the company's adequate debt structure, sufficient management and governance, and neutral legal and regulatory framework, information quality, legal regime and liquidity profile.

Derivation Summary

YWSCOC's ratings are assessed under Fitch's GRE criteria, reflecting the municipality's responsibility and incentive to support the company in case of need.

The ratings also take into consideration the SCP, which is assessed as 'b' under Fitch's Public Policy Revenue-Supported Entities Rating Criteria.

Debt Ratings

Fitch rates the senior unsecured debt listed below at 'BBB':

- USD400 million 4.0% notes due 2025;
- USD500 million 4.1% notes due 2025; and
- USD400 million 5.7% notes due 2026.

The debt is issued by an offshore SPV, Chouzhou International Investment Limited, and guaranteed by YWSCOC. The instrument ratings are linked to YWSCOC's Long-Term IDR in light of the guarantee.

Rating action on YWSCOC's Long-Term IDR would result in similar action on the rating on the notes.

Issuer Profile

YWSCOC is the largest GRE in Yiwu. Its total assets formed nearly 90% of the assets supervised by the Yiwu State-owned Assets Supervision and Administration Commission as of June 2024.

KEY ASSUMPTIONS

Fitch's rating case is a through-the-cycle scenario, which incorporates a combination of revenue, cost and financial risk stresses. It is based on 2019-2023 historical figures and 2024-2028 scenario assumptions:

- Largely flat revenue and EBITDA after a high base in 2023. Financial results in 2023 were exceptionally strong due to continued strong revenue recognition from property development, a recovery in the rental income from the market operations, and robust growth in commodity trading. We expect a decline in the property segment, while growth will be sustained in the market operations and other segments;
- Stable government support, including buyback payments and subsidies;
- Net annual capex of about CNY7 billion in 2024-2028, partially financed by debt expanding by 4.5% a year.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The ratings may be downgraded if there is significant weakening in the government's incentive to support, weaker support precedents or a dilution of the government's control and oversight.

A downgrade may also stem from a weakening in the municipality's fiscal performance or increased debt, leading to deterioration in the sponsor's creditworthiness.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade may result from a firmer internal assessment of the creditworthiness of Yiwu municipality or the incentive to provide support, including stronger contagion risk or preservation of the government role should YWSCOC default.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products/esg-relevance-scores.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

STABLE



* Ratings displayed in orange denotes EU or UK Unsolicited and Non-Participatory Ratings

Where there was a review with no rating action (Review - No Action), please refer to the "Latest Rating Action Commentary" for an explanation of key rating drivers

*Premium content is displayed in Fitch Red

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕

Yiwu State-Owned Capital Operation Co., Ltd		LT IDR	BBB	Affirmed	BBB
		LC LT IDR	BBB	Affirmed	BBB
Chouzhou International Investment Limited					
senior unsecured		LT	BBB	Affirmed	BBB

PREVIOUS

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Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

[Public Policy Revenue-Supported Entities Rating Criteria \(pub. 12 Jan 2024\)](#) (including rating assumption sensitivity)

[Government-Related Entities Rating Criteria - Effective from 9 July 2024 to 18 July 2025 \(pub. 09 Jul 2024\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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ENDORSEMENT STATUS

Chouzhou International Investment Limited	EU Endorsed, UK Endorsed
Yiwu State-Owned Capital Operation Co., Ltd	EU Endorsed, UK Endorsed

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