

**Lianhe Global has affirmed ‘BB+’ global scale Long-term Issuer and Issuance Credit Rating to Yancheng Oriental Investment & Development Group Co., Ltd.; Issuer Rating Outlook Stable**

HONG KONG, 16 September 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BB+’ global scale Long-term Issuer Credit Rating to Yancheng Oriental Investment & Development Group Co., Ltd. (“Yancheng Oriental”). The Outlook is Stable.

Lianhe Global has also affirmed ‘BB+’ global scale Long-term Issuance Credit Rating to the senior unsecured USD bonds issued by Yancheng Oriental’s wholly-owned subsidiary Oriental Capital Company Limited, which is unconditionally and irrevocably guaranteed by Yancheng Oriental.

The Issuer Credit Rating reflects a high possibility that the Yancheng municipal government would provide strong support to Yancheng Oriental if needed, in light of Yancheng Oriental’s strategic position as the major developing and operating body of the Yancheng Economic and Technological Development Zone (“the Development Zone”) and the strong linkage between the Yancheng municipal government and Yancheng Oriental including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yancheng municipal government may face a significant negative impact on its reputation, business, and financing activities should Yancheng Oriental encounter any operational or financial difficulties.

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

**Key Rating Rationales**

**Yancheng Municipal Government’s Full Ownership:** The Yancheng municipal government has 100% ownership of Yancheng Oriental. Yancheng Oriental increased its registered capital to RMB 9.5 billion after the RMB3 billion capital injection (of which RMB1 billion was recognised as registered capital and the remaining RMB2 billion was recognised as reserves) in 2019.

**Strategic Development Entity:** Approved and designated by the State Council as one of the national economic and technological development zones in 2010, the Development Zone was first established in Yancheng, Jiangsu in 1992. The Development Zone is centred on the Sino-Korea Industrial Park. The park was approved by the State Council in 2017 as one of the strategic industrial parks with the mission to stimulate the local economy and boost tax revenue for the local government. Yancheng Oriental acts as the major infrastructure

developer in the Development Zone and the major developer of the Sino-Korea Industrial Park.

**Government Supervision and Ongoing Support:** The Yancheng municipal government has strong control and supervision over Yancheng Oriental, including control of the board of directors and the supervisory committee, and approvals of senior managers and major operating and financing plans. Yancheng Oriental's strategic planning and development have been aligned with the government's economic and social policies, aiming to develop one of the Sino-Korea Industrial Parks under Yancheng Oriental. Yancheng Oriental received the government support in the form of asset/capital injections (including RMB3 billion of new capital in 2019), government subsidies, etc.

**Weakened Economy and Fiscal Strength on Yancheng:** Yancheng's GDP growth further slowed to 5.1% in 2019, compared with Jiangsu's 6.1% and China's 6.1%. Yancheng's economic growth in 2019 was mainly fuelled by the tertiary industry in 2019, which accounted for 47.5% of Yancheng's total GDP and reported a growth of 7.5%.

Yancheng's budget deficit is the second largest among all municipal cities in Jiangsu Province in 2019. It has significantly relied on the government transfer payment and funds from other sources to support its budgetary expenditure. In addition, Yancheng's local government debt totalled RMB117.7 billion and its debt ratio increased to 106.9% at end-2019 (96.3% at end-2018)<sup>1</sup>.

**Weak Standalone Credit Profile with Tight Liquidity:** Yancheng Oriental still relies heavily on government subsidy and investment income for profits. Capital expenditure pressure remains as its infrastructure and resettlement housing projects still have investment needs, and there is a certain degree of uncertainty in the progress of government payment for infrastructure and resettlement housing projects. Its financial profile is also significantly influenced by the local economic condition and the local government's fiscal condition as it has significant government-related receivables and guarantee exposures to regional state-owned entities.

## Rating Sensitivities

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

We would consider upgrading Yancheng Oriental's rating if there is an upgrade in our internal credit assessment on the Yancheng municipal government.

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<sup>1</sup> Total government debt divided by aggregate revenue as per Lianhe Global's calculations.

Any rating action on Yancheng Oriental's rating would result in a similar rating action on the USD bonds.

### **Full List of Issuance Ratings**

USD400 million 7.0% senior unsecured bonds due 2022 affirmed at 'BB+'

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this Yancheng Oriental's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 16 July 2018, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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