

Yancheng Oriental Investment & Development Group Company Limited

Surveillance Report

Summary

Issuer Rating	BB+
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	17 September 2021

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

Summary

The Issuer Credit Rating reflects a relatively high possibility that the Yancheng municipal government would provide moderately strong support to Yancheng Oriental Investment & Development Group Co., Ltd. ("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 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.

Rating Rationale

Yancheng Municipal Government's Full Ownership: The Yancheng municipal government has 100% ownership of Yancheng Oriental. Yancheng Oriental's registered capital increased its registered capital to RMB 9.5 billion after the RMB3 billion capital injection (of which RMB1 billion as registered capital and the remaining RMB2 billion 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 government support in the form of asset/capital injections, government subsidies, etc.

Key Figures of Yancheng and Yancheng Oriental

(RMB billion)	2019	2020
Yancheng		
GDP	570.2	595.3
GDP growth rate (%)	5.1	3.5
Budgetary revenue	38.3	40.0
Government fund	39.0	63.4
Transfer payment	31.7	36.3
Budgetary expenditure	87.8	97.4
Yancheng Oriental		
Assets	51.6	55.4
Equity	22.0	21.9
Revenue	2.06	2.15

Source: Yancheng Oriental, Yancheng Oriental's 1H2021 financial report and Lianhe Global's calculations

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Applicable Criteria

[China Local Government Financing Vehicle Criteria \(16 July 2018\)](#)

Weakened Economy and Fiscal Strength on Yancheng: Yancheng's GDP growth further slowed to 3.5% in 2019, compared with Jiangsu's 3.7% and China's 2.3%. Yancheng's economic growth in 2020 was mainly fuelled by the tertiary industry, which accounted for 48.9% of Yancheng's total GDP and reported a growth rate of 4.3%.

Yancheng's budget deficit is the second largest among all municipal cities in Jiangsu Province in 2020. It has significantly relied on the government transfer payment and funds from other sources to support its budgetary expenditure. Yancheng's local government debt totalled RMB137.0 billion and its debt ratio decreased to 96.9% at end-2020 (106.9% at end-2019)

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 housing projects still have investment needs, and there is a degree of uncertainty in the progress of government payment for infrastructure and 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 (1) there is strengthened support from the Yancheng municipal government, or (2) there is an upgrade in our internal credit assessment on the Yancheng municipal government.

Company Profile

Established in August 2003 under approval from the Yancheng municipal government with an initial capital of RMB150 million injected by Yancheng Economic and Technological Development Zone Management Committee ("the Management Committee"), Yancheng Oriental is the main construction and development body and financing platform for the Development Zone. The Management Committee was established in 1992 and acts as the dispatched agency of the local governments and is mainly responsible for the management affairs and attracting investments to the Development Zone. Yancheng Oriental mainly takes the role as a developer of housing, a constructor of infrastructure and an operator of the properties in the Development Zone for the Management Committee.

Yancheng Oriental has continually received capital injections from the Management Committee since its establishment. The company's share capital was enlarged to RMB8.5 billion at end-2018. In June 2019, Yancheng Oriental gained the approval from the Yancheng municipal government for a change of its ultimate shareholder from the Management Committee to the Yancheng municipal government. The Management Committee further injected RMB3 billion of capital to Yancheng Oriental to support its ongoing business operation. Currently the change of shareholder is completed and Yancheng Oriental is wholly owned by the Yancheng municipal government.

On 2 September 2021, the company announced that 张振国 stepped down as the chairman, company representative, a member of the director of the board and the supervisory



committee. He is replaced by 王旭东 as the chairman of the company. This does not affect the operation and financing of the company.

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Yancheng's rating would result in a similar rating action on the USD bonds:

- USD400 million 7.0% senior unsecured bonds due 2022

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