

# Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd

## Initial Issuer Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	11 April 2022

Key Figures of Yangzhou and YETDG		
(RMB billion)	2019	2020
Yangzhou		
GDP	585.0	604.8
GDP growth rate (%)	6.8	3.5
Budgetary revenue	32.9	33.7
Government fund	40.1	50.5
Transfer payment	15.0	19.4
Budgetary expenditure	61.2	66.8
YETDG		
Assets	54.2	59.9
Equity	25.0	24.7
Revenue	1.9	2.0

Source: Finance Bureau of Yangzhou, Statistical Bureau of Yangzhou, YETDG and Lianhe Global's calculations

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB+' global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd ("YETDG").

### Summary

The Issuer Credit Rating reflects a high possibility that the Yangzhou municipal government would provide strong support to YETDG if needed, in light of its full ownership of YETDG, YETDG's strategic position as the major development and operation entity of the Yangzhou Economic and Technological Development Zone ("Development Zone") and the strong linkage between the Yangzhou municipal government and YETDG including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yangzhou municipal government may face significant negative impact on its reputation and financing activities should YETDG encounter any operational or financial difficulties.

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

### Rating Rationale

**Yangzhou Municipal Government's Full Ownership and Strong Supervision:** The Yangzhou municipal government has 100% ownership of YETDG. It also has strong control and supervision over YETDG, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

**High Strategic Importance and Strategic Alignment:** YETDG is Yangzhou's second-largest LGFV by asset size and the Development Zone's sole investment and development entity, undertaking all critical infrastructure projects. The scope of business of YETDG is relatively stable and there is rigid demand for its services. YETDG's business operation and development have been aligned with the government's economic and social policies. In the future planning of the Yangzhou municipal government, YETDG will continue to be responsible for infrastructure and construction projects related to the government's economic and social policies.

**Ongoing Government Support:** YETDG received multiple capital injections and financial subsidies, with a total amount of c. RMB5.6 billion and c. RMB3.9 billion between 2018 to 2021. The Yangzhou municipal government also purchased a considerable amount of the completed infrastructure projects from YETDG during the same period. YETDG is expected to continue receiving repayment from the government in the future from the projects completed and projects under development.

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### Applicable Criteria

China Local Government Financing Vehicle Criteria (31 December 2021)

**Resilient Economy but Moderate Fiscal Condition of Yangzhou:** Yangzhou realized GDP of RMB604.8 billion in 2020 and RMB306.5 billion in 1H2021, representing year-over-year growth of 3.5% and 11.7%, respectively. Yangzhou's economic growth was mainly fueled by the secondary and tertiary industries, accounting for c. 45.9% and 51.1% of total GDP in 1H2021, respectively. However, Yangzhou's fiscal condition was moderate, as its budgetary revenue was relatively volatile, with rising government debt and budget deficit in the past three years.

**Moderately Weak Financial:** YETDG's earnings generation capability was moderately weak given its focus on primary land development and affordable housing construction with agreed-upon profit margins. YETDG's financial leverage as measured by total liabilities/total assets was moderately high, which increased to 62.9% at end-September 2021 from 45.5% at end-2018, due to the debt-driven expansion in the past three years. As YETDG has a number of projects under construction and scheduled to be developed, we expect YETDG's financial leverage to increase further. YETDG had c. RMB9.03 billion cash (including restricted cash of RMB2.45 billion) at end-September 2021, compared with its debt due within one year of c. RMB8.40 billion. YETDG has access to financing channels such as bank loans, syndicated loans and bond issuances etc., to support its debt repayment and business operation.

## Rating Sensitivities

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

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

## Operating Environment

### Stable economy with sustained growth of Yangzhou

Yangzhou is a prefecture-level city located in the middle of Jiangsu, the East China coastal province. Yangzhou administers two county-level cities (Gaoyou and Yizheng), one county (Baoying), and three districts (Hanjiang, Guangling and Jiangdu). According to Yangzhou's statistical yearbook 2021, it has a land area of 6,591 square kilometers and a residential population of 4.55 million, with an urbanization rate of 71% in 2020.

The Development Zone was established in 1992 and confirmed as a national-level Economic and Technological Development Zone by the State Council in 2009. The major industries of the Development Zone include solar energy, car parts and high-end consumer goods manufacturing. More than fifty large-scale companies set up production plants in the Development Zone, such as GCL-Poly (3800.HK), JA Solar (002495.SZ), Weichai Power (02338.HK), CIMC Vehicles (1839.HK), and Hisense HA (00921.HK).

Yangzhou realized GDP of RMB604.8 billion in 2020 and RMB306.5 billion in 1H2021, representing year-over-year growth of 3.5% and 11.7%, respectively. Yangzhou's economic growth was mainly fuelled by the secondary and tertiary industries, accounting for c. 45.9% and 51.1% of total GDP in 1H2021, respectively.

Yangzhou's whole-year GDP was ranked 7<sup>th</sup> in Jiangsu Province in 2020 (out of 13 prefecture-level cities), which was ahead of Yancheng but behind Xuzhou. Its GDP per capita was ranked 14<sup>th</sup> among all cities in mainland China.

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

(RMB billion)	2018	2019	2020	6M2021
GDP	546.6	585.0	604.8	306.5
-Primary industry (%)	5.0	5.0	5.0	3.0
-Secondary industry (%)	48.0	47.5	46.1	45.9
-Tertiary industry (%)	47.0	47.5	48.9	51.1
GDP growth rate (%)	6.7	6.8	3.5	11.7
Fixed asset investment	409.6	434.6	428.1	-
Fixed asset investment growth rate (%)	11	6.1	-1.5	2.8
Residential Population (million)	4.5	4.5	4.6	-

Source: Statistical Bureau of Yangzhou and Lianhe Global's calculation

\* year-over-year growth rate

#### Moderate Fiscal Condition of Yangzhou

Yangzhou's budgetary revenue fluctuated moderately in the past three years. It grew by 6.2%, -3.3% and 2.6% in 2018, 2019 and 2020, respectively. At the same time, tax revenue as a percentage of budgetary revenue declined from c. 80% in 2018 to c. 78% in 2020, mainly due to various government policies in response to the Covid-19 pandemic.

Yangzhou's government debt and budget deficit were relatively high. Its government debt increased to RMB90.6 billion at end-2020 from RMB77.3 billion at end-2018, while the budget deficit enlarged to 98.2% in 2020 from 65.5% in 2018. Nevertheless, thanks to the rapid growth of government-managed fund income (mainly land use rights revenue) and continuous transfer payments, its fiscal debt ratio (total government debt outstanding/aggregate revenue) decreased to 87.2% at end-2020 from 102.8% at end-2018.

#### Yangzhou's Fiscal Condition

(RMB billion)	2018	2019	2020
Budgetary revenue	34.0	32.9	33.7
Budgetary revenue growth rate (%)	6.2	-3.3	2.6
Tax revenue	27.2	26.4	26.4
Tax revenue (% of budgetary revenue)	80.0	80.0	78.4
Government fund income	25.2	40.1	50.5
Transfer payment	14.7	15.0	19.4
Aggregate revenue	75.2	88.4	103.9
Budgetary expenditure	56.3	61.2	66.8
Budget deficit <sup>1</sup> (%)	-65.6	-86.0	-98.2

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

Source: Finance Bureau of Shandong and Lianhe Global's calculations

## Ownership Structure and Profile

### Full Ownership with Strong Government Supervision

YETDG was established in 1992 and is wholly owned by Jiangsu's Yangzhou municipal government. The Development Zone Management Committee is authorized to exercise the right as a shareholder. YETDG carries out the directions and policies of municipal development in the Development Zone designated by the Yangzhou municipal government and the Development Zone Management Committee to support economic development.

### Strategic Importance and Government Linkage

#### The Strategic Importance of YETDG to Yangzhou municipal government

The Development Zone is the manufacturing centre and major investment destination of Yangzhou, contributing its c. 10% of GDP, 20% of international trade volume and 25% of foreign direct investment in 2021. YETDG plays an important role in the Development Zone's economic development. As the sole provider of land development and infrastructure construction in the Development Zone, YETDG undertakes all critical infrastructure projects mandated by the Development Zone Management Committee.

#### Strong Linkage with Yangzhou municipal government

YETDG's business operation and development have been aligned with the government's economic and social policies. Its major strategies, investment and financing planning need to be approved by the Yangzhou municipal government. The government also controls YETDG's board of directors and senior management appointments.

#### Ongoing government support including capital injections and financial subsidies

YETDG has received support from the government, such as capital injections and government subsidies. At end-2021, YETDG had paid-in capital of approximately RMB19.6 billion. YETDG has received multiple capital injections with a total amount of RMB5.587 billion since 2018 from its controlling shareholder, the Yangzhou municipal government, including RMB2.5 billion in 2018, RMB400 million in 2019, and RMB2.687 billion in 2020. According to YETDG, the Yangzhou municipal government also provided RMB3.918 billion subsidies to YETDG from 2018 to 2021.

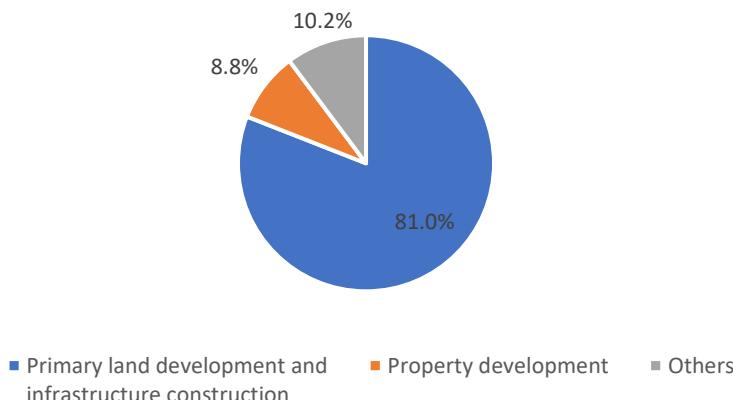
## Business Profile

### The sole LGFV responsible for primary land development and infrastructure construction in the Development Zone

YETDG's business focuses on primary land development and infrastructure construction, such as land leveling, road and bridge building, water and electricity supply, as well as sewage treatment. This accounted for 93.4%, 88.3% and 81.0% of YETDG's total revenue in 2019, 2020 and the first nine months of 2021, respectively.

### Revenue Breakdown

Total Revenue: RMB1,176 million in 3Q2021



Source: YETDG and Lianhe Global's calculation

YETDG is also responsible for developing resettlement houses for residents affected by development projects. The Development Zone Management Committee will buy back those projects upon completion at cost plus an agreed-upon margin (usually 12%). We believe that the company has a sufficient pipeline of project to support its revenue for the next 12-18 months.

Other than resettlement houses, YETDG also developed residential properties for sale. YETDG also engages in building materials trading and factory leasing businesses.

## Financial Profile

### Balance Sheet Structure and Quality

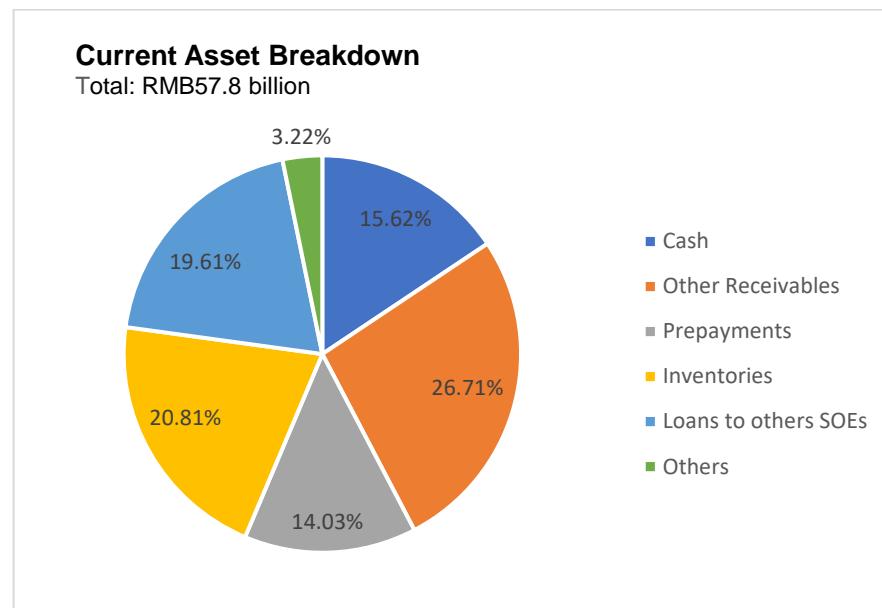
#### Balance Sheet Structure and Quality

(RMB million)	2018	2019	2020	Sep2021	Sep2021 (Adjusted*)
Total Asset	43,089	54,172	59,860	66,501	66,501
Equity	23,468	24,968	24,728	24,697	23,702
Debt	15,622	23,169	26,840	32,550	33,545
Debt / (Debt + Equity) (%)	39.96	48.13	52.05	56.86	58.60
LT Debt	10,397	16,733	19,738	21,774	22,769
LT Debt / (LT Debt + Equity) (%)	30.70	40.13	44.39	46.85	49.00

Note: \* Adjusted numbers and ratios reflect the perpetual debts reallocating to long-term debts and total debts from equity

Source: YETDG, YETDG's financial reports, and Lianhe Global's calculations

YETDG's total debt increased to c. RMB26.84 billion at end-2020 from c. RMB15.62 billion at end-2018, representing a CAGR of 21.3%. It further increased 21.3% to c. RMB32.55 billion at end-September 2021. The rapid growth of debt was mainly caused by YETDG's debt-driven expansion in the past three years. At end-September 2021, its leverage as measured by total liabilities/total assets was moderately high, which increased to 62.9% from 45.5% at end-2018.



Source: YETDG and Lianhe Global's calculation

YETDG's total asset recorded a continuous growth trend in the past three years, with growth rates of 25.7%, 10.5% and 11.1% at end- 2019, 2020 and September 2021, respectively. The asset structure was stable (except in 2019), with current assets accounting for 85.1%, 63.4%, 84.2% and 86.9% of total assets at end- 2018, 2019, 2020 and September 2021, respectively. The fluctuation in 2019 was because YETDG reclassified RMB11.2 billion of other receivables under current asset to other non-current asset, which technically were loans provided to a number of state-owned enterprises ("SOEs") in the Development Zone. At end-September 2021, YETDG's current asset mainly consisted of current portion of other non-current assets, inventories, cash, other receivables and prepayments.

It was worth noting that counterparties of other receivables and the current portion of other non-current assets (technically loans) were government entities and SOEs in the Development Zone, accounting for c. 46.3% of its current assets and c. 40.3% of its total assets.

## Cash Flow

Cash Flow (RMB million)	2018	2019	2020	9M2021
Cash Inflows from Operation	81.18	26.25	45.16	21.18
Cash Outflows from Operation	80.80	18.68	60.27	40.06
<b>Net CF from Operation</b>	<b>0.38</b>	<b>7.57</b>	<b>-15.10</b>	<b>-18.89</b>
Cash Inflows from Investment	69.94	89.07	9.67	15.56
Cash Outflows from Investment	115.14	146.39	23.18	4.53
<b>Net CF from Investment</b>	<b>-45.19</b>	<b>-57.32</b>	<b>-13.52</b>	<b>11.03</b>
Cash Inflows from Financing	130.97	169.81	168.32	129.03
Capital Contribution	25.00	4.00	26.87	-
Borrowings	72.64	92.99	134.94	129.03
Bond Issuances	26.83	66.52	-	-
Others	6.50	6.30	6.51	-
Cash Outflows from Financing	82.33	104.64	140.32	96.43
<b>Net CF from Financing</b>	<b>48.63</b>	<b>65.17</b>	<b>28.00</b>	<b>32.60</b>
Net Increase in Cash and cash equivalent	3.82	15.48	-0.77	24.73

Source: YETDG 's financial reports

## Debt Servicing Capability

YETDG had a total credit line of c. RMB19.4 billion, of which c. RMB6.3 billion was available. YETDG's had c. RMB9.03 billion cash (restricted cash of RMB 2.45billion) at end-September 2021, compared with its debt due within one year of c. RMB8.40 billion. YETDG has access to financing channels including bank borrowings, bond issuance, and trust loans. It also had an available USD bond issuance quota of USD300 million expiring in February 2023. Onshore and offshore bonds, bank borrowings and trust loan and other financing channels accounted for c. 55%, c. 43% and c. 2%, of total debt, respectively, at end-September 2021.

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### Debt Maturity Profile at end-September 2021

(RMB million)	Amount	%
Within 1 Year	8,396.1	25.1
1-2 Year	7,168.7	21.5
2-3 Year	2,207.1	6.6
3 Year and thereafter	15,642.97	46.8
<b>Total</b>	<b>33,414.76</b>	<b>100.0</b>

Source: YETDG

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