

**Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhou Jianghuai Construction Development Co., Ltd.**

HONG KONG, 1 December 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Yangzhou Jianghuai Construction Development Co., Ltd. (“YJCD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the people’s government of Jiangdu District (“Jiangdu government”) would provide strong support to YJCD if needed. This mainly considers the Jiangdu government’s 100% ownership of YJCD, YJCD’s strategic position as a flagship LGFV within Jiangdu District, as well as the strong linkage between the Jiangdu government and YJCD, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Jiangdu government may face significant negative impact on its reputation and financing activities should YJCD encounter any operational or financial difficulties. The Stable Outlook reflects our expectation that YJCD’s strategic importance would remain intact while the Jiangdu government will continue to ensure YJCD’s stable operation.

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**Key Rating Rationales**

**Full Government Ownership and Strong Linkage and with the Government:** Jiangdu Government has 100% ownership of YJCD. It also has strong control and supervision over YJCD, including control of the board of directors, senior management appointments, as well as major strategic, investment and financing planning. In addition, Jiangdu Government has comprehensive performance assessment policies for YJCD.

**High Strategic Importance:** As 100% ownership of Yangzhou Longchuan Holding Group Co., Ltd., the largest infrastructure construction and city operation entity in Jiangdu District, was transferred to YJCD free of charge under the instruction of the Jiangdu government in August 2022, the company has become the most important LGFV in Jiangdu District.

YJCD carries out major construction projects, including roads and bridges, public facilities, as well as resettlement houses designated by the Jiangdu government. YJCD is also engaged in water supply, grain collection and storage, as well as security service activities in Jiangdu District. YJCD’s strategic planning and development have been aligned with the local government’s economic and social policies.

**Ongoing Government Support:** YJCD received substantial support, including capital injections and operational subsidies from the Jiangdu government in the past three years. The

company received two rounds of cash capital injections, amounting to RMB2,430 million and RMB1,000 million in 2020 and 2021, respectively. The Jiuangdu government also provided financial subsidies to support YJCD's activities relating to supplying public goods and services. We expect YJCD to receive ongoing financial support in the future. Yet the amount of operational subsidies has shown a decreasing trend, which were RMB535 million, 506 million, 474 million and 180 million in 2019, 2020, 2021 and the first half of 2022, respectively.

**Economic and Fiscal Conditions of Jiangdu District:** Jiangdu District's economic growth rebounded in 2021, realizing year-on-year growth of 8%, up from 3% in 2020. Its fixed asset investment decreased significantly by 22.5% due to the impact of Covid-19. It then grew slightly by 0.3% to RMB63.4 billion in 2021.

Leveraging the Jiangdu Economic Development Zone, a provincial-level economic development zone established in 1993, Jiangdu District is developing itself as a manufacturing base, mainly covering shipbuilding, machinery, equipment, special steel and car parts. As a result, the secondary industry contributed c. 50% to Jiangdu District's GDP in the past three years.

The Jiangdu government's budgetary revenue grew steadily in the past three years, with a moderate compound annual growth rate of 3.7% from 2019 to 2021. However, its aggregate revenue increasingly depended on the government-managed fund, which contribution increased to 53.5% in 2021 from 43.4% in 2019. That makes it vulnerable to the recent property market downturn.

**Moderately Weak Financial of YJCD; High Contingent Liability:** YJCD's financial leverage was moderately high but stable in the past three years. Its total liability/total asset ratio was maintained at c.68%-69% level, and the total debt to capitalization ratio was maintained at c.63%-65% level. This was because the company simultaneously relied on capital injections and borrowings to fund its asset expansion.

YJCD's asset liquidity was relatively weak. Its infrastructure and resettlement house construction activities generated sizeable inventory (mainly construction costs) and account receivable, which could take a long time (usually 2 to 3 years) to convert to cash in practice. In addition, YJCD had sizeable other receivables due from government agencies, LGFVs and SOEs in Jiangdu District, and a large portion was technically loaned to them. YJCD usually takes 3 to 5 years to recover these other receivables. YJCD also made sizeable equity investments in non-listed companies within Jiangdu District to support local industry development. However, these investments usually don't have a specified exit plan.

YJCD's contingent liability risk was high, as it had provided financing guarantees of RMB31 billion to external parties at end-June 2022, representing 123.1% of the company's equity. The company has a comprehensive policy regarding financing guarantees to external parties, and guaranteed parties were mainly other LGFVs and SOEs in Jiangdu District.

## Rating Sensitivities

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

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

## 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 YJCD's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, 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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