

Suqian Yufeng Industrial Investment Development Management Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	16 March 2023

Key Figures of Suyu and SYII

(RMB billion)	2021	2022
Suyu District		
GDP	38.3	43.0
GDP growth rate (%)	9.3	3.3
Budgetary revenue	3.5	3.5
Government fund	4.2	3.0
Transfer payment	2.8	4.3
Budgetary expenditure	5.9	6.4
SYII		
Assets	23.7	26.1
Equity	8.5	9.0
Revenue	1.1	0.9

Source: Public information, SYII 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 Suqian Yufeng Industrial Investment Development Management Group Co., Ltd. ("SYII" or "the company")

Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Suyu District of Suqian City ("Suyu government") would provide strong support to SYII if needed, in light of its indirectly full ownership of SYII, SYII's strategic importance as an important local investment and development company ("LIDC") for infrastructure construction and resettlement housing construction in Suyu District ("Suyu"), and the linkage between the Suyu government and SYII, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Suyu government may face significant negative impact on its reputation and financing activities if SYII encounters any operational and financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: SYII was established in February 2009. In February 2023, the controller shareholder of the company changed to Jiangsu Yundong Holding Group Co., Ltd. ("Yundong Group"), a state-owned entity wholly owned by the State-owned Assets Supervision and Administration Office of the Suyu government ("Suyu SASAO"), and the ultimate and actual controller of the company was the Suyu government. The Suyu government has strong supervision over SYII, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions. In addition, the Suyu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Strategic Importance and Strategic Alignment: SYII is an important LIDC for infrastructure construction, resettlement housing construction and state-owned assets management and operation in Suyu, with a certain regional monopoly advantage. SYII mainly undertakes Suyu's municipal projects construction, including affordable housing construction, water conservancy projects and road renovation projects. The company is in a dominant position in the urban infrastructure industry of Suyu, playing an important role in the urban construction and economic development for the region. The development strategy of the company is aligned with the development plan of the local government.

Ongoing Government Support: As an important state-owned entity for infrastructure construction, the company continuously received government support. In 2020, the registered capital of the company increased from the initial of RMB100 million to RMB500 million, mainly increased by capital and physical assets injection from shareholder. In terms

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

of government subsidies, the amount of government subsidies received by the company from 2019 to 2021 and in the first nine months of 2022 was c. RMB5.7 million, RMB52.0 million, RMB5.16 million and RMB2.1 million, respectively. Given the company's role and importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

SYII's Financial and Liquidity Position: SYII's total assets grew steadily and the asset structure was relatively stable in the past few years. At end-September 2022, SYII's assets were mainly composed of land, construction projects and receivables. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, and that the company's overall asset liquidity was moderately weak. The financial leverage ratio (total liabilities/total assets) of SYII was 65.7% at end-September 2022. The company mainly relies on external financing to support its capital expenditure and debt repayment. At end-September 2022, the company's adjusted debt was c. RMB11.1 billion, of which short-term and long-term debt accounted for 39.3% and 60.7% of its total debt respectively.

Economy and Fiscal Condition of Suyu: Suyu is a district under the jurisdiction of Suqian City of Jiangsu Province ("Jiangsu"), and it is located in the north of Jiangsu. In 2022, the economic development of Suyu maintained growth, and its GDP was c. RMB43.02 billion, up 3.3% year-on-year. In 2022, affected by the value-added tax (VAT) credit refund policy, the budgetary revenue of Suyu was c. RMB3.5 billion with a growth rate of 0.43%, and the percentage of tax revenue decreased to 82.01% from 95.69% in 2020. The fiscal self-sufficiency rate of Suyu was insufficient and the fiscal deficit was relatively high. Nevertheless, Suyu continuously received subsidies income from higher government. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2022, the government fund income of the Suyu was c. RMB2.95 billion. At end-2022, the local government's outstanding debt was c. RMB8.56 billion, including RMB3.39 billion of general obligations and RMB5.17 billion of special debt.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Suyu

Suyu is a district under the jurisdiction of Suqian City of Jiangsu Province (“Jiangsu”), and it is located in the north of Jiangsu. Suyu has jurisdiction over 3 towns, 6 streets and 1 national high-tech industrial development zone (Suqian National High-tech Industrial Development Zone), with a total area of 1,252.6 square kilometers. In 2022, the economic development of Suyu maintained growth, and its GDP was c. RMB43.02 billion, up 3.3% year-on-year. In terms of industrial structure, the economy of Suyu was mainly dominated by the secondary industry and the tertiary industry. In 2022, Suyu increased its investment effort. Fixed assets investment of Suyu increased 9.6% year-on-year. The residents' income of Suyu steadily increased, and the per capita disposable income in the region was c. RMB31,000, up 5.7% year-on-year in 2022.

Suyu's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	33.5	38.3	43.0
-Primary industry (%)	10.1	8.9	9.2
-Secondary industry (%)	43.2	44.4	46.7
-Tertiary industry (%)	46.7	46.7	44.1
GDP growth rate (%)	4.7	9.3	3.3
Fixed asset investment	44.0	36.1	39.5
Fixed asset investment growth rate (%)	6.4	6.1	9.6
Population (million)	0.4	0.4	0.4

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Suyu

The budgetary revenue of Suyu maintained growth in 2020-2022. In 2022, affected by the value-added tax (VAT) credit refund policy, the budgetary revenue of Suyu was c. RMB3.5 billion with a growth rate of 0.43%, and the percentage of tax revenue decreased to 82.01% from 95.69% in 2020. The fiscal self-sufficiency rate of Suyu was insufficient and the fiscal deficit was relatively high. Nevertheless, Suyu continuously received subsidies income from higher government. In addition, the government fund income was another important part of its aggregate fiscal revenue. However, it was vulnerable to market and policy changes. In 2022, the government fund income of the Suyu was c. RMB2.95 billion, downed 29.9% year-on-year, mainly due to the decline of land transfer income.

The outstanding debt of the Suyu government continued to grow. At end-2022, the local government's outstanding debt was c. RMB8.56 billion, including RMB3.39 billion of general obligations and RMB5.17 billion of special debt.

Suyu's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	2.8	3.5	3.5
Budgetary revenue growth rate (%)	34.9	26.0	0.4
Tax revenue	2.6	3.1	2.9
Tax revenue (% of budgetary revenue)	95.7	89.0	82.0
Government fund income	3.2	4.2	3.0
Transfer payment	3.2	2.8	4.3
Aggregate revenue	9.1	10.5	10.8
Budgetary expenditure	6.0	5.9	6.4
Budget deficit ¹ (%)	-117.6	-69.3	-83.6

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

SYII was established with an initial registered capital of RMB100 million in February 2009. At end-September 2022, SYII's registered capital and paid-in capital were both RMB500 million after several capital injections. In February 2023, the controller shareholder of the company changed to Yundong Group, and the ultimate and actual controller of the company was the Suyu government.

Strategic Importance and Government Linkage

Strategic Importance of SYII to Suyu

SYII is an important LIDC for infrastructure construction, resettlement housing construction and state-owned assets management and operation in Suyu, with a certain regional monopoly advantage. SYII mainly undertakes Suyu's municipal projects construction, including affordable housing construction, water conservancy projects and road renovation projects. The company is in a dominant position in the urban infrastructure industry of Suyu, playing an important role in the urban construction and economic development for the region. The development strategy of the company is aligned with the development plan of the local government. SYII will continue to focus on infrastructure construction business in Suyu and maintain its development of its diversified business.

Strong Linkage with the Local Government

SYII has a strong linkage with the local government, as the Suyu SASAO via Yundong Group indirectly holds 100% ownership of the company. The Suyu government has strong supervision over the company, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions, etc. In addition, the Suyu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company's operating performance and financial position.

Ongoing Government Support

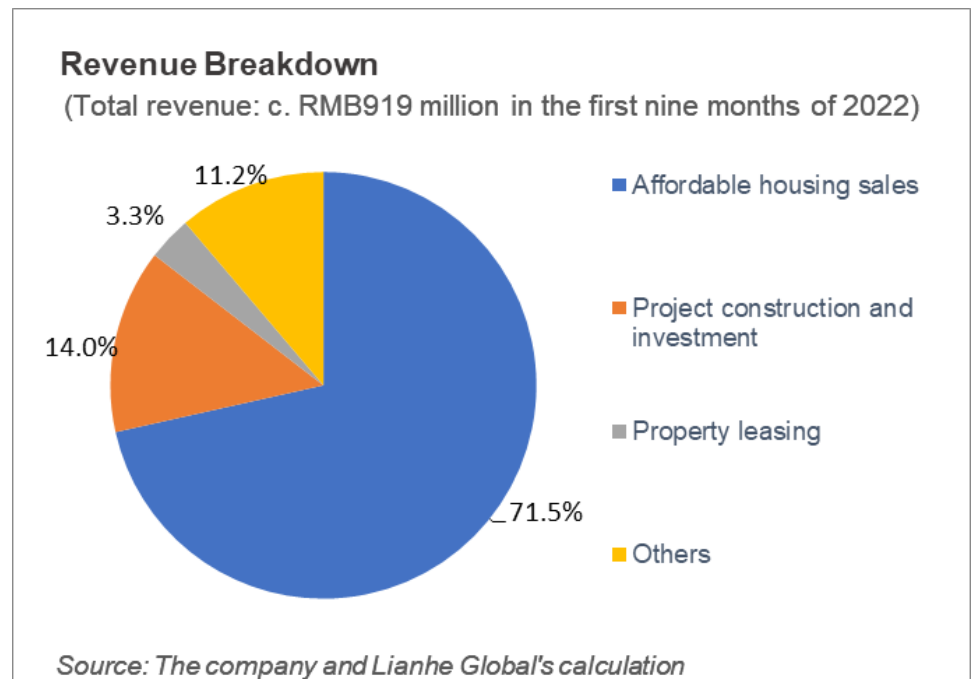
As an important state-owned entity for infrastructure construction, the company continuously received government support. In 2020, the registered capital of the company increased from the initial of RMB100 million to RMB500 million, mainly increased by capital and physical assets injection from shareholder. The company received assets transfer of RMB1.84 billion

in 2020 and received RMB150 million of government grants for project construction. In terms of government subsidies, the amount of government subsidies received by the company from 2019 to 2021 and in the first nine months of 2022 was c. RMB5.7 million, RMB52.0 million, RMB5.16 million and RMB2.1 million, respectively. Given the company's role and importance, we believe that the company is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

Business Profile

The Important LIDC Responsible for Infrastructure Construction and Affordable Housing Construction in Suyu

The company is an important entity for infrastructure construction, affordable housing construction and state-owned assets management and operation in Suyu. The main businesses of the company include project construction and investment, affordable housing sales, property leasing and other businesses. The major revenue sources of the company are affordable housing sales income and project construction and investment income.



Affordable Housing Sales

The company's affordable housing sales business mainly involves the investment, development and sales of affordable housing project in Suyu. The company has been approved by the government to invest and construct the affordable housing project, and the entrusting party will sell directly to the relocated households after project completed. At present, the company has several affordable housing projects under construction, and there is a large demand for capital expenditure in the future.

Project Construction and Investment

The company is an important entity for infrastructure construction in Suyu, mainly responsible for the construction of water conservancy projects, road renovation projects and other infrastructure projects in Suyu. The company is also responsible for the investment

and construction of some supporting office buildings, warehouses and other facilities in the region, which will be rented or sold to enterprises in the region in the future. In addition, the company is also responsible for the investment, construction and operation of the Suyu Cultural Park Project. In view of the large investment scale of the company's current projects under construction and the long term of project payment collection, there will be greater capital expenditure pressure in the future.

Property Leasing and Other Business

The company mainly leases its own factory buildings, office buildings and shops to enterprises and scattered tenants, generating a certain amount of rental income each year. Other business income mainly includes land consolidation income, interest income, service fee income, commodity sales income and property management income, etc. Since 2020, the company has no longer engaged in land development and consolidation business, and this business income has declined significantly. Interest income mainly refers to the income generated by the company's lending its own funds to other institutions in the region. The gross profit rate of other business income is high, which can improve the profitability of the company.

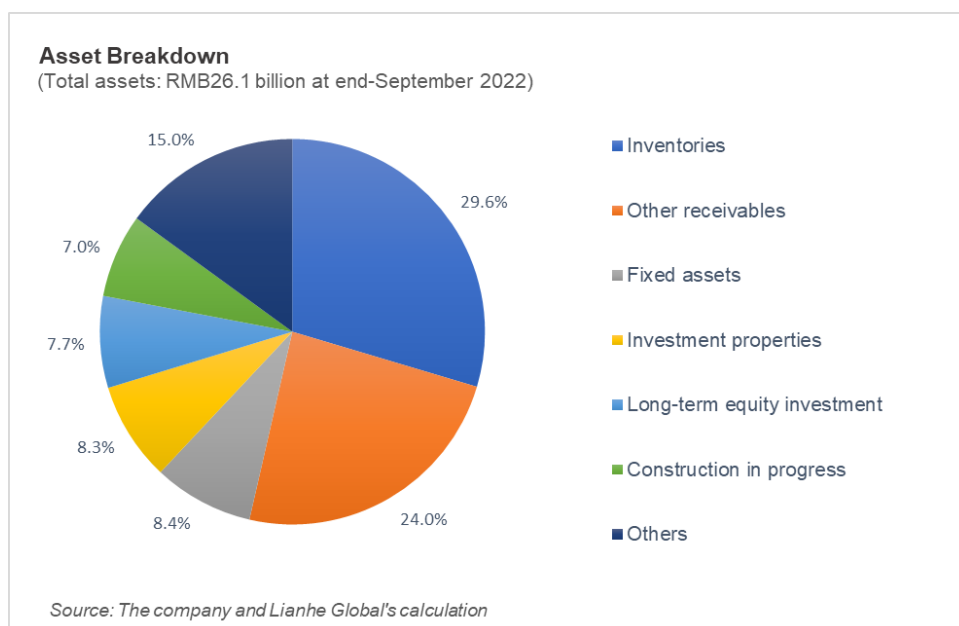
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2019	2020	2021	Sept 2022
Total Asset	17,168	22,128	23,686	26,078
Equity	6,108	8,182	8,486	8,952
Debt	7,757	9,258	9,926	11,065
Debt / (Debt + Equity) (%)	55.9	53.1	53.9	55.3
LT Debt	5,519	5,631	6,603	6,722
LT Debt / (LT Debt + Equity) (%)	47.5	40.8	43.8	42.9

Source: The company's financial reports and Lianhe Global's calculations

The financial leverage ratio (total liabilities/total assets) of SYII was stable at 63% - 65% during 2019-2021. This leverage ratio was 65.7% at end-September 2022. The company mainly relies on external financing to support its capital expenditure and debt repayment. At end-September 2022, the company's adjusted debt was c. RMB11.1 billion, of which short-term and long-term debt accounted for 39.3% and 60.7% of its total debt respectively.



SYII's total assets grew steadily and the asset structure was relatively stable in the past few years. At end-September 2022, SYII's assets were mainly composed of land, construction projects and receivables. The inventory of the company was large, mainly including the development cost of infrastructure construction and land use rights. The company's investment properties were calculated at cost, and may be subject to the impact of market value fluctuations, which may require the provision for impairment. Although the company's asset structure was dominated by current assets, the use of some assets was restricted and accounts receivable occupied funds, and that the company's overall asset liquidity was moderately weak.

Cash Flow

Cash Flow (RMB million)	2019	2020	2021	9M2022
Cash Inflows from Operation	1,082	976	1,510	1,074
Cash Outflows from Operation	1,774	1,283	2,603	953
Net CF from Operation	-692	-306	-1,093	122
Cash Inflows from Investment	328	106	204	16
Cash Outflows from Investment	569	689	553	139
Net CF from Investment	-242	-583	-350	-123
Cash Inflows from Financing	4,233	5,778	8,278	4,360
Cash Outflows from Financing	3,534	4,823	6,898	3,975
Net CF from Financing	699	954	1,381	385
Net Increase in Cash and cash equivalent	-234	65	-62	384

Source: The company's financial reports

Debt Servicing Capability

The liquidity risk of SYII was moderately high. The company's total adjusted debt was c. RMB11.1 billion at end-September 2022, of which short-term and long-term debt accounted for 39.3% and 60.7% of its total adjusted debt, respectively. At end-September 2022, SYII had a cash balance of c. RMB869.4 million and unused credit facilities of c. RMB3.0 billion, compared with its debt due within one year of c. RMB4.3 billion. SYII mainly relies on external financing and it has access to various financing channels, including bank loans,



bond issuance and non-traditional financing (such as financial lease), to support its debt repayment and business operations.

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