

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

Surveillance Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	27 March 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer and Issuance Credit Rating of Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd. (“YETDG” or “the company”); Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating reflects a high possibility that Yangzhou Municipal People’s Government (“the Yangzhou 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 government and YETDG, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yangzhou 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 government will continue to ensure YETDG’s stable operation.

Rating Rationale

The Yangzhou Government’s Full Ownership and Strong Supervision: The Yangzhou government owns 100% shares of YETDG. It also has strong control and supervision over the company, including the appointment of senior management, the decision on major strategies, investment and financial planning. In addition, the Yangzhou government has established an assessment mechanism for YETDG and regularly appoints auditors to review its operating performance and financial position.

High Strategic Importance and Strategic Alignment: YETDG’s business operations and strategic planning have been aligned with Yangzhou’s economic and social development policies. It plays an important role in the Development Zone’s economic development. As the sole primary land development and infrastructure construction entity in Development Zone, YETDG undertakes all critical infrastructure projects mandated by the Development Zone Management Committee.

Ongoing Government Support: YETDG has received strong support from the government, including capital injections and financial subsidies. In 2022, the Yangzhou government injected cash capital of RMB3.5 billion into YETDG, enlarging the company’s paid-in capital to RMB23.1 billion from RMB19.6 billion. The company also received financial subsidies of RMB353 million and RMB264 million in 2021 and the first nine months of 2022, respectively, from the Yangzhou government.

Economy and Fiscal Condition of Yangzhou: Yangzhou recorded a GDP of RMB710.5 billion in 2022, representing a 4.3% year-over-year growth, down from 7.4% in 2021, as the pandemic slowed the GDP growth. To withstand the economic slowdown, the Yangzhou

Key Figures of Yangzhou and YETDG

(RMB billion)

Yangzhou	2021	2022
GDP	669.6	710.5
GDP growth rate (%)	7.4	4.3
Budgetary revenue	34.4	32.5
Government fund	65.9	65.6
Transfer payment	16.2	10.6
Budgetary expenditure	68.5	69.9
YETDG	2021	2022.9
Asset	66.5	71.7
Equity	24.8	24.7
Revenue	2.2	1.2

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

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Applicable Criteria

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

government adopted large-scale investment resulting in a 10.0% year-over-year growth in fixed asset investment in 2022.

The value-added tax credit refund policy aimed covid pandemic reduced the Yangzhou government's budgetary revenue to RMB32.5 billion in 2022 from RMB34.4 billion in 2021. Yet its budgetary expenditure increased to RMB65.6 billion from RMB65.9 billion over the same period to support social security and combat Covid. As a result, the Yangzhou government's budget deficit deteriorated to -114.6% in 2022 from -99.1% in 2021. In addition, Yangzhou's government debt ratio, as measured by aggregate revenue/total government debt, surged to 100.6% from 83.5% over the same period.

YETDG's Financial and Liquidity Position: YETDG's continued its debt-driven expansion in the first nine months of 2022 to support its active participation in Development Zone's primary land development projects. Nevertheless, YETDG improved its debt structure by replacing short-term debt with long-term debt, resulting in a sharp increase in long-term debt; its overall leverage, as measured by debt/capitalization, only increased slightly to 58.4% at end-September 2022 from 56.4% at end-2021.

YETDG's liquidity was moderately tight, as the company had RMB7.3 billion cash (including restricted cash of RMB1.5 billion) at end-September 2022, compared with its debt due within one year of RMB8.1 billion. Yet the company can access multiple financing channels, including bank borrowings, bond issuance, and trust loans. At end-September 2022, the company had a total credit line of RMB22.6 billion, of which RMB5.4 billion was unused.

Contingent Liability Risk Remained High: The company provided financial guarantees of RMB10.1 billion to other LIDCs and SOEs in Yangzhou at end-September 2022, accounting for 40.9 % of its net asset (end-2021: RMB8.4 billion/33.7%). At the same time, YETDG had restricted assets of RMB6.1 billion, representing 8.5% of the company's total asset. These assets were mainly pledged to banks for obtaining credit lines.

Rating Sensitivities

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

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

Company Profile

YETDG, established in 1992, is wholly and directly owned by the Yancheng government. It is Yangzhou's second-largest LIDC in terms of asset size. The company is mainly responsible for infrastructure construction and primary land development in Development Zone.

Full List of Issuance Rating

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

- USD300 million 4.0% senior unsecured Green Bonds due 2025 affirmed at 'BBB+'

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