

Yancheng High-tech Zone Investment Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	6 March 2023

Key Figures of Yancheng and YHZIG

(RMB billion)	2021	2022
Yancheng		
GDP	661.7	708.0
GDP growth rate (%)	7.7	4.6
Budgetary revenue	45.1	45.3
Government fund	80.0	74.2
Transfer payment	37.7	37.1
Budgetary expenditure	105.4	111.8
YHZIG	2021	2022.9
Asset	79.1	78.5
Equity	24.5	24.5
Revenue	2.6	1.8

Source: Public information, YHZIG and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Yancheng High-tech Zone Investment Group Co., Ltd. (“YHZIG”); Issuer Rating Outlook remains Positive.

Summary

The Issuer Credit Rating reflects a high possibility that the Yancheng Municipal People’s Government (“the Yancheng government”) would provide strong support to YHZIG if needed, in light of its 100% ownership of YHZIG, YHZIG’s strategic position as an important developing and operating entity in Yancheng, especially in Yancheng High-tech Zone, and the strong linkage between the Yancheng government and YHZIG, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yancheng government may face significant negative impact on its reputation and financing activities should YHZIG encounter any operational or financial difficulties.

The Positive Outlook reflects our expectation that the Yancheng government’s support to YHZIG would be strengthened, while the Yancheng government will continue to ensure YHZIG’s stable operation.

Rating Rationale

Yancheng Government’s Ownership and Supervision: The Yancheng government directly and wholly owns YHZIG. It has strong control and supervision over YHZIG, including the appointment of senior management, and decision on major strategy, investment and financial planning. In addition, the Yancheng government has established an assessment mechanism for YHZIG and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: YHZIG’s business operation and development have been aligned with the local government’s economic and social policies. It is the sole local investment and development company (“LIDC”) responsible for infrastructure construction and primary land development in Yancheng High-tech Zone, a state-level high-tech zone playing an important role in industry upgrading in Yancheng.

Ongoing Government Support: YHZIG received substantial asset injection from the Yancheng government in 2021, including cash of RMB1.6 billion and other assets, such as properties and equity of other LIDCs and SOEs in Yancheng, of RMB968 million. In 2022, YHZIG’s registered capital was enlarged to RMB5 billion from RMB3 billion. The increment is expected to be paid in the next one to two years. The local government also provides ongoing financial support to YHZIG, mainly to support its infrastructure construction activity, amounting to RMB255 million, 266 million, 239 million and 179 million in 2019, 2020, 2021 and the first nine months of 2022, respectively.

Economy and Fiscal Conditions of Yancheng: Yancheng’s GDP growth rate moderated to 4.6% in 2022 from 7.7% in 2021, mainly due to the Covid impact and property market downturn. The city relied on investment to withstand the economic slowdown, resulting in a 9.4% year-over-year growth in fixed asset investment.

The Yancheng government’s budgetary revenue was affected by large-scale value-added tax credit refunds, which was a part of the effort to support local enterprises, especially small and

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Applicable Criteria

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

medium-sized enterprises, amid the Covid impact. In contrast, the Yancheng government increased its budgetary expenditure in 2022 to support social security and combat Covid. Therefore, its budget deficit deteriorated to -146.7% in 2022 from -133.6% in 2021. In addition, its government fund income dropped by 7.3% to RMB74.2 billion from RMB80.0 billion over the same period, mainly due to weak land sales. As a result, the Yancheng government's aggregate revenue recorded a 4.0% year-over-year decrease in 2022. Also, the Yancheng government's leverage was relatively high. The government debt totaled c. RMB153.5 billion at end-2022, up from RMB147.3 billion at end-2021, and its debt ratio, as measured by total government debt/aggregate revenue, lifted to 96.9% from 89.3%.

YHZIG's Financial and Liquidity Position: YHZIG's balance sheet structure was largely stable between end-2021 and end-September 2022. As measured by debt/capitalization, YHZIG's leverage remained at a moderately high level of c. 68%. Yet its debt maturity structure improved, as long-term debts' proportion in the total debt increased to 65.6% from 56.9% over the same period. At the same time, YHZIG had a cash balance of RMB9.0 billion (unrestricted cash of RMB4.3 billion), compared with short-term debts of RMB17.7 billion. Yet YHZIG has access to multiple financing channels, including bank borrowings, bond issuance and non-traditional financings, to support its debt repayments and operation. YHZIG had unused bank facilities amounting to RMB12.3 billion at end-September 2022. Nevertheless, rolling over its short-term bank loans and obtaining extraordinary financial support from the local government are important to YHZIG.

YHZIG's asset liquidity decreased as its cash decreased by 31.5% to RMB9.0 billion at-end September 2022 from RMB13.2 billion at end-2021. This was primarily due to the loan repayments in the first nine months of 2022, as well as the ongoing participation in infrastructure construction and primary land development in Yancheng High-tech Zone. The latter continued accumulating construction costs booked on inventories, which increased by 18.6% to RMB3.2 billion from RMB2.7 billion over the same period. In particular, the challenging property market conditions weakened Yancheng's land sales, and thus slowed down the delivery and cash collection for completed primary land development projects. We expect YHZIG's inventory turnover rate to decrease in the next one to two years.

Moreover, YHZIG's contingent liability risk was moderately high. YHZIG provided financial guarantees of RMB17.1 billion to external parties, representing 70.0% of the company's net asset at end-September 2022.

Rating Sensitivities

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

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

Company Profile

YHZIG, established in 2009, is wholly and directly owned by the Yancheng government. It is the sole LIDC responsible for infrastructure construction and primary land development in Yancheng High-tech Zone. YHZIG also engages in state-owned assets operation, such as property leasing and management and material trading.

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