

**Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Suqian Yunhe Port Area Development Group Co., Ltd.**

HONG KONG, 25 May 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Suqian Yunhe Port Area Development Group Co., Ltd. (“SYPAD” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Sucheng District, Suqian City (“Sucheng government”) would provide strong support to SYPAD if needed, in light of its indirect full ownership of SYPAD, SYPAD’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction, land development and project investment in supporting facilities in Sucheng District, Suqian City (“Sucheng”), especially in the Suqian Canal Port Area (“Port Area”), and the linkage between the Sucheng government and SYPAD, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Sucheng government may face significant negative impact on its reputation and financing activities if SYPAD encounters any operational and financial difficulties

The Stable Outlook reflects our expectation that SYPAD’s strategic importance would remain intact while the Sucheng government will continue to ensure SYPAD’s stable operation.

**Key Rating Rationales**

***Sucheng Government’s Ownership and Supervision:*** The Sucheng government indirectly holds 49% ownership of SYPAD through Suqian Huinong Industry Development Co. Ltd., via the Sucheng State-owned Assets Management Center, and is the actual controller of the company. The remaining 51% ownership of SYPAD is held by the People’s Government of Suqian City (“Suqian government”), via Suqian Industrial Development Group Co. Ltd. The Sucheng government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Sucheng government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

***Strategic Importance to Sucheng and Strategic Alignment:*** SYPAD, as the sole LIDC in the Port Area, is primarily responsible for infrastructure construction, land development and project investment in supporting facilities within the region with strong franchised advantages. The company is responsible for the demolition, land consolidation, municipal projects construction and utility network development in the Port Area. In addition, in order to attract business and investment in the Port Area, the company invests in the construction of industrial

factories and other supporting facilities for enterprises settling in the area. SYPAD plays an important role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** SYPAD received operational and financial support from the government. SYPAD received a total subsidy amount of c. RMB283.5 million from 2020 to 2022, mainly including operating subsidies. The Sucheng government also injected special fund to the company, which served as state-owned capital investment for the company's infrastructure projects. The Sucheng government will repurchase some infrastructure projects and provide policy supports to SYPAD to ensure its business operation. Given the franchised advantages in infrastructure construction and land development in Sucheng, especially in the Port Area, SYPAD has advantage to obtain major projects. We believe SYPAD is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**SYPAD's Financial Matrix and Liquidity Position:** SYPAD's total assets showed a continuous growth trend in the past years and reached RMB14.4 billion at end-2022, mainly due to its inventories, which has steadily increased in tandem with the company's infrastructure construction projects. The current assets of SYPAD accounted for c. 72.8% of the total assets at end-2022, but the overall assets were less liquid. SYPAD's financial leverage (total liabilities to total assets) was 66.7% and its adjusted debt increased to c. RMB8.3 billion at end-2022. The liquidity of SYPAD was tight. SYPAD had an unrestricted cash balance and unused credit facilities of c. RMB149.3 million and RMB1.1 billion at end-2022, respectively, compared with its debt due within one year of c. RMB2.9 billion. Besides, SYPAD has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

**Economy and Fiscal Condition of Sucheng:** Sucheng is an administrative district located in the western part of the central of Suqian City, Jiangsu Province with a total land area of c. 854 square kilometers. Sucheng recorded an economic growth in 2022, achieving a GDP of c. RMB52.5 billion, with a year-on-year growth of 3.3%. The growth rate has slowed down compared to previous years, due to the impact from COVID-19. The aggregate fiscal revenue of the Sucheng government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Sucheng government reached c. RMB4.1 billion, with a year-on-year increase of 11.9%, primarily driven by a 32.7% growth in tax revenue. At the same time, the government fund income was cut by almost half in 2022, amounting to RMB2.3 billion. The budget deficit of the Sucheng government was c. -43.4% at end-2022, while the debt ratio (total outstanding debt/ aggregate fiscal revenue) of the Sucheng government was relatively high, reaching 108.3% at end-2022.

### **Rating Sensitivities**

We would consider downgrading SYPAD's rating if (1) there is perceived weakening in support from the Sucheng government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Sucheng

government's ownership of SYPAD, or (3) there is a downgrade in our internal credit assessment on the Sucheng government.

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

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 SYPAD's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, 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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