

# Jiangsu Fangyang Group Co., Ltd.

## Initial Issuer Report

### Summary

<b>Issuer Rating</b>	BBB+
<b>Outlook</b>	Stable
<b>Location</b>	China
<b>Industry</b>	Local Investment and Development Companies
<b>Date</b>	21 August 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Fangyang Group Co., Ltd. (“JFG” or “the company”)

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lianyungang City, Jiangsu Province (“Lianyungang government”) would provide strong support to JFG if needed, in light of its full ownership of JFG, JFG’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Lianyungang City, Jiangsu Province (“Lianyungang”), especially in the Xuwei New District (“Xuwei District”), and the linkage between the Lianyungang government and JFG, 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 Lianyungang government may face significant negative impact on its reputation and financing activities if JFG encounters any operational and financial difficulties.

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

### Rating Rationale

**Lianyungang Government’s Ownership and Supervision:** The Lianyungang government directly holds the full ownership of JFG and is the actual controller of the company. As the sole shareholder of JFG, the Lianyungang 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 Lianyungang 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 Lianyungang and Strategic Alignment:** JFG, as the key LIDC in Lianyungang, is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as the most important entity in charge of infrastructure projects in the Xuwei District, JFG focuses on constructing municipal and engineering projects. In addition, the company is also responsible for the land development, port logistics, public housing leasing, industrial park support services, public utility services, sewage treatment and other state-owned asset management and operation business within the region, with strong regional advantages. JFG 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:** JFG received operational and financial support from the government. JFG received a total subsidy amount of c. RMB243.7 million from 2020 to the first three months of 2023, mainly including operating subsidies. The Lianyungang government continued to inject capitals and assets into JFG to expand its asset size. Besides, the Lianyungang government will repurchase some infrastructure projects through Xuwei New District Administration Commission (“XNDAC”) and provide policy supports to

### Key Figures of Lianyungang and JFG

(RMB billion)	2021	2022
<b>Lianyungang</b>		
GDP	372.8	400.5
GDP growth rate (%)	8.8	2.4
Budgetary revenue	27.5	21.3
Government fund	26.3	31.1
Transfer payment	21.2	26.6
Budgetary expenditure	53.4	53.6
<b>JFG</b>		
	<b>2022</b>	<b>2023.3</b>
Assets	104.4	108.6
Equity	33.2	33.7
Revenue	16.2	4.9

Source: Public information, JFG and Lianhe Global’s calculations

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### Applicable Criteria

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

JFG to ensure its business operation. Given it is the key entity for infrastructure construction and land development in Lianyungang, especially in the Xuwei District, JFG has an advantage in acquiring land resources and major infrastructure projects. We believe JFG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

**JFG's Financial Matrix and Liquidity Position:** JFG's total assets showed a continuous growth trend in the past years and reached RMB108.6 billion at end-March 2023, mainly due to the increase of fixed assets. The non-current assets of JFG accounted for c. 62% of the total assets at end-March 2023, and the overall assets were less liquid. JFG's financial leverage (total liabilities to total assets) was 69% and its adjusted debt increased to c. RMB62.6 billion at end-March 2023. The liquidity of JFG was sufficient. JFG had an unrestricted cash balance and unused credit facilities of c. RMB6.6 billion and RMB33.8 million at end-March 2023, respectively, compared with its debt due within one year of c. RMB16.3 billion. Besides, JFG 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 Lianyungang:** Lianyungang is a prefecture-level city of Jiangsu Province, with a total land area of c. 7,615 square kilometers. Lianyungang recorded an economic growth in 2022, achieving a GDP of c. RMB400.5 billion, with a year-on-year growth of 2.4%. Lianyungang is one of the top 100 prefecture-level cities in China in 2022, indicating a relatively strong economic strength. The aggregate fiscal revenue of the Lianyungang government was mainly derived from the budgetary revenue and government fund income. The Lianyungang government's budgetary revenue decreased to c. RMB21.3 billion in 2022 from c. RMB27.5 billion in 2021 due to the economic slowdown, as well as the value-added tax credit refund policy. At the same time, the government fund income, mainly generated by land sales, reached c. RMB31.1 billion in 2022, representing a year-over-year growth of 18.5%, mainly attributed to the growth in state-owned land concessions. The budget deficit of the Lianyungang government was c. 151.9% at end-2022, while the debt ratio (total outstanding debt/aggregate fiscal revenue) of the Lianyungang government remained stable at 85%-86% in the past three years.

## Rating Sensitivities

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

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

## Operating Environment

### Economic Condition of Lianyungang

Lianyungang is a prefecture-level city under the jurisdiction of Jiangsu Province ("Jiangsu"), located in the northeast part of Jiangsu. Lianyungang is an important access to the sea in the north of Jiangsu, relying on port resources and location advantages, which has formed a three-dimensional transportation system based on maritime, railroad and road transportation, supplemented by other modes of transportation such as aviation, inland

waterways and pipelines. Lianyungang has jurisdiction over 3 districts and 3 counties, with a total land area of 7,615 square kilometers and sea area of 7,516 square kilometers. At end-2022, Lianyungang had a resident population of c. 4.6 million, with an urbanization rate of 63.1%.

Owing to Covid's disruption, Lianyungang's economic growth rate has fluctuated in the last three years, with high economic growth in 2021 followed by a rapid slowdown in 2022. Lianyungang's GDP reached c. RMB400.5 billion in 2022, representing a year-over-year growth rate of 2.4%, and its GDP amount was ranked the last among prefecture-level cities under the jurisdiction of Jiangsu. From a national perspective, Lianyungang is one of the top 100 prefecture-level cities in China, indicating a relatively strong economic strength. Lianyungang's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 45.3% and 44.1% in 2022, respectively.

Xuwei District is the pilot zone of the National Demonstration Area for the Cooperation among China's Eastern, Central and Western regions approved by the State Council. Located in the southeast part of urban areas of Lianyungang, Xuwei District has a planned area of 467 square kilometers. It focuses on the development of petrochemicals, high-end equipment manufacturing, high-performance new materials and port logistics industries.

#### Lianyungang's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	327.7	372.8	400.5
-Primary industry (%)	11.8	10.7	10.6
-Secondary industry (%)	41.9	43.6	45.3
-Tertiary industry (%)	46.3	45.7	44.1
GDP growth rate (%)	3.0	8.8	2.4
Fixed asset investment	198.8	215.5	218.6
Fixed asset investment growth rate (%)	0.1	8.4	1.5
Population (million)	4.6	4.6	4.6

Source: Public information and Lianhe Global's calculations

### Fiscal Condition of Lianyungang

The Lianyungang government's budgetary revenue decreased to c. RMB21.3 billion in 2022 from c. RMB27.5 billion in 2021, mainly due to the economic slowdown as well as the value-added tax credit refund policy. Its fiscal self-sufficiency capacity remained weak, recording a budget deficit of -104.6%, -94.4% and -151.9% in 2020, 2021 and 2022, respectively. Therefore, the Lianyungang government was highly relied on government fund income and transfer payments from higher government. Lianyungang's government fund income, which was mainly generated by land sales, reached c. RMB31.1 billion in 2022, representing a year-over-year growth of 18.5%, mainly attributed to the growth in state-owned land concessions. In addition, Lianyungang's transfer payment reached c. RMB26.6 billion in 2022, providing sufficient external support.

The outstanding debt of the Lianyungang government continued to grow. At end-2022, the Lianyungang government's outstanding debt was c. RMB68.0 billion, including RMB23.9 billion of general obligations and RMB44.1 billion of special purpose debt. Given the Lianyungang government is controlling the scale of debt growth, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, remained stable at 85%-86% in the past three years.

#### Lianyungang's Fiscal Condition

(RMB billion)	2020	2021	2022
Budgetary revenue	24.5	27.5	21.3

Budgetary revenue growth rate (%)	1.1	12.1	1.7*
Tax revenue	18.9	21.8	12.7
Tax revenue (% of budgetary revenue)	77.1	79.3	59.9
Government fund income	20.2	26.3	31.1
Transfer payment	26.4	21.2	26.6
<b>Aggregate revenue</b>	<b>72.0</b>	<b>76.6</b>	<b>79.6</b>
Budgetary expenditure	50.2	53.4	53.6
Budget deficit <sup>1</sup> (%)	<b>-104.6</b>	<b>-94.4</b>	<b>-151.9</b>

<sup>1</sup> Budget deficit = (1-budgetary expenditure / budgetary revenue) \* 100%

\*Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

## Ownership Structure

### Government's Ownership

JFG, formerly known as Lianyungang Xuwei Development Construction Co., Ltd, was established in April 2009 with an initial registered capital of RMB0.2 billion, funded by the Lianyungang government.

After an array of capital injections, JFG's registered and paid-in capital were RMB11.0 billion and RMB8.57 billion at end-March 2023, respectively. JFG has a shareholding structure in which the Lianyungang government, as the sole and actual controlling shareholder, holds 100% of the company's equity.

## Strategic Importance and Government Linkage

### Strategic Importance of JFG to Lianyungang

JFG, as the key LIDC in Lianyungang, is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as the most important entity in charge of infrastructure projects in the Xuwei District, JFG focuses on constructing municipal and engineering projects. In addition, the company is also responsible for the land development, port logistics, public housing leasing, industrial park support services, public utility services, sewage treatment and other state-owned asset management and operation business, with strong regional advantages. JFG 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.

### Strong Linkage with the Local Government

The Lianyungang government directly holds the full ownership of JFG and it is the actual controller of the company. As the sole shareholder of JFG, the Lianyungang 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 Lianyungang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

### Government Support

JFG continued to receive financial subsidies, mainly including operating subsidies (such as infrastructure construction targeted subsidies, urban public utilities subsidies, sewage treatment subsidies and job position subsidies), from the local government to maintain its

business operation. JFG received subsidies of c. RMB83.2 million, RMB39.2 million, RMB116.6 million and RMB4.7 million in 2020, 2021, 2022 and the first three months of 2023, respectively. Besides, the Lianyungang government continued to inject capitals and assets into JFG to expand its asset size, amounted to RMB2.3 billion from 2020 to the first three months of 2023. The Lianyungang government will repurchase some infrastructure projects through XNDAC and provide policy supports to JFG to ensure its business operation. Given it is the key entity for infrastructure construction and land development in Lianyungang, especially in the Xuwei District, JFG has an advantage in acquiring land resources and major infrastructure projects. We believe JFG is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

## Business Profile

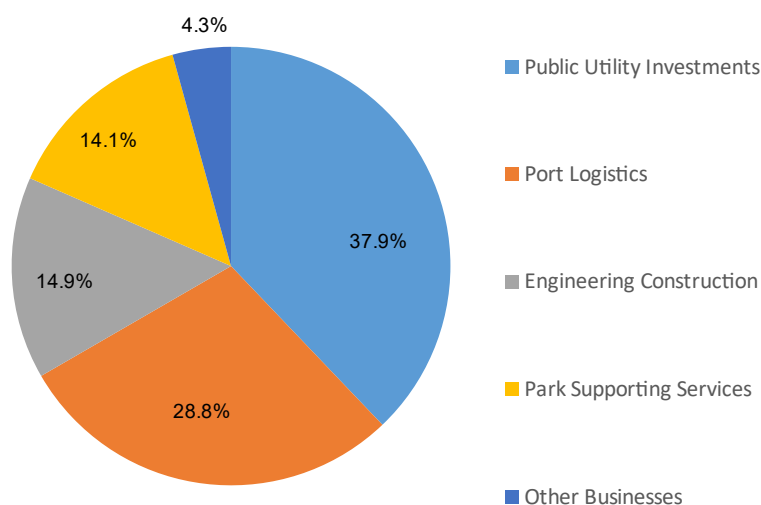
### The Key Entity Responsible for Infrastructure Construction in Lianyungang

JFG, as an important LIDC in Lianyungang, is mainly responsible for the construction, operation and management of the relevant supporting service facilities in the Xuwei District. The company's strong franchise advantage enables it to undertake important infrastructure construction and state-owned asset operation projects under the instruction of the Lianyungang government.

The primary sources of operating revenue for JFG are public utility investment, port logistics, engineering construction and park supporting services, while it also engaged in event planning, consulting services and loan services, etc. The company's total revenue reached c. RMB6.9 billion, RMB11.9 billion, RMB16.2 billion and RMB4.9 billion in 2020, 2021, 2022 and the first three months of 2023, respectively, representing an upward trend. The overall gross profit margin of JFG increased from 8.7% to 12.8% between 2020 and 2022. In general, JFG's business was well diversified, and it has regional advantages in its major businesses.

#### Revenue Breakdown

(Total revenue: c. RMB4.9 billion in the first three months 2023)



Source: The company and Lianhe Global's Calculation

### Public Utility Investment

As one of important state-owned asset operation entities in Lianyungang, JFG is mainly engaged in steam and electricity sales, water sales, and wastewater treatment in the Xuwei District. The company's monopoly on public utility investment in the Xuwei District gives it a strong franchise advantage within the region. Along with the completion and commencement of operation of major projects, the revenue of this segment grew significantly in 2022, but factors such as rising coal prices have also increased the pressure on cost control. Its revenue in this segment rapidly increased over the past years, reaching c. RMB0.9 billion, RMB2.1 billion, RMB6.1 billion and RMB3.1 billion in 2020, 2021, 2022 and the first three months of 2023, respectively. The gross profit margin of this segment declined from 20.2% in 2020 to 11% in the first three months of 2023, due to the high-cost pressure.

### Port Logistics

The company entrusts its two subsidiaries, Jiangsu Fangyang Logistics Co., Ltd. and Lianyungang Xuwei Port Investment Group Co., Ltd., to undertake warehousing and logistics business within region. Given the completion and commencement of operation of major projects, the demand for chemicals and raw materials from companies within the region rose rapidly in 2022, benefiting the company's warehousing and logistics business. Its revenue in this segment rapidly increased over the past three years, recording at c. RMB2.8 billion, RMB4.6 billion, RMB4.7 billion and RMB0.4 billion in 2020, 2021, 2022 and the first three months of 2023, respectively. As the main purpose of the port logistics business is to meet the demand for raw materials and reduce the production cost of enterprises in the park through centralized purchasing, warehousing and logistics, the gross profit margin of this segment was low, recording at 0%-3% in the past three years. However, the segment gross margin increased to c. 12% in the first three months of 2023.

### Engineering Construction

JFG is designated by the XNDMC to undertake the municipal engineering construction business, including engineering construction and land consolidation and development within the Xuwei District. The company's monopoly on infrastructure construction in the Xuwei District gives it a strong franchise advantage in the region. The engineering construction in this segment are generally conducted under the agent construction model, where the revenue recognition includes construction costs incurred plus a certain percentage of profit. Apart from the agent construction projects, the company also builds large-scale self-operated projects, including self-constructed engineering projects and public rental housing projects, which are mainly funded by itself. Its revenue in this segment reached c. RMB2.3 billion, RMB1.9 billion, RMB2.4 billion and RMB0.8 billion in 2020, 2021, 2022 and the first three months of 2023, respectively. The gross profit margin of this segment fluctuated between 10.3% to 20.9% in 2020 to the first three months of 2023. Currently, the company's projects under construction and to be constructed still require a large scale of investment, thus it incurs high pressure on capital expenditure.

### Park Supporting Services

As an important source of revenue for JFG, park supporting services makes the company's business more diversified and plays a complementary role to its main business. This segment includes land reserve, leasing and commercial property sales. Its revenue in this

segment reached c. RMB0.7 billion, RMB RMB2.5 billion, RMB2.3 billion and RMB0.6 billion in 2020, 2021, 2022 and the first three months of 2023, respectively. The gross profit margin of this segment was high, increasing from 18.3% in 2020 to 30.3% in the first three months of 2023.

### Other Businesses

Other businesses of JFG include event planning, consulting services and loan services, with each segment accounted for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

## Financial Profile

### Balance Sheet Structure and Quality

<b>Balance Sheet Structure and Quality</b>				
<b>(RMB million)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023.3</b>
Total Asset	79,127	96,123	104,446	108,572
Equity	28,088	32,357	33,239	33,668
Debt	42,058	52,063	59,639	62,603
Debt / (Debt + Equity) (%)	60.0	61.7	64.2	65.0
LT Debt	28,721	39,647	43,740	46,312
LT Debt / (LT Debt + Equity) (%)	50.6	55.1	56.8	57.9

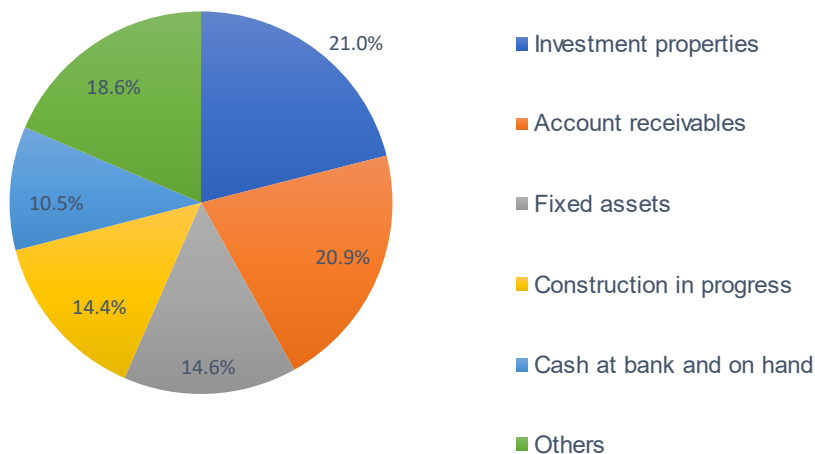
*Source: Company information and Lianhe Global's calculations*

JFG's total assets showed a continuous growth in the past few years, with a growth rate of 21.5%, 8.7% and 4.0% at end-2021, end-2022 and end-March 2023, respectively, and reached RMB108.6 billion at end-March 2023. The increase of JFG's total assets was largely due to the fixed assets and receivables, which have steadily increased in tandem with the company's construction projects, as well as the injection from the government. JFG's assets mainly consisted of investment properties, account receivables, fixed assets, construction in progress and cash at bank and on hand. Investment properties predominantly encompassed land use rights that are held with the intention of capitalizing on appreciation. These rights primarily pertain to commercial and residential land. Investment properties of JFG also included sea area use rights that are allocated mainly to facilitate the development of the Xuwei Port projects. Account receivables mainly pertained to construction payments with the National Demonstration Zone for East-West Regional Cooperation Management Committee, with controllable counterparty risk and low bad debt provision. The majority of JFG's receivables' aging period was within 2 years. Having said that, the concentration of indebted party was relatively high at end-March 2023. Fixed assets primarily consisted of buildings and structures, machinery and equipment, transportation facilities, office and electronic equipment, as well as pipeline networks and water supply equipment.

JFG witnessed growth in both its current assets and non-current assets in the past three years. The proportion of non-current assets in the total assets reached 62.0% at end-March 2023, indicating a relatively high level. Thus, the company's assets were relatively illiquid, primarily due to the significant proportion of investment properties, fixed assets and receivables.

### Asset Breakdown

(Total assets: RMB108.6 billion at end-March 2023)



Source: The company and Lianhe Global's calculation

JFG's financial leverage (total liabilities to assets) reached 64.5%, 66.3%, 68.2% and 69.0% at end-2020, end-2021, end-2022 and end-March 2023, respectively, representing an increasing trend and a relatively high level. Given the relevant guidelines of the Lianyungang government, we expect the leverage of JFG to maintain at this level in the future. JFG's total adjusted debt increased from c. RMB42.1 billion at end-2020 to c. RMB62.6 billion at end-March 2023, with short-term debt accounting for c. 26.0% of the total debt. There was no significant change in the ownership equity structure of JFG at end-March 2023, compared with that at end-2020. JFG's minority interests accounted for 28.6% of the total equity at end-March 2023, due to the large number of non-wholly owned subsidiaries within its scope of consolidation. JFG mainly relies on external financing to support its capital expenditures, which we expect to increase in the future given its infrastructure related and land development projects under construction and to be constructed in the future.

### Debt Servicing Capability

The liquidity of JFG was sufficient. JFG had an unrestricted cash balance and unused credit facilities of c. RMB6.6 billion and RMB33.8 million at end-March 2023, respectively, compared with its debt due within one year of c. RMB16.3 billion. Besides, JFG has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.





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