

Jiangsu Zhongyang Clean Energy Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	1 August 2023

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Zhongyang Clean Energy Development Co., Ltd. (“JZCE” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yangzhong City (“the Yangzhong government”) would provide strong support to JZCE if needed, in light of its full ownership of JZCE, JZCE’s strategic importance as an important local investment and development company (“LIDC”) responsible for urban and industrial development, as well as rural revitalization, ports and other state-owned assets operations in Yangzhong City (“Yangzhong”), and the linkage between the Yangzhong government and JZCE, 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 Yangzhong government may face significant negative impact on its reputation and financing activities if JZCE encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Yangzhong government holds 100% stake of JYCE through Yangzhong Urban and Rural State-owned Assets Management Center (“Yangzhong SAMC”). The Yangzhong government also has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major financing plan and investment decisions. In addition, the Yangzhong government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: JZCE is an important LIDC responsible for urban and industrial development, as well as rural revitalization in Yangzhong. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies. The Yangzhong government designates JZCE to develop and operate ports and the port-surrounding industry parks (including clean energy industrial park), a major strategy to improve the city’s connectivity, attract investment and promote industry development. In addition, the company participates in Yangtze River water conservancy projects and is diversifying into clean energy industry.

Ongoing Government Support: By end-2022, the Yangzhong government had injected lands totaling RMB6.3 billion, as well as Yangzhong Olympic Sports Center, a city landmark, into JZCE. In addition, the government had allocated state-owned properties generating sizeable rental income to the company. Between 2020 and 2022, JZCE also received ongoing project funds and operation subsidies of RMB1,324 million and RMB895 million, respectively.

Key Figures of Yangzhong and JZCE

(RMB billion)	2020	2021
Yangzhong		
GDP	49.0	55.1
GDP growth rate (%)	3.8	11.1
Budgetary revenue	3.5	3.8
Government fund	5.3	5.4
Transfer payment	1.5	1.2
Budgetary expenditure	5.8	6.0
JZCE		
Assets	19.3	21.1
Equity	9.6	12.2
Revenue	1.5	1.7

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

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Applicable Criteria

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

Economy and Fiscal Condition of Yangzhong: Yangzhong is a county-level city under the jurisdiction of Zhenjiang City, with a relatively well-developed economy, mainly fueled by secondary and tertiary industries, accounting for 44.3% and 52.5% of its GDP in 2021. At the same time, it was listed in China's top 100 counties with a relatively high GDP per capita of RMB174,500 in 2021, which was higher than Zhenjiang's RMB148,200 and Jiangsu's RMB137,000. Yangzhong realized a GDP of RMB55.1 billion in 2021, representing a year-on-year growth of 11.1%. In addition, Yangzhong's fixed asset investment grew by 18.1% in 2021. Its major industries include electrical engineering, shipbuilding, car part manufacturing and clean energy.

The Yangzhong government's budgetary revenue has grown steadily between 2019 and 2021, increasing to RMB3.8 billion from RMB3.4 billion. Yet its aggregate revenue relied on the income from the government fund, contributing c. 50% to its aggregate revenue over the same period, which could make it vulnerable to the recent property market downturn. In addition, the Yangzhong government's fiscal self-sufficiency rate was moderately weak, and the government debt was moderately high.

JZCE's Financial and Liquidity Position: JZCE's asset size grew steadily to RMB21,138 million at end-2022 from RMB18,080 million at end-2019 due to its active participation in Yangzhong's project construction, representing an annual compound growth rate of 8.1%. The asset expansion was primarily supported by both the government's project funds and borrowings. As a result, the company maintained its financial leverage (total debt/(total debt+equity)), at a manageable level of below 40%. In particular, JZCE received a sizeable project funds of RMB1,276 million in 2022. Also, the company shrank its debt size to RMB6,760 million from RMB7,568 million over the same period. The combined effect lowered the company's financial leverage to 35.7% at end-2022.

The liquidity of JZCE was moderately tight. The company's cash balance decreased by 54.0% to RMB480 million (including restricted cash of RMB338 million) at end-2022 from RMB1,045 million at end-2021, owing to debt repayments and its project construction activities. At the same time, the company had debt due within one year of RMB779 million. Nevertheless, JZCE has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. At end-2022, the company had unused credit lines of c. RMB2.2 billion.

Moderately High Contingent Liability Risk: JZCE's contingent liability risk was moderately high. It provided financial guarantees of c. RMB6.1 billion to third parties at end-2022, accounting for 50.0% of the company's net asset. All guaranteed parties were SOEs and LIDCs in Yangzhong. JZCE also had restricted assets of RMB5.5 billion at end-2022, accounting for 25.8% of its total asset.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Yangzhong

Yangzhong is a county-level city under the jurisdiction of Zhenjiang City and located at the intersection of the Shanghai and Nanjing metropolitan areas. The city has a total area of 332 square kilometers, including 228 square kilometers of land. It administers four towns, two subdistricts, one provincial economic development Zone and one provincial high-tech Development Zone.

Yangzhong realized a GDP of RMB55.1 billion in 2021, representing a year-on-year growth of 11.1%. In addition, Yangzhong's fixed asset investment grew by 18.1% in 2021. It has a relatively well-developed economy, mainly fueled by secondary and tertiary industries, accounting for 44.3% and 52.5% of its GDP in 2021, respectively. Its major industries include electrical engineering, shipbuilding, car part manufacturing and clean energy. It was listed in China's top 100 counties with a relatively high GDP per capita of RMB174,500 in 2021, which was higher than Zhenjiang's RMB148,200 and Jiangsu's RMB137,000.

Yangzhong's GDP and Fixed Asset Investment			
(RMB billion)	2019	2020	2021
GDP	48.8	49.0	55.1
-Primary industry (%)	3.2	3.4	3.2
-Secondary industry (%)	53.8	51.5	52.5
-Tertiary industry (%)	43.0	45.1	44.3
GDP growth rate (%)	5.8	3.8	11.1
Fixed asset investment	7.7	9.0	10.9
Fixed asset investment growth rate (%)	0.4	9.8	18.1
Population (million)	0.3	0.3	0.3

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Yangzhong

The Yangzhong government's budgetary revenue has grown steadily between 2019 and 2021, increasing to RMB3.8 billion from RMB3.4 billion, while the tax revenue's contribution stayed at a relatively high level of c. 80%. Yet its aggregate revenue relied on the income from the government fund, contributing c. 50% to its aggregate revenue over the same period, which could make it vulnerable to the recent property market downturn.

The Yangzhong government's fiscal self-sufficiency rate was moderately weak, and the government debt was high. It recorded budget deficit ratios of -45.8%, -58.5% and -59.9% in 2019, 2020 and 2021, respectively. The government debt ratio, as measured by total debt outstanding/aggregate revenue, surged to 172.9% at end-2021 from 70.7% at end-2019.

Yangzhong's Fiscal Condition			
(RMB billion)	2019	2020	2021
Budgetary revenue	3.4	3.5	3.8
Budgetary revenue growth rate (%)	3.8	2.9	8.6
Tax revenue	2.8	2.8	3.0
Tax revenue (% of budgetary revenue)	81.5	80.0	80.0
Government fund income	5.5	5.3	5.4
Transfer payment	1.1	1.5	1.2
Aggregate revenue	10.2	10.9	10.5
Budgetary expenditure	5.0	5.8	6.0
Budget deficit ¹ (%)	-45.7	-66.9	-57.7

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JZCE was established by Yangzhong City Construction Assets Management Center in 2010. After a series of equity transfers, JZCE has been 100% owned by Yangzhong SAMC since January 2023.

Yangzhong SAMC also transferred 100% ownership of Yangzhong Zhongyang Construction Group Co., Ltd. ("YZCG"), an important LIDC in Yangzhong, to JZCE. The company has developed strong control over YZCG, including integrated financial management and supervision over strategic planning.

Strategic Importance and Government Linkage

Strategic Importance of JZCE to Yangzhong

JZCE's business operations and strategic planning have been aligned with the local government's economic and social development policies. The company is an important LIDC responsible for urban and industrial development in Yangzhong. The Yangzhong government designates JZCE to develop and operate ports and the port-surrounding industry parks (including clean energy industrial park), a major strategy to improve the city's connectivity, attract investment and promote industry development. JZCE also engages in Yangzhong's rural revitalization projects by investing and operating aquaculture and planting bases in rural areas of Yangzhong. In addition, the company participates in Yangzhong's urban development projects, such as city infrastructures, public facilities, shantytown renovations. It also participates in Yangtze River water conservancy projects.

Strong Linkage with the Local Government

JZCE has a strong linkage with the local government, as the Yangzhong government holds 100% ownership of the company through Yangzhong SAMC. The Yangzhong government has strong supervision over the company, including appointment and supervision of the senior management, development strategy, major investment and financing plan decisions and other government support. In addition, the Yangzhong government has formulated a performance assessment policy for the company, and regularly appoints auditors to review the company's operating performance and financial position. According to the government, JZCE and YCID are under the management of the same senior management team. Both companies are equally important to the Yangzhong government.

Ongoing Government Support

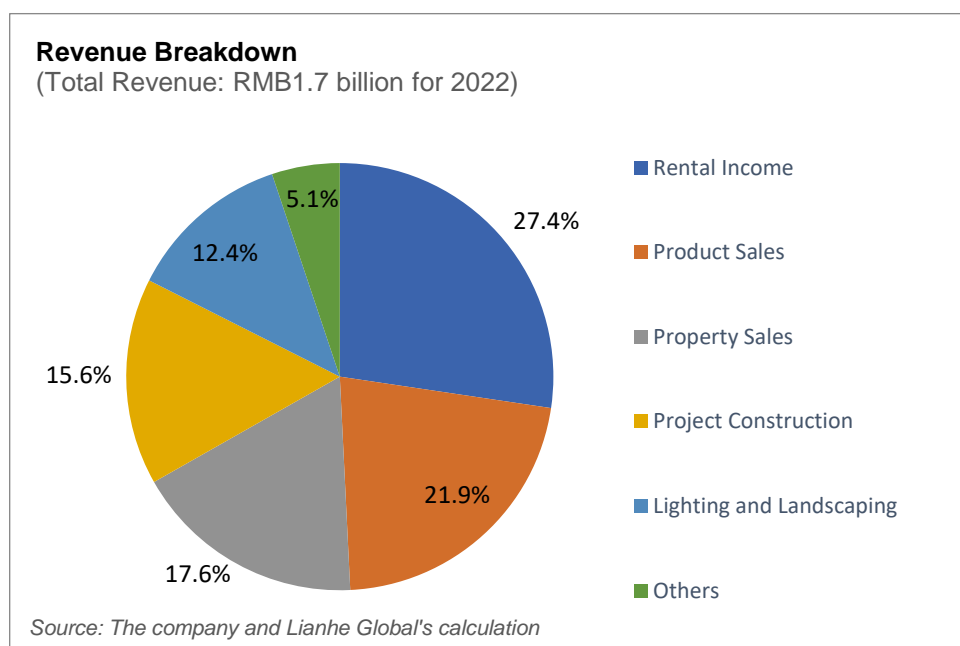
By end-2022, the Yangzhong government had injected lands totaling RMB6.3 billion, as well as Yangzhong Olympic Sports Center, amounting to RMB987 million into JZCE. In addition, the government had allocated state-owned properties generating sizeable rental income to the company. In 2022, the company received a capital injection RMB995 million (mainly the equity of YZCG), enlarging its paid-in capital to RMB1 billion at end-2022 from RMB5 million at end-2021.

JZCE received ongoing project funds to support its project construction activities, amounting to RMB47 million and RMB1,276 million in 2021 and 2022, respectively. The company also received operation subsidies of RMB181 million, 357 million and 357 million in 2020, 2021 and 2022, respectively, in relation to the company's activities of providing public goods and services.

Business Profile

An Important LIDC Responsible for Urban and Industrial Development, Rural Revitalization, Ports and other State-Owned Assets operation in Yangzhong

JZCE is an important LIDC responsible for urban and industrial development, as well as rural revitalization in Yangzhong. The Yangzhong government designates JZCE to develop and operate ports and the port-surrounding industry parks (including clean energy industrial park). It also engages in Yangzhong's rural revitalization projects by investing and operating aquaculture and planting bases in rural areas of Yangzhong. The company mainly participates in Yangzhong's urban development projects, such as city infrastructures, public facilities and shantytown renovations. It also conducts Yangtze River water conservancy projects.



Rental Income

JZCE holds an array of leasable properties, including ports, port-surrounding industry and logistic parks, residential and commercial properties, parking lots and farmer's markets, generating sizeable rental income of RMB460 million in 2022.

Product Sales

JZCE partners with China Electric Equipment Group Holdings Co., Ltd. ("CEEG"), a private-owned manufacturer, to form a joint venture selling transformers, the power distribution system and other electrical products. JZCE holds a 51% share in the Joint venture, while CEEG holds the remaining 49%.

Property Development

JZCE engages in property development through a joint venture, Yangzhong Zhongyang Hongxing Real Estate Co., Ltd., in which JZCE holds a 55% share indirectly. It had completed a large-scale development project consisting of commercial and residential properties. The company is developing phase two of the residential project, which is largely presold and is expected to be delivered in 2023, supporting the property development segment's revenue in the next one to two years.

Project Construction, Lighting and Landscaping

JZCE's project construction activities are concentrated in Yangzhong urban area. The project scope mainly includes city infrastructures, public facilities and shantytown renovations, as well as lighting and landscaping. These projects are usually carried out under agreements signed with government agencies in Yangzhong. JZCE usually is responsible for fundraising and constructing projects, and receives progress payments from entrusting parties. At end-2022, the company had two major shantytown renovation projects under construction, with a total planned investment of RMB2.3 billion, of which RMB1.3 billion was scheduled to be invested in the coming years.

Others

JZCE's other income mainly came from the operations of Yangzhong Olympic Sports Center, including its exhibition, stadium, natatorium and fitness center.

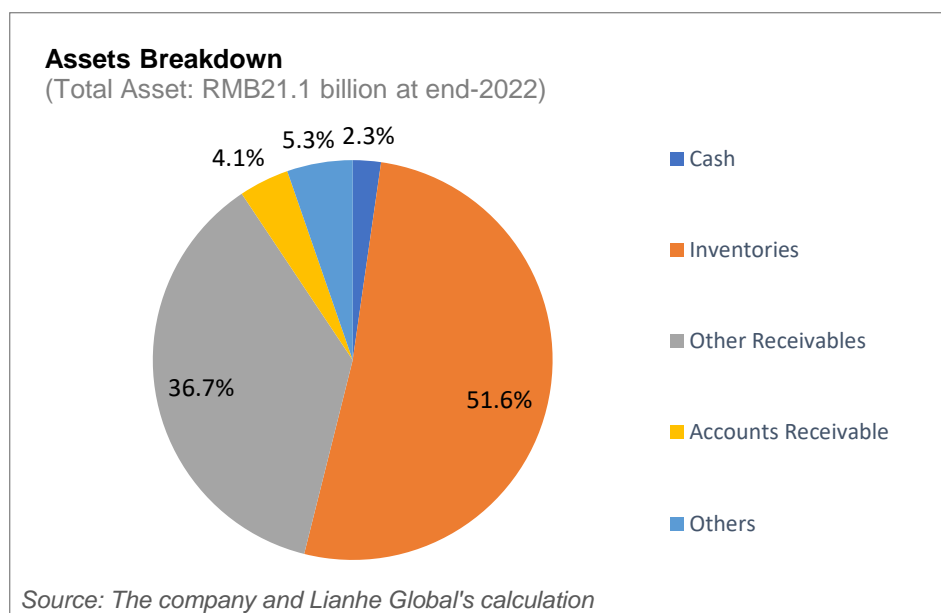
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality			
(RMB million)	2020	2021	2022
Total Asset	18,080	19,273	21,138
Equity	9,367	9,636	12,158
Debts	7,201	7,568	6,760
Debt / (Debt + Equity) (%)	43.5	44.0	35.7
LT Debts	6,155	6,484	5,980
LT Debt / (LT Debt + Equity) (%)	39.7	40.2	33.0

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

JZCE's asset size grew steadily to RMB21,138 million at end-2022 million from RMB18,080 million at end-2019 due to its active participation in Yangzhong's project construction, representing an annual compound growth rate of 8.1%. The asset expansion was primarily supported by both the government's project funds and borrowings. As a result, the company maintained its financial leverage at a manageable level of below 40%. In particular, JZCE received a sizeable project funds of RMB1,276 million in 2022. Also, the company shrank its debt size to RMB6,760 million from RMB7,568 million over the same period. The combined effect lowered the company's financial leverage to 35.7% at end-2022.



Despite the fact that current assets contributed 94.9% to JZCE's total asset, the company's liquidity was moderately weak in effect. At end-2022, JZCE had inventories of RMB10.9 billion, accounting for 51.6% of its total asset, of which RMB4.4 billion were construction costs generated by its project construction activities. These costs usually take a long time to be converted to cash due to the protracted construction, revenue recognition and receivable collection periods. At the same time, JZCE had lands of RMB6.3 billion booked on its inventories. JZCE intends to use these lands to develop warehouses and standard factories in port-surrounding industry parks for lease and build residential and commercial properties for sale.

In addition, JZCE had other receivables amounting to RMB7.8 billion, representing 36.7% of the company's total asset at end-2022, mainly due from other SOEs and LIDCs in Yangzhong and usually taking two years to collect.

Cash Flow

Cash Flow (RMB million)	2020	2021	2022
Cash Inflows from Operation	1,705	1,794	2,291
Cash Outflows from Operation	1,463	1,367	1,153
Net CF from Operation	242	427	1,138
Cash Inflows from Investment	1	0	4
Cash Outflows from Investment	40	0	0
Net CF from Investment	-39	0	4
Cash Inflows from Financing	1,394	1,685	947
Cash Outflows from Financing	1,624	1,919	2,236
Net CF from Financing	-230	-233	-1,289
Net Increase in Cash and cash equivalent	-27	194	-147

Source: The company's financial reports



Debt Servicing Capability

The liquidity of JZCE was moderately tight. The company's cash balance decreased by 54.0% to RMB480 million (including restricted cash of RMB338 million) at end-2022 from RMB1,045 million at end-2021, owing to debt repayments and its project construction activities. At the same time, the company had debt due within one year of RMB779 million.

Nevertheless, JZCE has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. At end-2022, the company had unused credit lines of c. RMB2.2 billion.

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