

Yunnan Provincial Energy Investment Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A-
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	11 September 2023

Key Figures of Yunnan and YEIG

(RMB billion)	2021	2022
Yunnan		
GDP	2,714.7	2,895.4
GDP growth rate (%)	7.3	4.3
Budgetary revenue	227.8	194.9
Government fund	108.7	62.1
Transfer payment	383.6	446.9
Budgetary expenditure	663.4	670.0
YEIG	2022	2023.6
Assets	251.1	257.8
Equity	81.1	81.8
Revenue	126.1	63.6

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

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Applicable Criteria

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

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘A-’ global scale Long-term Issuer Credit Rating of Yunnan Provincial Energy Investment Group Co., Ltd. (“YEIG” or “the company”); Issuer Rating Outlook revised to Positive.

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yunnan Province (“Yunnan government”) would provide strong support to YEIG if needed, in light of its majority ownership of YEIG, YEIG’s strategic position as the most important state-owned energy entity for the investment and development of the green energy industry, and the integration of energy resources of Yunnan, as well as the strong linkage between the Yunnan government and YEIG, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yunnan government may face significant negative impact on its reputation, business and financing activities should YEIG encounter any operational or financial difficulties.

The Positive Outlook reflects our expectation of strengthened support from the Yunnan government considering YEIG’s enhanced strategic importance and stabilized financing environment of the Yunnan Province. We believe that the Yunnan government will continue to ensure YEIG’s stable operation. YEIG’s pivotal role in energy transition and development, coal and lithium sources operations, and industrial development would be further enhanced through substantial policy support and the injection of related projects and capital by the Yunnan government. The financing landscape of Yunnan has witnessed improvements and stabilization with a series of measures by the Yunnan government aiming at mitigating the debt burden and refinancing risks of local LIDCs, along with a decrease in regional credit risk events.

Rating Rationale

Government’s Ownership and Supervision: The Yunnan government indirectly holds the majority ownership of YEIG through Yunnan Provincial Investment Holding Group Co., Ltd. with the State-owned Assets Supervision and Administration Commission of the Yunnan government (“Yunnan SASAC”) is the ultimate controlling shareholder. The Yunnan SASAC has final decision-making rights and supervision over YEIG, including control of the board of directors, senior management appointments, major strategic, investment and financing plans. In addition, the Yunnan SASAC appoints an auditor to audit the operating performance and financial of YEIG.

Strategic Importance and Strategic Alignment: As the most important and leading state-owned entity that is responsible for the development of green energy industry and the integration of energy resources of Yunnan, YEIG maintains its strategic role for energy projects investment, construction and operation in the region. The company mainly invests in hydropower, thermal power, wind power, green silicon, natural gas, solar and other new energy projects that are of strategic importance to the economic and energy development of Yunnan. Its strategic importance would further be strengthened upon the completion of the equity transfer for the Xiaolongtan coal mine, the largest open-pit coal mine in Yunnan, by end-2023. Besides, the intended acquisition of lithium prospecting rights will further enhance its pivotal role as the primary entity for lithium exploration in the region.

YEIG's strategic planning and development have been aligned with the local government's economic and social policies, aiming to develop Yunnan's economic and the green energy industry. The Yunnan government and government-owned entities in the region may face significant negative impact on its reputation, business and financing activities should YEIG encounter any operational or financial difficulties.

Ongoing Government Support: YEIG has received supports from the Yunnan government for its business operation, mainly including capital injections, government subsidies, financial support. It also benefits from preferential tax and/or tax exemption policies in encouraged high-tech industries. YEIG has received solid and stable financial subsidies from the local government, including projects capital, projects subsidies, business performance rewards, etc. We believe YEIG will likely receive ongoing government support.

YEIG's Financial and Liquidity Position: YEIG's total assets showed continued growth, with growth rates of 8.5% and 2.7% in 2022 and 1H2023, respectively. YEIG's financial leverage (total liabilities to assets) and total debt capitalization remained stable at 68.3% and 65.4% at end-June 2023. YEIG primarily allocates its capital expenditure investments to wind power, photovoltaic, coal, natural gas pipeline network, and thermal power projects. It may face some capital expenditure pressure given the growth plans of these sectors. Its total adjusted debt increased by 23.1% between end-2021 and end-June 2023, with the short-term debt accounting for 45.4% of its total debt as of end-June 2023. YEIG's liquidity was sufficient. At end-June 2023, YEIG had total cash of RMB16.8 billion and a total credit line of RMB172.1 billion, of which about RMB64.2 billion was available, compared with its debt to be due within one year of RMB73.1 billion. Besides, YEIG has access to multiple financing channels including bank borrowings, bond issuance, and other financing channels, e.g., finance lease.

Yunnan's Economy and Fiscal Condition: Yunnan's economic growth fluctuated in the past three years and recorded at 4.3% in 2022, with its GDP reaching RMB2,895.4 billion. Yunnan's GDP size was ranked 18th out of all provinces in 2022. The aggregate fiscal revenue of the Yunnan government was mainly derived from the budgetary revenue and transfer payment from the central government.

The budgetary revenue of the Yunnan government decreased to RMB194.9 billion in 2022 from RMB227.8 billion in 2021, while the proportion of tax revenue to the budgetary revenue fell from 66.4% in 2021 to 61.4% in 2022, mainly due to the impact of the value-added tax credit refund policy. The transfer payment received from the central government continued to play a key role in Yunnan government's aggregate fiscal revenue and reached RMB446.9 billion in 2022 (63.1% of the aggregate fiscal revenue). The outstanding debt of the Yunnan government continued to grow. At end-2022, Yunnan government's outstanding debt reached RMB1,209.8 billion, representing a year-over-year growth rate of 10.5%. The debt ratio (total government debt/aggregate revenue) was elevated to 170.8% in 2022 from 151.1% in 2021, mainly due to the increase in special debt.

The overall financing environment in Yunnan has experienced improvement and stabilization as the Yunnan government has implemented several measures aiming at alleviating the debt burden and refinancing risks of local LIDCs, indicating the government's strong commitment to preserve the stability of the regional financing landscape. Concurrently, non-traditional financing defaults of LIDCs within Yunnan have shown a decreasing trend since 2022, although the local LIDC's debt pressure remains high.

Rating Sensitivities

We would consider downgrading YEIG's rating if (1) there is perceived weakening in support from the Yunnan government, particularly due to its reduced strategic importance with

diminished government functions, or (2) there is a significant reduction of the Yunnan government's ownership of YEIG, or (3) there is a downgrade in our internal credit assessment on the Yunnan government.

We would consider upgrading YEIG's rating if (1) there is strengthened support from the Yunnan government, or (2) there is an upgrade in our internal credit assessment on the Yunnan government, or (3) there is a continuing demonstration of the strengthening of YEIG's strategic importance in Yunnan.

Company Profile

YEIG was established in February 2012, with an initial registered capital of RMB10.2 billion under the approval of the Yunnan government. After several capital injections and equity transfers, the registered capital and paid in capital of YEIG both reached RMB15.7 billion at end-June 2023. The Yunnan government, as the actual controller of the company, has the majority ownership of YEIG via the Yunnan SASAC and other LIDCs in Yunnan.

YEIG is a diversified state-owned entity that primarily engages in the investment and development of the energy sector to assist the implement of the Yunnan government's energy strategies. YEIG invests in hydropower, fossil fuel, wind power, natural gas, solar and other new energy projects, and green energy development. Meanwhile, YEIG diversifies its business into power generation and sales, coal mining and sales, natural gas operation, logistics and trading, financial business, development of industrial parks, salt chemical product and other chemical products, industrial silicon, organic silicon and lithium development, and expand the business cooperation with other countries in the Southeast Asia region.

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