

Jiangsu Yufeng Tourism Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	10 October 2023

Key Figures of Dafeng and JYTD

(RMB billion)	2021	2022
Dafeng		
GDP	75.9	81.7
GDP growth rate (%)	6.6	4.6
Budgetary revenue	5.8	5.8
Government fund	5.1	7.9
Transfer payment	3.3	4.3
Budgetary expenditure	11.5	11.4
JYTD	2022	2023.6
Assets	18.4	20.3
Equity	9.4	10.6
Revenue	1.5	0.6

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

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

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dafeng District, Yancheng City (“Dafeng government”) would provide strong support to JYTD if needed, in light of its indirect full ownership of JYTD, JYTD’s strategic importance as the important local investment and development company (“LIDC”) responsible for infrastructure construction and urban redevelopment in Dafeng, Yancheng City (“Dafeng”), and the linkage between the Dafeng government and JYTD, 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 Dafeng government may face significant negative impact on its reputation and financing activities if JYTD encounters any operational and financial difficulties.

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

Rating Rationale

Dafeng Government’s Ownership and Supervision: The Dafeng government indirectly holds 100% ownership of JYTD through the Dafeng District Finance Bureau (“Dafeng FB”). The Dafeng government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dafeng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Dafeng and Strategic Alignment: JYTD, as the important LIDC in Dafeng, is primarily responsible for the infrastructure construction and urban redevelopment in several key areas in Dafeng, such as Dafeng resort zone, North Dafeng new district, Xinfeng town and Dafeng Port area. Besides, JYTD is also engaged in the construction and operation of tourist attractions and supporting facilities in Dafeng. JYTD plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: JYTD continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company’s strategic role in the economic development of the Dafeng. In 2020-1H2023, JYTD received subsidies totaling around RMB43.6 million. Meanwhile, JYTD received asset and capital injections in the form of cash, construction projects, lands, and other assets. Besides, the Dafeng government provides policy supports to JYTD in tax deductions and exemption.

JYTD’s Financial and Liquidity Position: JYTD’s total assets showed a continuous growth in the past few years. The increase of JYTD’s total assets was largely due to the receivables, inventories and intangible assets. Although JYTD had large proportion of current assets, its

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Applicable Criteria

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

assets were illiquid, primarily due to the significant proportion of land to be developed and receivables. JYTD's financial leverage (total liabilities to assets) increased notably between end-2020 and end-1H2023, and JYTD's adjusted total debt also increased significantly. JYTD mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to continue.

The liquidity of JYTD was weak. At end-June 2023, JYTD had unrestricted cash balance and unused credit facilities of RMB0.7 billion and RMB3.7 billion, respectively, compared with its debt due within one year of RMB3.1 billion. However, JYTD has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayments and business operations.

Economy and Fiscal Condition of Dafeng: Dafeng is a district of Yancheng City ("Yancheng"), Jiangsu Province, and is located in the southeast of Yancheng, bordering the Yellow Sea in the east. Dafeng's GDP reached RMB81.7 billion in 2022, representing a year-over-year (y-o-y) growth rate of 4.6%, and its GDP amount was ranked 2nd in Yancheng (out of a total 9 districts). The Dafeng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The Dafeng government's budgetary revenue reached RMB5.8 billion in 2022, with the tax revenue accounting for 72.8% of its budgetary revenue. Its fiscal self-sufficiency was improving but remained weak, and it recorded a budget deficit of 95.7% in 2022. Dafeng's government fund income, mainly generated by land sales, surged by 53.6% to RMB7.9 billion in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 62.9% at end-2022 from 71.6% at end-2020, due to the larger increase in aggregate revenue.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Dafeng

Dafeng is a district of Yancheng, Jiangsu Province, and is located in the southeast of Yancheng, bordering the Yellow Sea in the east. Dafeng port, one of the first-class national ports opened to the world, is an important transportation hub of Jiangsu Province, connecting to 13 countries and regions such as South Korea, Japan and Russia. Dafeng has jurisdiction over 11 towns, 2 streets and 2 provincial development zone, with a total area of 3,059 square kilometers, which is the largest urban district in Jiangsu Province. At end-2022, Dafeng had a resident population of 0.7 million, with an urbanization rate of 62.6%.

Dafeng, one of the top 100 districts in China in terms of comprehensive strength, maintained a steady economic growth in recent years. Dafeng's GDP reached RMB81.7 billion in 2022, representing a y-o-y growth rate of 4.6%, and its GDP amount was ranked 2nd in Yancheng (out of a total 9 districts). Dafeng's economic growth was mainly fueled by the tertiary and secondary industries in the past few years, which accounted for 50.9% and 34.3% in 2022,

respectively. Its economic development focused on new energy vehicles, equipment manufacturing and wind power industry in recent years. GDP per capita of Dafeng was RMB118,817 in 2022, which was higher than the GDP per capita of Yancheng (RMB105,647) as well as that of China (RMB85,700).

Dafeng's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	68.7	75.9	81.7
-Primary industry (%)	14.4	14.6	14.8
-Secondary industry (%)	32.7	33.4	34.3
-Tertiary industry (%)	52.9	52.0	50.9
GDP growth rate (%)	4.0	6.6	4.6
Fixed asset investment	39.3	32.5	35.3
Fixed asset investment growth rate (%)	4.2	-17.3	15.2
Population (million)	0.6	0.6	0.7

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Dafeng

The Dafeng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The Dafeng government's budgetary revenue reached RMB5.8 billion in 2022, with the tax revenue accounting for 72.8% of its budgetary revenue. Its fiscal self-sufficiency was improving but remained weak, and it recorded a budget deficit of 95.7% in 2022. Dafeng's government fund income, mainly generated by land sales, surged by 53.6% to RMB7.9 billion in 2022, owing to the increase of land transfer.

The outstanding debt of the Dafeng government continued to grow. At end-2022, the Dafeng government's outstanding debt was RMB11.4 billion, including RMB4.7 billion of general obligations and RMB6.6 billion of special purpose debt. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, decreased to 62.9% at end-2022 from 71.6% at end-2020, due to the larger increase in aggregate revenue.

Dafeng's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	5.4	5.8	5.8
Budgetary revenue growth rate (%)	5.0	8.4	0.2
Tax revenue	4.2	4.6	4.2
Tax revenue (% of budgetary revenue)	78.0	80.0	72.8
Government fund income	4.0	5.1	7.9
Transfer payment	4.1	3.3	4.3
Aggregate revenue	13.5	14.3	18.1
Budgetary expenditure	11.3	11.5	11.4
Budget deficit ¹ (%)	-110.2	-98.2	-95.7

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

JYTD was established in March 2014 with an initial registered capital of RMB1.5 billion. At end-June 2023, JYTD's registered and paid-in capital were both RMB1.5 billion. The controlling shareholder of the company is Dafeng Jinmao State-owned Comprehensive Asset Operation Co., Ltd. ("DJS"), which holds 100% of the company's equity. The Dafeng FB indirectly holds the full ownership of the company through DJS and the Public Asset Management Committee Office of Dafeng, and it is the actual controller of the company. The ultimate controller is the Dafeng government.

Strategic Importance and Government Linkage

Strategic Importance of JYTD to Dafeng

JYTD, as the important LIDC in Dafeng, is primarily responsible for the infrastructure construction and urban redevelopment in several key areas within the region. Besides, JYTD is also engaged in the construction and operation of tourist attractions and supporting facilities in Dafeng. JYTD plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government's development plans.

Strong Linkage with the Local Government

JYTD's linkage with the local government is strong as the Dafeng government indirectly holds 100% ownership of JYTD through the Dafeng FB. The Dafeng government has the final decision-making authority and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dafeng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Government Support

JYTD continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of the Dafeng. In 2020-1H2023, JYTD received subsidies totaling around RMB43.6 million. Meanwhile, JYTD received asset and capital injections in the form of cash, construction projects, lands, and other assets. Besides, the Dafeng government provides policy supports to JYTD in tax deductions and exemption.

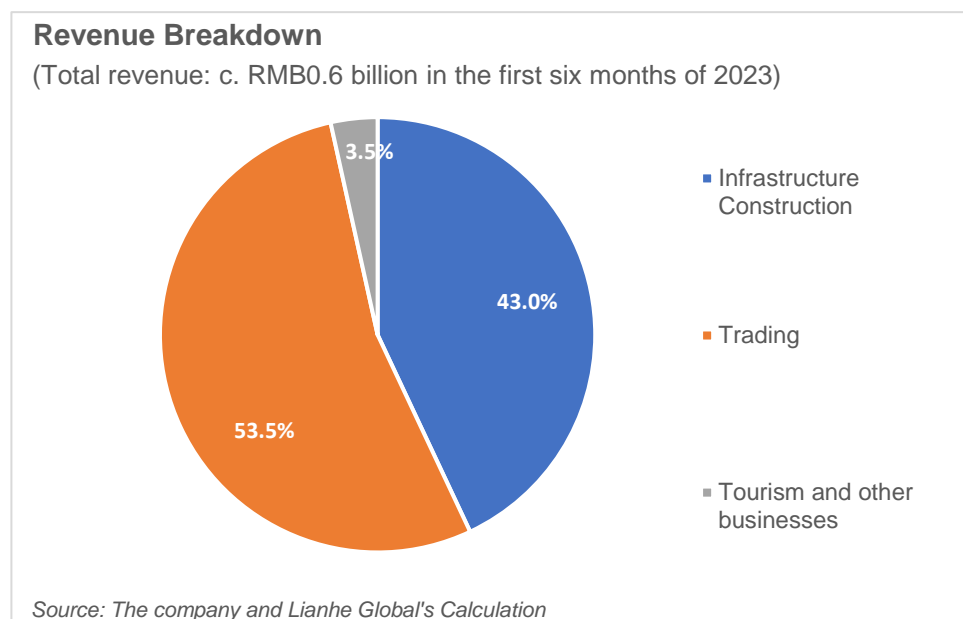
Business Profile

The Important Entity Responsible for Infrastructure Construction and Urban Redevelopment in Dafeng

JYTD is an important investment and financing entity and stated-owned operating platform in Dafeng. JYTD, as an important LIDC in Dafeng, is mainly responsible for the infrastructure construction and urban redevelopment in several key areas in Dafeng, such as Dafeng resort zone, North Dafeng new district, Xinfeng town and Dafeng Port area. Besides, JYTD

is also engaged in the construction and operation of tourist attractions and supporting facilities in Dafeng.

JYTD achieved a steady growth for its total revenue in 2020-2022, which reached RMB1.17 billion, RMB1.35 billion and RMB1.54 billion, respectively. Its total revenue reached RMB618 million for the first half of 2023. JYTD's total revenue is mainly generated from its infrastructure construction and trading segments. Also, JYTD recorded a stable gross profit margin of 15-17% from 2020 to the first half of 2023.



Infrastructure Construction

JYTD is mainly engaged in the infrastructure construction in Dafeng resort zone, North Dafeng new district, Xinfeng town and Dafeng Port area. It undertakes projects such as road construction, township resettlement and redevelopment, land consolidation, etc. in these areas.

The company mainly adopts agent construction mode for its infrastructure construction projects. JYTD signs construction agreements with entrusting parties, such as the local governments of Dafeng and Xinfeng town, the management committee of the Dafeng Port Economic Development Zone, etc. JYTD is mainly responsible for the investment and construction of the projects. JYTD settles the construction costs with a profit margin of approximately 15% with the entrusting parties. The revenue of this segment reached RMB496 million, RMB591 million, RMB652 million and RMB266 million in 2020, 2021, 2022 and the first half of 2023, respectively. Except for 2020 and 2022, JYTD achieved a gross profit margin of 29-30% of this segment during the period.

Trading

JYTD is also involved in commodity trading business. This segment mainly covers four major categories, namely energy, industrial raw materials, agricultural products and precious metals. The major trading products include chemical raw materials (such as ethylene glycol, diethylene glycol and PTA) and building materials. The company adopts a demand-driven

mode for this segment. The company does not undertake the transportation cost of the products, and usually takes 1-3 months for the settlement of the consideration.

The revenue of this segment reached RMB519 million, RMB717 million, RMB868 million and RMB331 million in 2020, 2021, 2022 and the first half of 2023, respectively. Nevertheless, the gross profit margin of this segment was low compared with other segments.

Tourism and other businesses

JYTD participates in the operation and management of the major tourist attractions in Dafeng. The major source of income of the tourism and ticket business is mainly generated from the three major scenic spots in Dafeng, namely Dutch Flower Park, Plum Blossom Bay and Doulong Manor. Having said that, the ticket revenue is seasonal in nature.

Besides, JYTD is also involved in other businesses, such as agricultural products and green projects. These businesses account for a small portion of the company's total revenue and mainly serve to supplement the main businesses for revenue diversification.

Financial Profile

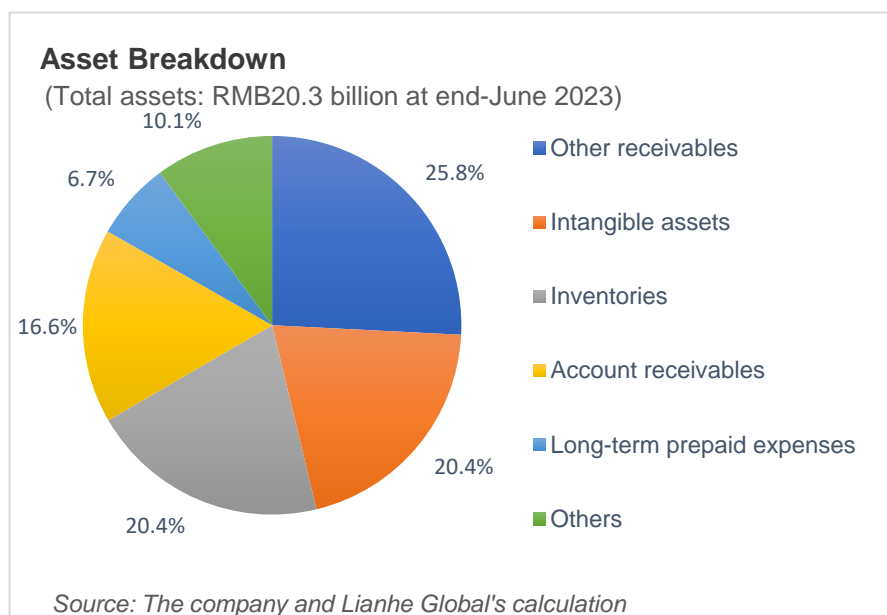
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	12,681	14,822	18,404	20,336
Equity	9,226	9,322	9,424	10,576
Debt	1,970	2,008	4,324	4,691
Debt / (Debt + Equity) (%)	17.6	17.7	31.4	30.7
LT Debts	413	679	1,422	1,545
LT Debt / (LT Debt + Equity) (%)	4.3	6.8	13.1	12.7

Source: Company information and Lianhe Global's calculations

JYTD's total assets showed a continuous growth in the past few years, with a growth rate of 16.9%, 24.2% and 10.5% in 2021, 2022 and 1H2023, respectively, and reached RMB20.3 billion at end-June 2023. The increase of JYTD's total assets was largely due to the receivables, inventories and intangible assets. Although JYTD had large proportion of current assets (70.2% at end-June 2023), its assets were illiquid, primarily due to the significant proportion of land to be developed and receivables.

JYTD's assets mainly consisted of receivables, intangible assets, inventories and long-term prepaid expenses. Other receivables and account receivables were mainly transactions with government departments and state-owned enterprises in Dafeng, with controllable counterparty risk and moderately low bad debt provision. Inventories primarily comprised of land to be developed and development cost, while the intangible assets were mostly land use rights at end-1H2023.



JYTD's financial leverage (total liabilities to assets) increased notably to 48.0% at end-1H2023, from 27.2% at end-2020, mainly due to the increasing debt borrowings and account payables for business expansion. JYTD's adjusted total debt increased by 138.1% to RMB4.7 billion at end-1H2023 from RMB2.0 billion at end-2020, mainly due to the increase in short-term borrowings, with short-term debt and long-term debt accounting for 67.1% and 32.9% of the total debt at end-1H2023, respectively. JYTD mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to continue.

Debt Servicing Capability

The liquidity of JYTD was weak. At end-June 2023, JYTD had unrestricted cash balance and unused credit facilities of RMB0.7 billion and RMB3.7 billion, respectively, compared with its debt due within one year of RMB3.1 billion. However, JYTD has about RMB0.7 billion bond issuance quota available, and has accessed to various financing channels, including bank loans and non-traditional financing, to support its debt repayments and business operations.



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