

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Jiangsu Yangjing Petrochemical Group Co., Ltd.

HONG KONG, 1 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Jiangsu Yangjing Petrochemical Group Co., Ltd. (“JYPG” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Lianyungang Municipality (“the Lianyungang government”) would provide strong support to JYPG if needed. This mainly considers the Lianyungang government’s majority ownership of JYPG, JYPG’s strategic importance as an important local investment and development company (“LIDC”) responsible the development and operation of Lianyungang Petrochemical Industry Base (“the petrochemical industry base”), and the linkage between the Lianyungang government and JYPG, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Lianyungang government may face significant negative impact on its reputation and financing activities if JYPG encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Lianyungang government directly holds 68.58% shares of JYPG, while the management committee of Xuwei New District holds the remaining 31.42% shares indirectly. The Lianyungang government entrusted the management committee to perform the duties of shareholder. The local government has strong control over the company through JYPG, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local 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: JYPG is the key LIDC responsible for development and operation of the petrochemical industry base in Xuwei New District, one of the seven major petrochemical industry bases of China. The company plays a significant role in promoting petrochemical industry’s development in Lianyungang by providing essential services such as project construction, energy and materials supply and operation of supporting facilities in the base. Given that petrochemical industry is a pillar of Lianyungang’s economic development, JYPG’s business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: JYPG received ongoing support from the local government. Between 2020 and the first half of 2023, the local government injected capital and assets with total amount of RMB1.6 billion. The local government provided operational subsidies amounting to RMB63 million to support JYPG's operating activities within the same period. We expect the local government to provide timely support in forms of assets/capital injections and operational subsidies to JYPG considering its strategic importance in Lianyungang.

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.

JYPG's Financial and Liquidity Position: JYPG's asset size experienced a rapid growth in recent years. Its total asset increased to RMB23.1 billion at end-June 2023 from RMB9.5 billion at end-2020, due to the company's active participation in the development of petrochemical industry base. JYPG mainly relied on bank borrowings to fund its asset expansion. The company's total debt surged by 269.2% to RMB14.3 billion at end-June 2023 from RMB3.9 billion at end-2020. Consequently, JYPG's financial leverage, as measured by total debt/capitalization, was lifted to 63.7% from 47.5% over the same period.

JYPG's liquidity was moderately tight. At end-June 2023, the company had cash of RMB4.5 billion (including restricted cash of RMB2.8 billion), compared with debt due within one year of RMB6.0 billion. Yet JYPG has access to various financing channels, including bank borrowings and other non-traditional financings, to support its debt repayments and business operations. At end-June 2023, the company had unused credit lines of RMB9.0 billion.

Rating Sensitivities

We would consider downgrading JYPG'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 JYPG, or (3) there is a downgrade in our internal credit assessment on the Lianyungang government.

We would consider upgrading JYPG'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.

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 JYPG'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.

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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