

Jiangsu Yangjing Petrochemical Group Co., Ltd.

Initial Issuer Report

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

Summary

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.

Rating Rationale

Government’s Ownership and Supervision: The Lianyungang government directly holds 68.58% shares of JYPG, while the management committee of Xuwei New District (“the management committee”) 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 supply and materials supply, as well as 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

Summary

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

Key Figures of Lianyungang and JYPG (RMB billion)

Lianyungang	2021	2022
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
JYPG	2021	2022
Asset	18.0	20.4
Equity	6.8	8.1
Revenue	3.7	5.1

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

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Applicable Criteria

[China Local Investment and Development Companies Criteria \(5 December 2022\)](#)

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.

Operating Environment

Economic Condition of Lianyungang

Lianyungang is a prefecture-level city located in the northeast part of Jiangsu Province. 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 New 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 New 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 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 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 RMB68.0 billion, including RMB23.9 billion of general obligations and RMB44.1 billion of special purpose debt. Given that 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
Aggregate revenue	72.0	76.6	79.6
Budgetary expenditure	50.2	53.4	53.6
Budget balance ¹ (%)	-104.6	-94.4	-151.9

¹ Budget balance = (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

Full Government Ownership

JYPG, formerly known as Lianyungang Petrochemical Industrial Park Co., Ltd., was established in August 2014 with an initial registered capital of RMB0.2 billion, funded by the Lianyungang government. After a series of capital injections and equity transfers, JYPG's registered and paid-in capital were RMB7.0 billion and RMB3.4 billion, respectively, at end-September 2023. The Lianyungang government, as the controlling shareholder, held 68.58% of the company's equity, and the remaining 31.42% equity was held by the Lianyungang Xuwei Technology Venture Capital Co., Ltd., a LIDC 100% owned by the management committee.

Strategic Importance and Government Linkage

Strategic Importance of JYPG to Lianyungang

As the key LIDC responsible for infrastructure construction and operation in the petrochemical industry base, one of the seven major petrochemical industry bases of China, JYPG plays a significant role in promoting petrochemical industry's development in Lianyungang by providing essential services such as project construction, energy and materials supply as well as 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.

Strong Linkage with the Local Government

The Lianyungang government directly holds 68.58% shares of JYPG, while the management committee 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.

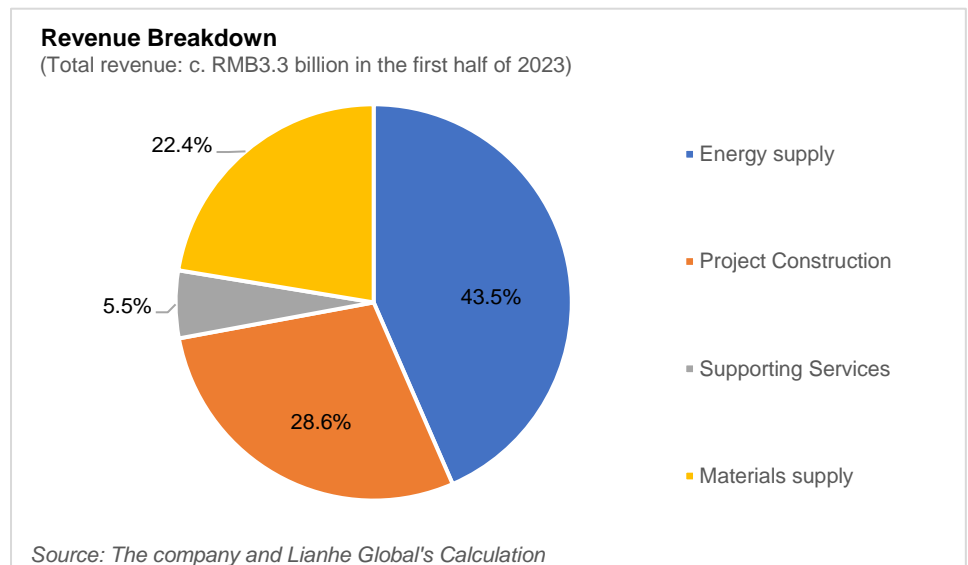
Ongoing Government Support

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.

Business Profile

The Key LIDC Responsible for Development and Operation of Lianyungang Petrochemical Industry Base

As an important LIDC in Lianyungang, JYPG is mainly responsible for the infrastructure construction and operation of the petrochemical industry base in Xuwei New District. The company also operates pipeline galleries and supplies natural gas and steam to petrochemical companies in the base. JYPG recorded revenue of RMB1.0 billion, 3.7 billion, 5.1 billion and 3.3 billion in 2020, 2021, 2022 and the first half of 2023, respectively, representing an upward trend.



Project Construction

JYPG conducts infrastructure projects such as roads, bridges, landscaping and other public facilities designated by the management committee within the petrochemical industry base. These projects generally conducted under the agent construction model, according to which the company raises funds and carries out entrusted projects, recognizing construction costs incurred plus a certain percentage of profit (usually 20%) as revenue based on project progress. However, the actual payment schedules are subject to the local government's fiscal conditions. In addition, JYPG undertakes soft foundation treatment works for petrochemical companies building their production plants in the petrochemical industry base.

JYPG's project construction activities strongly support the development of the petrochemical industry base, and the company has a strong project pipeline. Yet they require a large scale of investment, posing high capital expenditure pressure on JYPG.

Energy, Materials Supply and Supporting Services

JYPG supplies natural gas, refined oil and steam that are necessary in the production process of the petrochemical companies within the petrochemical industry base, where the company enjoys the franchise rights of selling natural gas. The company also sells chemical material in the petrochemical industry base.

Moreover, JYPG develops and operates supporting facilities, including pipe galleries, natural gas storage stations and high-pressure pipelines within the petrochemical industry base. We believe these businesses facilitate the operations of companies in the petrochemical industry base, increasing the attractiveness and competitiveness of the base.

Financial Profile

Balance Sheet Structure and Quality

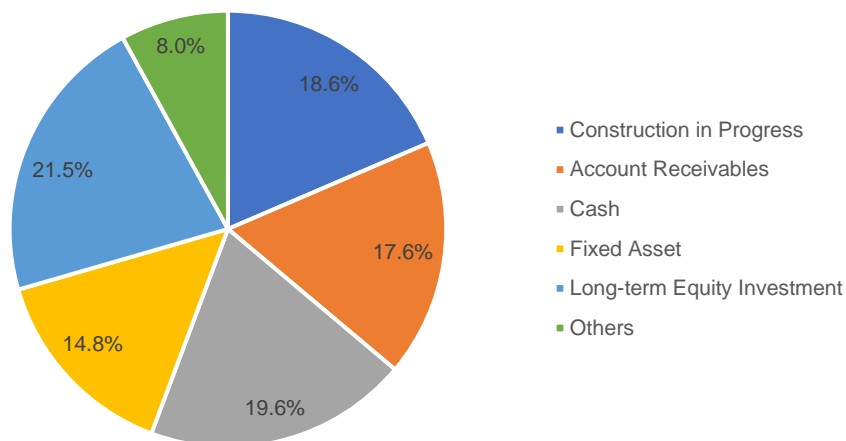
Balance Sheet Structure and Quality (RMB million)	2020	2021	2022	June 2023
Total Asset	9,505	18,037	20,388	23,062
Equity	4,262	6,846	8,060	8,108
Debt	3,862	8,988	11,191	14,255
Debt/(Debt+Equity) (%)	47.5	56.8	58.1	63.7
LT Debt	2,312	5,817	6,385	8,251
LT Debt/(LT Debt+Equity) (%)	35.2	45.9	44.2	50.4

Source: The company and Lianhe Global's calculation

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 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.

Asset Breakdown

Total Assets: RMB23.1 billion at end-June 2023



Source: The company and Lianhe Global's Calculation

JYPG's asset liquidity was moderately weak, as non-current assets accounted for 58.1% of the company's total asset at end-June 2023. The company's project development activities accumulated sizeable fixed asset and construction in progress, amounting to RMB3.4 billion and 4.3 billion, respectively, at end-June 2023. These assets mainly consisted of facilities such as pipe galleries and natural gas storage stations, which usually has a long construction and payback period. At the same time, the company had long-term equity investment valued at RMB5.0 billion, which was mostly invested in industrial companies and factories within Xuwei New District, to support the regional economy development.

Meanwhile, a considerable amount of JYPG's assets, including cash and lands, were pledged for loans. The total restricted assets amounted to RMB3.1 billion, accounting for 13.3% of JYPG's total asset. Furthermore, accounts receivable, which were primarily due from government agencies and other LIDCs in local area, amounted to RMB4.1 billion at end-June 2023. The collection schedule of accounts receivable was subject to the local government's fiscal conditions.

Debt Servicing Capability

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.



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