

Yangzhong Oasis Industry Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	26 January 2024

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhong Oasis Industry Investment Group Co., Ltd. (“YZOI” 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 YZOI if needed. This mainly considers the Yangzhong government’s full ownership of YZOI, YZOI’s strategic importance as an important local investment and development company (“LIDC”) responsible for infrastructure construction and asset operation in Yangzhong City (“Yangzhong”), and the strong linkage between the Yangzhong government and YZOI, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Yangzhong government may face significant negative impact on its reputation and financing activities if YZOI encounters any operational and financial difficulties.

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

Rating Rationale

Yangzhong Government’s Ownership and Supervision: The Yangzhong government directly holds 100% shares of YZOI. The Yangzhong government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Yangzhong government formulates 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: YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. YZOI is mainly engaged in the investment and construction of urban transportation infrastructure, industrial parks, shantytown renovation and other key projects, as well as industrial investment and asset management in Yangzhong. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Yangzhong government provided ongoing support to YZOI. The company has had a stable track record of receiving subsidies of around RMB591 million from the Yangzhong government every year since 2020. We expect YZOI to receive ongoing support from the Yangzhong government in the coming years considering its strategic importance in Yangzhong.

Economy and Fiscal Condition of Yangzhong: Yangzhong is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Zhenjiang City on behalf of Jiangsu Province. Yangzhong’s economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 54.3% and 42.6% in 2022, respectively. GDP per

Key Figures of Yangzhong and YZOI (RMB billion)

Yangzhong	2021	2022
GDP	55.1	58.6
GDP growth rate (%)	11.1	5.0
Budgetary revenue	3.8	3.6
Government fund	5.4	5.0
Transfer payment	1.2	1.4
Budgetary expenditure	6.0	6.1
YZOI	2022	2023.6
Asset	45.2	45.5
Equity	23.5	23.4
Revenue	1.8	0.7

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

Analysts

Sigmund Jiang, CFA, CESGA
 (852) 3462 9582
sigmund.jiang@lhratingsglobal.com

Toni Ho, CFA, FRM
 (852) 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

capita of Yangzhong was c. RMB185,400 in 2022, which was higher than the GDP per capita of Zhenjiang (c. RMB148,200) as well as that of China (c. RMB85,700).

The Yangzhong government's budgetary revenue decreased to c. RMB3.6 billion in 2022 from c. RMB3.8 billion in 2021, mainly due to large-scale value-added tax credit refund policy. The Yangzhong government's aggregate revenue relied on the income from the government fund income which contributed c. 50% of 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.

YZOI's Financial and Liquidity Position: YZOI's total assets declined in 2022, which was mainly due to the repayment of debts. Correspondently, its financial leverage has shown a significant downward trend since 2021. The company's total debt also decreased to RMB18.0 billion at end-June 2023 from RMB23.5 billion at end-2020, while its equity remained largely stable in the past few years. As a result, the company's financial leverage (total debt to capitalization) decreased to 43.5% at end-June 2023 from 51.0% at end-2020.

The liquidity of YZOI was tight. At end-June 2023, JZHG had cash of RMB2.1 billion (including restricted cash of RMB1.7 billion), compared to its short-term debts of RMB6.2 billion. Nevertheless, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. In addition, the company had unused bank lines of RMB1.8 billion.

Rating Sensitivities

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

We would consider upgrading YZOI'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 directly under the jurisdiction of Jiangsu Province and managed by Zhenjiang City on behalf of Jiangsu Province. Yangzhong's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 54.3% and 42.6% in 2022, respectively. GDP per capita of Yangzhong was c. RMB185,400 in 2022, which was higher than the GDP per capita of Zhenjiang (c. RMB148,200) as well as that of China (c. RMB85,700).

Yangzhong's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	49.0	55.1	58.6
-Primary industry (%)	3.4	3.2	3.2
-Secondary industry (%)	51.5	52.5	54.3
-Tertiary industry (%)	45.1	44.3	42.6
GDP growth rate (%)	3.8	11.1	5.0
Fixed asset investment	9.0	10.9	12.3

Fixed asset investment growth rate (%)	9.8	18.1	13.0
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 decreased to c. RMB3.6 billion in 2022 from c. RMB3.8 billion in 2021, mainly due to large-scale value-added tax credit refund policy. The Yangzhong government's aggregate revenue relied on the income from the government fund income which contributed c. 50% of 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.

Yangzhong's Fiscal Condition (RMB billion)	2020	2021	2022
Budgetary revenue	3.5	3.8	3.6
Budgetary revenue growth rate (%)	2.9	8.6	-4.9
Tax revenue	2.8	3.0	2.7
Tax revenue (% of budgetary revenue)	80.0	80.0	74.4
Government fund income	5.3	5.4	5.0
Transfer payment	1.5	1.2	1.4
Aggregate revenue	10.9	10.5	10.1
Budgetary expenditure	5.8	6.0	6.1
Budget balance ¹ (%)	-66.9	-57.7	-69.3

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Full Government Ownership

Established in October 2019, YZOI was formerly known as Yangzhong Fuheng Asset Management Co., Ltd. The company's registered capital was enlarged to RMB100.0 million in July 2023. In August 2023, the Yangzhong government changed the company's name to YZOI, and allocated 100% of the equity of Yangzhong Oasis New City Industrial Group Co., Ltd. to YZOI. The Yangzhong government is the controlling shareholder of the company. It held 100% of YZOI's equity at end-August 2023.

Strategic Importance and Government Linkage

Strategic Importance of YZOI to Yangzhong

YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. YZOI is mainly engaged in the investment and construction of urban transportation infrastructure, industrial parks, shantytown renovation and other key projects, as well as industrial investment and asset management in Yangzhong. Its 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 Yangzhong government directly holds 100% shares of YZOI. The Yangzhong government has strong control over the company, including the appointment of senior

management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Yangzhong government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

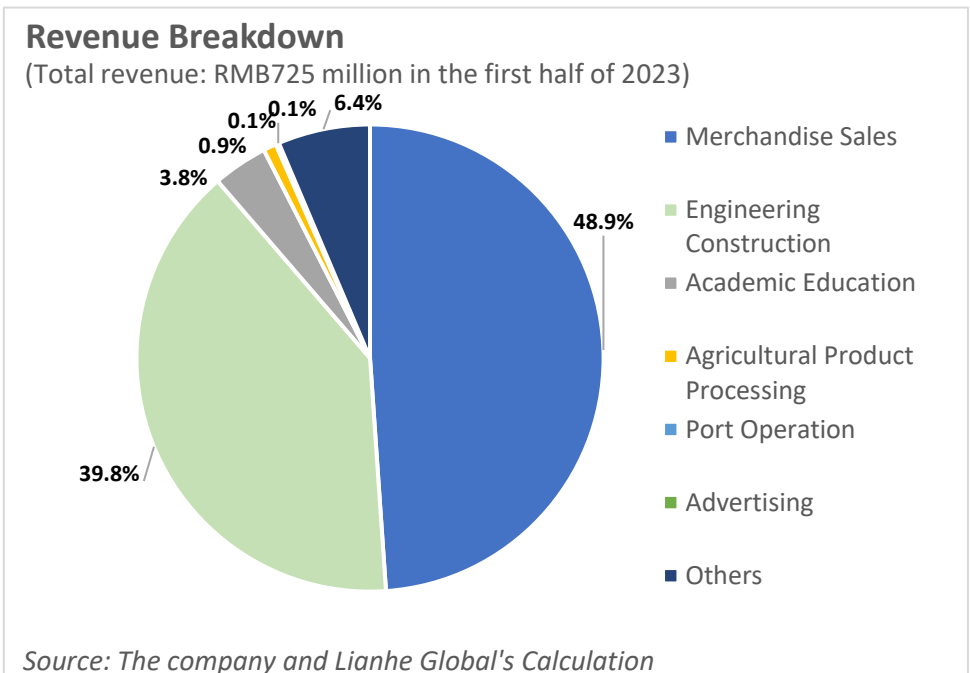
Ongoing Government Support

The Yangzhong government provided ongoing support to YZOI. The company has had a stable track record of receiving subsidies of around RMB591 million from the Yangzhong government every year since 2020. We expect YZOI to receive ongoing support from the Yangzhong government in the coming years considering its strategic importance in Yangzhong.

Business Profile

The Important Entity Responsible for Infrastructure Construction in Yangzhong

YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. The primary sources of operating revenue for YZOI are merchandise sales, engineering construction, property sales, and academic education. Besides, the company also generates revenue from agricultural product processing, port operation and advertising, etc.



Merchandise Sales

As a major source of revenue for YZOI, the merchandise sales business plays an important role to its business structure. YZOI is mainly engaged in the sales of coal, copper bars, building materials, etc.

Engineering Construction

The company undertakes projects such as industrial parks, shantytown renovation and infrastructure projects in Yangzhong. Upon the completion of these projects, the project owners would pay the construction costs incurred plus a certain percentage of profit margin to the company.

Other Businesses

Other businesses of YZOI include property sales, academic education, agricultural product processing, port operation, advertising, etc. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

Financial Profile

Balance Sheet Structure and Quality

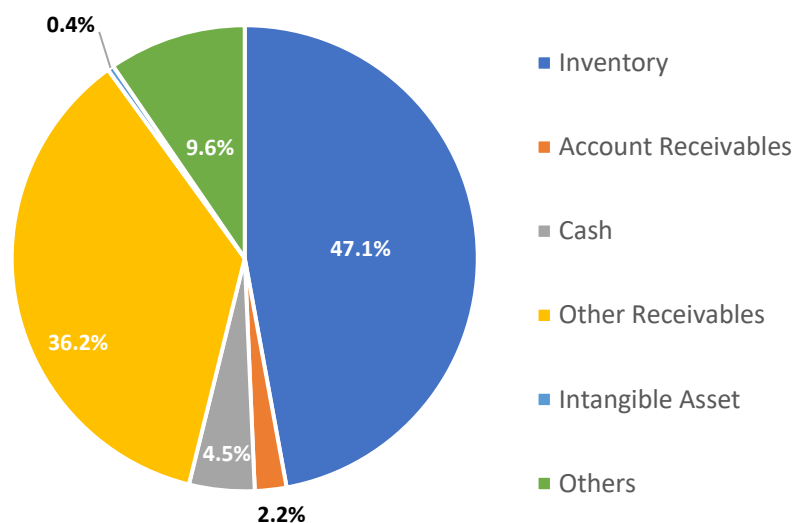
Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	2023.6
Total Asset	47,727	48,506	45,228	45,524
Equity	22,582	23,228	23,475	23,440
Debt	23,495	23,577	21,451	18,014
Debt / (Debt + Equity) (%)	51.0	50.4	47.7	43.5
LT Debts	14,430	14,639	12,552	11,780
LT Debt / (LT Debt + Equity) (%)	39.0	38.7	34.8	33.4

Source: YZOI and Lianhe Global's calculations

YZOI's total assets declined in 2022, which was mainly due to the repayment of debts. Correspondently, its financial leverage has shown a significant downward trend since 2021. The company's total debt also decreased to RMB18.0 billion at end-June 2023 from RMB23.5 billion at end-2020, while its equity remained largely stable in the past few years. As a result, the company's financial leverage (total debt to capitalization) decreased to 43.5% at end-June 2023 from 51.0% at end-2020.

Asset Breakdown

(Total Assets: RMB45.5 billion at end-June 2023)



Source: The company and Lianhe Global's Calculation



YZOI's asset liquidity was moderately weak. As the company actively participated in project development in Yangzhong, it accumulated sizeable inventories (mainly lands to be developed), which amounted to RMB21.5 billion at end-June 2023, accounting for 47.0% of the company's total assets. These inventories usually take a long time to monetize due to prolonged construction, recognition and cash collection periods. In addition, YZOI had other receivables and accounts receivable totaling RMB17.5 billion at end-June 2023, which was mainly due from other SOEs and LIDCs in Yangzhong.

Debt Servicing Capability

The liquidity of YZOI was tight. At end-June 2023, JZHG had cash of RMB2.1 billion (including restricted cash of RMB1.7 billion), compared to its short-term debts of RMB6.2 billion. Besides, the company also has access to various financing channels, including bank borrowings, and bond issuances, to support its debt repayments and business operations. In addition, the company had unused bank lines of RMB1.8 billion.

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