

Yancheng High-tech Zone Investment Group Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Yancheng High-tech Zone Investment Group Co., Ltd. (“YHZIG” or “the company”) to ‘BBB’ from ‘BBB-’; Issuer Rating Outlook remains Positive

Summary

The Issuer Credit Rating upgrade reflects an upgrade in our internal credit assessment on Jiangsu’s Yancheng Municipal People’s Government (“the Yancheng government”) and the expectation of continuing of a high possibility that the Yancheng government would provide strong support to YHZIG if needed, in light of its 100% ownership of YHZIG, YHZIG’s strategic position as an important developing and operating entity in Yancheng, especially in Yancheng High-tech Zone, and the strong linkage between the Yancheng government and YHZIG, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yancheng government may face significant negative impact on its reputation and financing activities should YHZIG encounter any operational or financial difficulties.

The Positive Outlook reflects our expectation that the Yancheng government’s support to YHZIG would be strengthened, while the Yancheng government will continue to ensure YHZIG’s stable operation.

Rating Rationale

Government’s Ownership and Supervision: The Yancheng government directly and wholly owns YHZIG. It has strong control and supervision over YHZIG, including the appointment of senior management, and decision on major strategy, investment and financial planning. In addition, the Yancheng government has established an assessment mechanism for YHZIG and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: YHZIG’s business operation and development have been aligned with the local government’s economic and social policies. It is the sole local investment and development company (“LIDC”) responsible for infrastructure construction and primary land development in Yancheng High-tech Zone, a state-level high-tech zone playing an important role in industry upgrading in Yancheng.

Ongoing Government Support: The local government provides ongoing financial support to YHZIG to support its operations, amounting to RMB705 between 2020 and the first nine months of 2023. In addition, YHZIG received substantial asset injection from the Yancheng government in 2021, including cash of RMB1.6 billion and other assets, such as properties and equity of other LIDCs and SOEs in Yancheng, of RMB968 million. In order to support the development of YHZIG, its registered capital was enlarged to RMB5 billion from RMB3 billion in 2022, of which RMB2.9 billion was paid in. We expect that Yancheng government’s support to YHZIG would be strengthened given its strategic importance.

Economy and Fiscal Condition of Yancheng: Yancheng’s GDP growth rate accelerated to 5.9% from 4.6% in 2022, realizing a GDP of RMB740.4 billion in 2023. Its economic structure was largely stable, with primary, secondary and tertiary industries contributing

Summary

Issuer Rating	BBB
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	4 March 2024

Key Figures of Yancheng and YHZIG (RMB billion)

Yancheng	2022	2023
GDP	703.9	740.4
GDP growth rate (%)	4.6	5.9
Budgetary revenue	45.3	48.3
Government fund	74.3	81.0
Transfer payment	42.0	46.0
Budgetary expenditure	109.4	122.8
YHZIG	2022	2023.9
Asset	85.3	91.1
Equity	27.1	28.8
Revenue	2.9	2.4

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

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Applicable Criteria

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

11.1%, 40.3% and 48.7% to aggregate GDP, respectively. Fixed asset investment of Yancheng continued to grow rapidly in 2023, with a year-over-year growth rate of 9.2%.

Both the Yancheng government's budgetary revenue and government fund income bounced back in 2023. Nevertheless, its budget deficit further deteriorated to 154.5% in 2023 from 146.7% in 2022. The Yancheng government's leverage was relatively high. The government debt totalled RMB165.5 billion at end-2023, up from RMB153.5 billion at end-2022, mainly due to the new issuance of special debt to support public projects within the region. Yet its debt ratio, as measured by total government debt/aggregate revenue, lifted to 92.8% in 2023 from 96.9% in 2022 as a result of increase in its aggregate revenue.

YHZIG's Financial Matrix and Liquidity Position: YHZIG's balance sheet structure was largely stable between end-2022 and end-September 2023. As measured by debt/capitalization, the company's leverage remained at a moderately high level of 67-68%. However, YHZIG's asset liquidity was relatively low. The company's ongoing participation in infrastructure construction and primary land development in Yancheng High-tech Zone had accumulated sizeable construction costs booked on inventories, which increased to RMB35.4 billion from RMB32.2 billion over the same period. In particular, the challenging property market conditions weakened Yancheng's land sale, and thus slowed down the delivery and cash collection for completed primary land development projects. In addition, YHZIG had a sizeable amount of other receivables (mainly due from government agencies, SOEs and other LIDCs in Yancheng), which increased to RMB18.5 billion at end-September 2023 from RMB17.7 billion at end-2022. The overall collection efficiency remained low, and the repayment schedule was uncertain.

YHZIG's short-term debt servicing pressure was moderately high. At end-September 2023, YHZIG had a cash balance of RMB6.2 billion (unrestricted cash of RMB910 million), compared with short-term debts of RMB23.0 billion. YHZIG has access to multiple financing channels, including bank loans, bond issuance and non-traditional financings, to support its debt repayments and operation. The company had unused bank facilities amounting to RMB16.1 billion at end-September 2023. Nevertheless, rolling over its short-term bank loans and obtaining extraordinary financial support from the local government are important to YHZIG.

Rating Sensitivities

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

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

Company Profile

YHZIG, established in 2009, is wholly and directly owned by the Yancheng government. It is the sole LIDC responsible for infrastructure construction and primary land development in Yancheng High-tech Zone. YHZIG also engages in state-owned assets operation, such as property leasing and management and material trading.

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