# Nanyang Investment Group Co., Ltd.
## Surveillance Issuer Report

| Summary | |
|---|---|
| Issuer Rating | BBB+ |
| Outlook | Stable |
| Location | China |
| Industry | Local Investment and Development Companies |
| Date | 16 May 2024 |

| Key Figures of Nanyang and NYIC (RMB billion) | | |
|---|---|---|
| Nanyang | **2022** | **2023** |
| GDP | 455.5 | 457.2 |
| GDP growth rate (%) | 4.8 | 4.8 |
| Budgetary revenue | 25.7 | 28.9 |
| Government fund | 16.9 | 15.9 |
| Transfer payment | 25.3 | - |
| Budgetary expenditure | 77.7 | 82.1 |
| NYIC | **2022** | **2023.9** |
| Asset | 52.2 | 59.0 |
| Equity | 18.6 | 19.1 |
| Revenue | 2.55 | 3.36 |

*Source: Public information, NYIC and Lianhe Global's calculations*

**Analysts**
Roy Luo, FRM, CESGA
(852) 3462 9582
roy.luo@lhratingsglobal.com

Jack Li, CESGA
(852) 3462 9585
jack.li@lhratingsglobal.com

Karis Fan, CESGA
(852) 3462 9579
karis.fan@lhratingsglobal.com

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

**Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB+' global scale Long-term Issuer Credit Rating of Nanyang Investment Group Co., Ltd. ("NYIC" or "the company"); Issuer Rating Outlook Stable**

## Summary

The Issuer Credit Rating reflects a high possibility that Nanyang Municipal People's Government ("the Nanyang government") would provide strong support to NYIC if needed, in light of its 100% ownership of NYIC, NYIC's strategic position as the core local investment and development company ("LIDC") responsible for project development and city operation in Nanyang, and the strong linkage between the Nanyang government and NYIC, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Nanyang government may face significant negative impact on its reputation and financing activities should NYIC encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that NYIC's strategic importance would remain intact while the Nanyang government will continue to ensure NYIC's stable operation.

## Rating Rationale

**Nanyang Government's Full Ownership:** In 2023, the Nanyang government initiated a LIDC consolidation, setting up Nanyang Guokong Investment and Operation Group Co., Ltd ("NGIO") based on NYIC. Finance Bureau of Nanyang transferred 100% shares of NYIC to NGIO after its establishment.

As the ultimate controller, the Nanyang government has strong control and supervision over NYIC, senior management appointments, major strategic, investment and financing planning. In addition, the Nanyang 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:** NYIC remaines as the core LIDC in Nanyang. The company undertakes major development projects in Nanyang, including city infrastructures, public facilities, shantytown renovations and river control. NYIC also operates the city's public utilities such as sewage treatment.

NYIC's strategic planning and development have been aligned with the local government's economic and social policies. The company's operations promote Nanyang's urban development and support local economic growth.

**Ongoing Government Support:** NYIC received ongoing support from the local government, including asset injection and financial subsidies. Between 2022 and the first nine months of 2023, NYIC financial subsidies of RMB532 million, mainly for supporting projects related to infrastructure or special projects. In addition, the local government injected an array of assets into NYIC over the same period, enlarging its equity base to RMB19.1 billion at end-September 2023 from RMB18.4 billion at end-2021. We believe NYIC is likely to continue to receive timely government support in the future.

**Economic and Fiscal of Nanyang:** Nanyang, formerly known as Wan, is a sub-central city of Henan Province. It is an important transportation hub in the central China region and a regional central city in the border area between Henan, Hubei and Shaanxi. Nanyang's aggregate GDP, amounting to RMB457.2 billion in 2023, was ranked 3rd among 18 jurisdictions in Henan Province. However, Its GDP per capita was relatively low, which was RMB47,846, and was ranked 13th in Henan province. Nanyang's economic growth remained stable, recording at 4.8% in 2023 (2022: 4.8%). As the government boosted investment in infrastructures and the industrial sector to support the economy, the fixed asset investment growth rate of Nanyang increased to RMB657.1 billion in 2023 from RMB621.1 billion.

The Nanyang government's budgetary revenue grew to RMB28.9 billion in 2023 from RMB25.7 billion in 2022. Its budgetary balance improved but remained moderately high, which was -183.7% in 2023, narrowing from -202.3% in 2022. In addition, as the Nanyang government borrowed heavily in special debts to support its public projects, its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, had increased to 120.2% at end-2023 from 107.5% at end-2022.

**NYIC's Financial and Liquidity Position:** NYIC's total assets increased by 13.1% to RMB59.0 billion at end-September 2023 from RMB52.2 billion at end-2022, mainly due to the increase of other non-current assets and inventories, with moderately weak liquidity. Its inventories mainly included land use rights injected by the government and acquired through open bids, as well as construction costs generated by the company's project construction activities. The other non-current assets mainly included non-profit nature forest assets, investments in PPP and railroad projects. We believe these assets are hard to be monetized in a short time if needed.

NYIC mainly relied on borrowings to fund its project construction activities. The total debt increased by 21.8% to RMB25.4 billion at end-September 2023, up from RMB20.9 billion at end-2022. NYIC's financial leverage increased slightly to 67.6% from 64.4% over the same period.

In addition, NYIC's debt servcing pressure is moderaly high. At end-September 2023, NYIC had short-term debt of RMB9.3 billion, compared with its cash balance of RMB 3.7 billion. Yet NYIC has access to multiple financing channels, including bank loans, bond issuances and other non-traditional financing channels to support its debt repayment and business operation. The company had unused bank lines of RMB16.8 billion at end-June 2023.

## Rating Sensitivities

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

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

## Company Profile

NYIC is a wholly state-owned company established by the Nanyang government in 2009. In 2023, Finance Bureau of Nanyang transferred 100% shares of NYIC to NGIO under the policy backdrop of LIDC consolidation. Yet the company remains as the core investment and development platform in Nanyang.

NYIC undertakes major development projects in Nanyang, including city infrastructures, public facilities, shantytown renovations and river control, and operates the city's public utilities such as sewage treatment. In addition, the company has diversified into trading, leasing and other businesses.

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