

# Suqian Yunhe Port Area Development Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	28 May 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Suqian Yunhe Port Area Development Group Co., Ltd. (“SYPAD” or “the company”); Issuer Rating Outlook Stable

### Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Sucheng District, Suqian City (“Sucheng government”) would provide strong support to SYPAD if needed, in light of its indirect ownership of SYPAD, SYPAD’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction, land development and project investment in supporting facilities in Sucheng District, Suqian City (“Sucheng”), especially in the Suqian Canal Port Area (“Port Area”), and the linkage between the Sucheng government and SYPAD, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Sucheng government may face significant negative impact on its reputation and financing activities if SYPAD encounters any operational and financial difficulties.

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

### Rating Rationale

**Sucheng Government’s Ownership and Supervision:** The Sucheng government indirectly holds 49% ownership of SYPAD through Suqian Huinong Industry Development Co. Ltd. (“SHID”), via the Sucheng State-owned Assets Management Center (“Sucheng SAMC”), and is the actual controller of the company. The remaining 51% ownership of SYPAD is held by the People’s Government of Suqian City (“Suqian government”), via Suqian Industrial Development Group Co. Ltd. (“SIDG”). The Sucheng government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Sucheng government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Strategic Importance and Strategic Alignment:** SYPAD remains as the sole LIDC in the Port Area. It is primarily responsible for infrastructure construction, land development and project investment in supporting facilities within the region with strong regional advantages. The company is responsible for the demolition, land consolidation, municipal projects construction and utility network development in the Port Area. In addition, in order to attract business and investment in the Port Area, the company invests in the construction of industrial factories and other supporting facilities for enterprises settling in the area. SYPAD plays an important

### Key Figures of Sucheng and SYPAD (RMB billion)

Sucheng	2022	2023
GDP	52.5	56.2
GDP growth rate (%)	3.3	7.7
Budgetary revenue	3.1	3.8
Government fund	2.3	1.8
Transfer payment	1.1	3.5
Budgetary expenditure	5.8	6.1
SYPAD		
Asset	14.4	15.3
Equity	4.8	4.9
Revenue	0.8	0.7

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

### Analysts

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### Applicable Criteria

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

role in promoting the economic and social development of the region. Its business operation and development have been aligned with the government's development plans.

**Ongoing Government Support:** SYPAD received operational and financial support from the government. SYPAD received a total subsidy amount of RMB175.3 million from 2021 to 2023, mainly including operating subsidies. The Sucheng government also injected special fund to the company, which served as state-owned capital investment for the company's infrastructure projects. The Sucheng government will repurchase some infrastructure projects and provide policy supports to SYPAD to ensure its business operation. Given the regional advantages in infrastructure construction and land development in Sucheng, especially in the Port Area, SYPAD has advantage to obtain major projects. We believe SYPAD is likely to receive government support in the form of operational and financial subsidies to support its daily business operation.

**Economic and Fiscal of Sucheng:** Sucheng is an administrative district located in the western part of the central of Suqian City, Jiangsu Province ("Suqian") with a total land area of c. 854 square kilometers. Sucheng maintained steady economic growth in the past few years. Its GDP reached RMB56.2 billion in 2023, representing a year-on-year growth rate of 7.7%, up from 3.3% recorded in 2022.

Sucheng government's aggregate fiscal revenue was mainly derived from budgetary revenue, government fund income and transfer payment. Although the tax revenue decreased by 1.9% year-on-year to RMB2.9 billion in 2023, the non-tax revenue had a rapid growth, thus the budgetary revenue increased to RMB3.8 billion in 2023, represented a year-on-year growth rate of 22.7%. The government fund income was reduced by c. 20% year-on-year to RMB1.8 billion in 2023, mainly due to the decreased of land use right transfer income amid challenging property market conditions. The financial self-sufficiency rate of Sucheng was inadequate, as it experienced deficit for three consecutive years, and the budget deficit rate reached -59.2% in 2023. The outstanding amount of government debt expanded in the past three years. At end-2023, the outstanding government debt amounted to RMB8.8 billion, and the debt ratio (i.e., total government debt divided by aggregate revenue) increased to 95.1% at end-2023 from 82.5% at end-2022.

**SYPAD's Financial and Liquidity Position:** SYPAD's total asset size grew moderately to RMB15.3 billion at end-2023 from RMB14.4 billion at end-2022, largely attributed to the increase of inventory. The company's financial leverage, as measured by total liability/total asset was elevated to 68.0% at end-2023 from 66.7% at end-2022. Its debt structure was improving, with long-term debt's proportion slightly increasing to 68.0% at end-2023 from 62.3% at end-2022, thus the company's short-term debt pressure eased up at a certain extent.

SYPAD's debt servicing pressure is moderately high. At end-2023, SYPAD had short-term debt of RMB2.8 billion, compared with its cash balance of RMB549.2 million. Yet SYPAD has access to multiple financing channels, including bank loans, bond issuance and other non-traditional financing channels to support its debt repayment and business operation.

### Rating Sensitivities

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

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

### Company Profile

SYPAD was established in January 2013 with an initial registered capital of RMB0.3 billion, co-funded by SIDG and SHID. At end-2023, the company's registered and paid-in capital were both RMB0.3 billion. The company has a shareholding structure in which the SIDG held 51% of the company's equity and the remaining 49% equity was held by SHID.

SYPAD is primarily responsible for infrastructure construction, land development and project investment in supporting facilities within the region with strong regional advantages. The company is responsible for the demolition, land consolidation, municipal projects construction and utility network development in the Port Area.



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