

Yangzhou Hanjiang State-owned Capital Investment Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	3 June 2024

Key Figures of HJSI and Hanjiang District

(RMB billion)

Hanjiang District	2022	2023
GDP	114.6	120.5
GDP growth rate (%)	3.3	6.3
Budgetary revenue	4.5	5.1
Government fund	4.6	5.3
Transfer payment	3.0	2.7
Budgetary expenditure	4.5	4.9
HJSI	2022	2023
Asset	28.4	33.8
Equity	13.8	19.4
Revenue	1.29	1.30

Source: Public information, HJSI and Lianhe Global's calculations

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yangzhou Hanjiang State-owned Capital Investment Group Co., Ltd. (“HJSI” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Hanjiang District (“the Hanjiang government”) would provide very strong support to HJSI if needed, in light of its full ownership of HJSI, HJSI’s strategic importance as an important local investment and development company (“LIDC”) responsible for project development in Yangzhou’s Hanjiang District (“Hanjiang”), and the linkage between the Hanjiang government and HJSI, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Hanjiang government may face significant negative impact on its reputation and financing activities if HJSI encounters any operational and financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: Finance Bureau of Hanjiang District (“Finance Bureau”) holds 100% shares of HJSI and is the company’s actual controller. The Hanjiang government has strong control and supervision over the company, including management appointment, decision on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise its operating performance and financials on a periodic basis.

Strategic Importance and Alignment: According to Hanjiang’s State Owned Enterprises reorganization plans in 2023, HJSI is positioned as a major platform in Hanjiang. The company is responsible for project development in Jiangsu Yangzhou Weiyang Economic Development Zone (“Weiyang EDZ”), Yangzhou National High Technology and New Technology Industry Development Zone (“Yangzhou High-Tech Zone”), and several other industrial parks within the region. The company’s business operation plays a significant role in improving infrastructure and promoting local industrial development. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: The Hanjiang government provides ongoing support to HJSI. The Hanjiang government initiated two rounds of substantial cash capital injections to HJSI amounting to RMB700 million and RMB5.0 billion in 2021 and 2023, respectively. The company also received asset injections and operational support from the local government between 2021 and 2023. We expect the support from the local government to remain intact given HJSI’s strategic importance in Hanjiang.

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Applicable Criteria

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

Economy and Fiscal Condition of Hanjiang: Hanjiang is a municipal district under the jurisdiction of Jiangsu's Yangzhou City ("Yangzhou"). Hanjiang's GDP growth rate fluctuated in the past few years, owing to Covid's disruption. The GDP amount of Hanjiang reached RMB120.5 billion in 2023, which was ranked 2nd out of six jurisdictions of Yangzhou. Located in the northwestern part of Yangzhou's urban area, Weiyang EDZ focuses on the development of four leading industries, namely equipment manufacturing, automobile and parts, medicine and health, software development.

The budgetary revenue of Hanjiang government rebounded to RMB5.1 billion in 2023 from RMB4.5 billion in 2022. The fiscal self-sufficiency capacity of the Hanjiang government was moderately weak, with budget deficit of 58.3% in 2023, despite the narrowing trend in the past few years. The government fund income, accounting for c.40% of its aggregate fiscal revenue and mainly generated from land sales, remained relatively weak, owing to the property market downturn.

The outstanding debt of the Hanjiang government continued to grow in the past three years, mainly due to the new issuance of special debts to support local public projects. As a result, the Hanjiang government's fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 100.8% at end-2023 from 72.3% at end-2021.

HJSI's Financial and Liquidity Position: HJSI's total asset increased rapidly to RMB33.8 billion at end-2023 from RMB25.9 billion at end-2021 as the company actively participated in Hanjiang's project development. The company relied on borrowings as well as asset and capital injections from local government to fund its asset expansion. Its company's financial leverage, as measured by debt/capitalization, was on a downward trend and stayed at a manageable level of 34.4% at end-2023.

However, HJSI's asset liquidity was weak, as the company had accumulated sizable inventories and accounts receivables from its project development activities, which added up to RMB25.5 billion at end-2023, representing 42.7% of its total asset. These project related assets usually take a long time to monetize due to the protracted construction and payment collection period (usually five years and some can be up to ten years). In addition, the company had other receivables amounting to RMB14.5 billion, mainly due from local government agencies and local SOEs. Their repayment schedules are highly subject to the fiscal conditions of the local government.

The short-term debt servicing pressure of HJSI was moderately high. The company heavily relied on bank borrowings and had used most of its bank facilities. At end-2023, the company had total credit lines of RMB8.4 billion, of which only RMB500 million was unused. The company had cash balance of RMB2.0 billion (including restricted cash of RMB1.3 billion), compared with its debts due within one year of RMB2.6 billion. Yet we expect the company to roll-over most of its short-term bank borrowings (end-2023: RMB1.1 billion).

Rating Sensitivities

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

We would consider upgrading HJSI's rating if there is an upgrade in our internal credit assessment on the Hanjiang government.

Operating Environment

Economic Condition of Hanjiang District

Hanjiang is a municipal district under the jurisdiction of Yangzhou, and is located in the western part of Yangzhou's main urban area. Hanjiang has jurisdiction over 6 towns and 8 streets, with a total land area of 553 square kilometers. It also owns one national-level high-tech zone, one provincial-level economic development zone and several other industrial parks. At end-2022, Hanjiang had a resident population of 0.86 million, with an urbanization rate of 87.8%.

Hanjiang's GDP growth rate fluctuated in the past few years, owing to Covid's disruption, which was 5.4%, 3.3% and 6.3% in 2021, 2022 and 2023, respectively. The GDP amount of Hanjiang reached RMB120.5 billion in 2023, which was ranked 2nd out of six jurisdictions of Yangzhou. The economy of Hanjiang was mainly boosted by the secondary and tertiary industries, which accounted for 40.9% and 57.3% of the GDP in 2023, respectively.

Weiyang EDZ was established in July 2001 and upgraded into a provincial-level economic development zone in 2006 with the approval of the Jiangsu provincial government ("the Jiangsu government"). Located in the northwestern part of Yangzhou's urban area, Weiyang EDZ had a planned area of 30 square kilometers. Weiyang EDZ focuses on the development of four leading industries, namely equipment manufacturing, automobile and parts, medicine and health, software development.

Hanjiang's GDP and Fixed Asset Investment

(RMB billion)	2021	2022	2023
GDP	120.9	124.7	120.5
-Primary industry (%)	2.0	2.0	1.9
-Secondary industry (%)	40.6	42.8	40.9
-Tertiary industry (%)	57.4	55.2	57.2
GDP growth rate (%)	5.4	3.3	6.3
Fixed asset investment	52.9	47.5	51.2
Fixed asset investment growth rate (%)	-5.4	-10.1	7.7
Population (million)	0.86	0.86	0.86*

* Estimated data

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Hanjiang District

The aggregate fiscal revenue of the Hanjiang government is mainly derived from budgetary revenue and government fund income. The budgetary revenue of Hanjiang government slumped to RMB4.5 billion in 2022 from RMB5.4 billion in 2021, but rebounded to RMB5.1 billion in 2023, with the contribution of tax revenue to budgetary revenue fluctuating between 74.9% and 84.7% in 2021-2023. The fiscal self-sufficiency capacity of the Hanjiang government was moderately weak, with budget deficit of 58.3% in 2023, despite the narrowing trend in the past few years. The government fund income, accounting for c.40% of its aggregate fiscal revenue and mainly generated from land sales, remained relatively weak, owing to the property market downturn.

The outstanding debt of the Hanjiang government continued to grow in the past three years. At end-2023, the Hanjiang government's outstanding debt reached RMB13.2 billion, up from RMB10.4 billion at end-2021, mainly due to the new issuance of special debts to support local public projects. As a result, the Hanjiang government's fiscal debt ratio, as measured

by total government debt outstanding/aggregate revenue, surged to 100.8% at end-2023 from 72.3% at end-2021.

Hanjiang's Fiscal Condition			
(RMB billion)	2021	2022	2023
Budgetary revenue	5.4	4.5	5.1
Budgetary revenue growth rate (%)	-9.5	-9.3	11.2
Tax revenue	4.3	3.4	4.3
Tax revenue (% of budgetary revenue)	79.1	74.9	84.7
Government fund income	5.7	4.6	5.3
Transfer payment	3.2	3.0	2.7
Aggregate revenue	14.3	12.1	13.1
Budgetary expenditure	8.9	7.5	8.0
Budget balance ¹ (%)	-62.7	-64.2	-58.3

¹ Budget balance = (1-budgetary expenditure / budgetary revenue) * 100%
 Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

HJSI, formerly known as Yangzhou Zhengkang Construction Investment Co., Ltd., was established in December 2010 with an initial registered capital of RMB200 million, funded by Yangzhou Hanjiang State-owned Asset Operation Co., Ltd. ("YHSAO"), another LIDC in Hanjiang.

After an array of capital injections and equity transfers, HJSI's registered and paid-in capital were increased to RMB8.23 billion at end-2023. Finance Bureau, as the actual controller, holds 100% shares of HJSI.

Strategic Importance and Government Linkage

Strategic Importance of HJSI to Hanjiang District

According to Hanjiang's State Owned Enterprises reorganization plans in 2023, HJSI is positioned as a major platform in Hanjiang. The company is responsible for project development in Weiyang EDZ, Yangzhou High-Tech Zone, and several other industrial parks within the region. The company's business operation plays a significant role in improving infrastructure and promoting local industrial development. Its strategic planning has been aligned with the local government's economic and social development plans.

Strong Linkage with the Local Government

HJSI's linkage with the local government is strong as Finance Bureau holds 100% stake in HJSI, and is the company's actual controller. The Hanjiang government has strong control and supervision over the company, including management appointment, decision on its strategic development, and supervision of its major investment and funding plans. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise its operating performance and financials on a periodic basis.

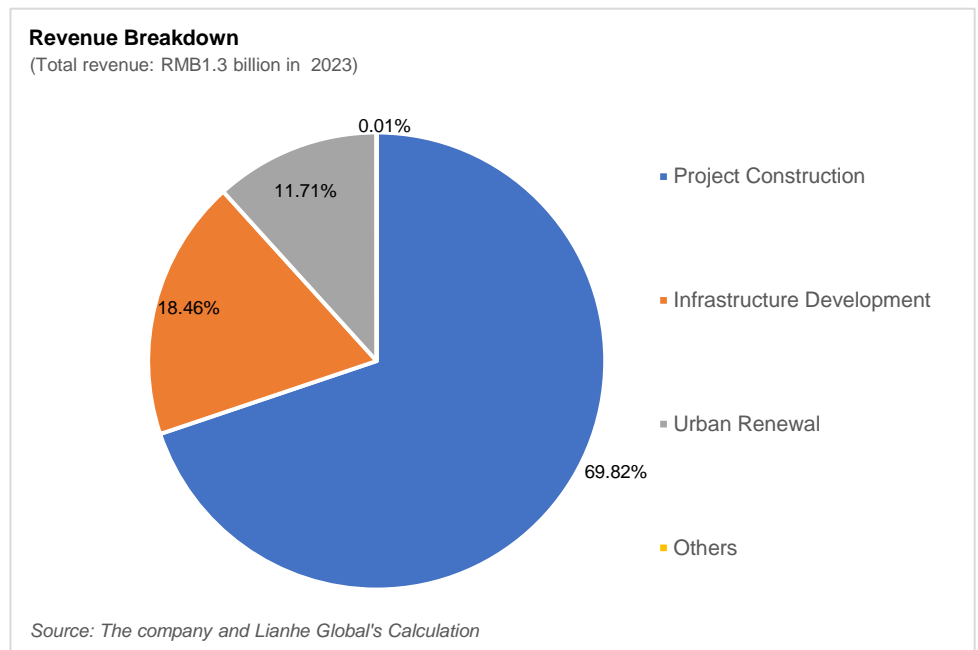
Ongoing Government Support

The Hanjiang government provides ongoing support to HJSI. The Hanjiang government initiated two rounds of substantial cash capital injections to HJSI amounting to RMB700 million and RMB5.0 billion in 2021 and 2023, respectively. The company also received assets such as stated-owned properties, shares of local SOEs and cash valued at RMB31.6 billion from the local government between 2021 and 2023. In addition, HJSI received operational support totaling RMB247 million over the same period. We expect the support from the local government to remain intact given HJSI’s strategic importance in Hanjiang.

Business Profile

An important LIDC Responsible for Project Development in Hanjiang

HJSI, as an important LIDC in Hanjiang, is mainly responsible for project development within the Weiyang EDZ, Yangzhou High-Tech Zone and several other industrial parks within the region. HJSI’s realized total revenue of RMB1.46 billion, RMB1.29 billion and RMB1.3 billion in 2021, 2022 and 2023, respectively. The overall gross profit margin of the company remained relatively stable at 14%-15% over the same period.



Project Construction and Infrastructure Development

HJSI participates in the construction of industrial parks, ecological conservation and other projects, and is responsible for the development of infrastructure such as pipeline network and other public facilities. For infrastructure projects, the company signs agreements with the entrusting parties (mainly local government agencies and SOEs) and is responsible for fundraising and construction of entrusted projects. The company usually settles construction costs plus a 20% of profits annually with the entrusting parties according to the project’s progress.

Currently, the company is working on several large-scale projects, which could support the segment's development in the next two to three years; yet it would also incur high capital expenditure pressure on the company.

Urban Renewal and Other Businesses

HJSI engages in urban renewal projects in certain area of Hanjiang. The company also operates industrial parks and commercial properties it developed or injected. The rental income derived from this segment was low in the past few years and its contribution to the company's total revenue was limited. Yet we expect HJSI's rental income to grow in the coming years as more projects to be completed and put into operation.

In addition, HJSI participates in human resource service and other businesses. However, they mainly play a supplementary role and have little impact on HJSI's financial position and creditworthiness.

Financial Profile

Balance Sheet Structure and Quality

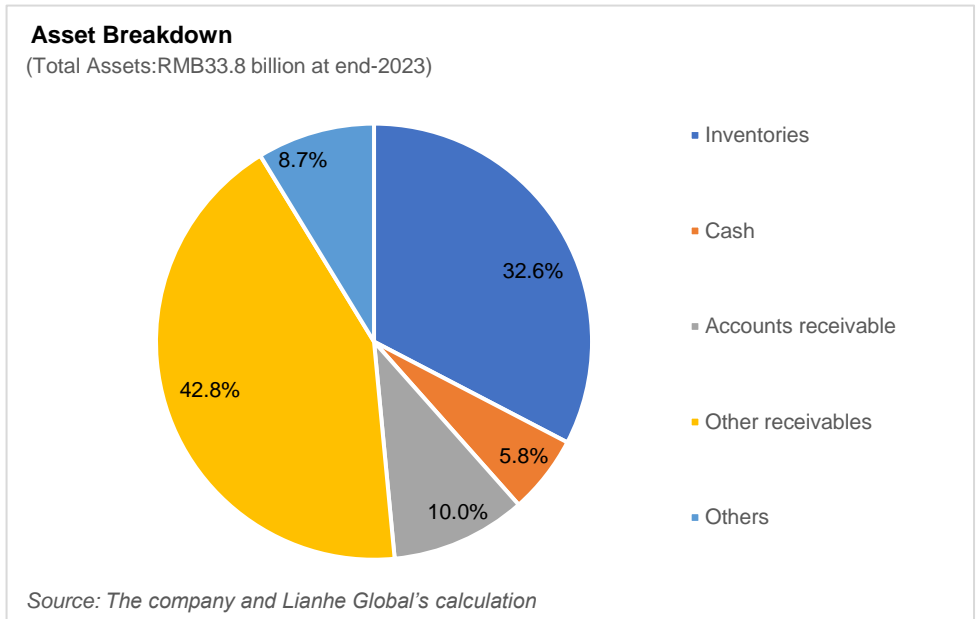
Balance Sheet Structure and Quality			
(RMB million)	2021	2022	2023
Total Asset	25,921	28,392	33,808
Equity	12,241	13,826	19,405
Debt	8,340	9,608	10,158
Debt / (Debt + Equity) (%)	40.5	41.0	34.4
LT Debts	4,394	6,493	7,524
LT Debt / (LT Debt + Equity) (%)	26.4	32.0	27.9

Source: HJSI and Lianhe Global's calculations

HJSI's total asset increased rapidly to RMB33.8 billion at end-2023 from RMB25.9 billion at end-2021 as the company actively participated in Hanjiang's project development. The company relied on borrowings as well as asset and capital injections from local government to fund its asset expansion.

HJSI's total debt reached RMB10.2 billion at end-2023, up from RMB8.3 billion at end-2021. Over the same period, HJSI received substantial asset and cash capital injections from the Hanjiang government, increasing its equity to RMB19.4 billion from RMB12.2 billion. As a result, the company's financial leverage, as measured by debt/capitalization, was on a downward trend and stayed at a manageable level of 34.4% at end-2023.

However, HJSI's asset liquidity was weak, as the company had accumulated sizable inventories and accounts receivables from its project development activities, which added up to RMB25.5 billion at end-2023, representing 42.7% of its total asset. These project related assets usually take a long time to monetize due to the protracted construction and payment collection period (usually five years and some can be up to ten years). In addition, the company had other receivables amounting to RMB14.5 billion, mainly due from local government agencies and local SOEs. Their repayment schedules are highly subject to the fiscal conditions of the local government.



Debt Servicing Capability

The short-term debt servicing pressure of HJSI was moderately high. The company heavily relied on bank borrowings and had used most of its bank facilities. At end-2023, the company had total credit lines of RMB8.4 billion, of which only RMB500 million was unused. The company had cash balance of RMB2.0 billion (including restricted cash of RMB1.3 billion), compared with its debts due within one year of RMB2.6 billion. Yet we expect the company to roll-over most of its short-term bank borrowings (end-2023: RMB1.1 billion).

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