

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Suqian Yufeng Industrial Investment Development Management Group Co., Ltd.

HONG KONG, 19 August 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Suqian Yufeng Industrial Investment Development Management Group Co., Ltd. (“SYII” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Suyu District of Suqian City (“Suyu government”) would provide strong support to SYII if needed, in light of its indirectly full ownership of SYII, SYII’s strategic importance as an important local investment and development company (“LIDC”) for infrastructure construction and state-owned assets operation in Suyu District (“Suyu”), and the linkage between the Suyu government and SYII, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing government support, etc. In addition, the Suyu government may face significant negative impact on its reputation and financing activities if SYII encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Suyu government indirectly holds 100% ownership of SYII through the State-owned Assets Supervision and Administration Office of the Suyu government (“Suyu SASAO”) and via Jiangsu Yundong Holding Group Co., Ltd. (“Yundong Group”), a state-owned entity wholly owned by the Suyu SASAO. The actual controller of the company was the Suyu SASAO. The Suyu government has strong supervision over SYII, including appointment and supervision of the senior management, strategy alignment and major investment and financing plan decisions. In addition, the Suyu government has formulated a performance appraisal policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Alignment: SYII is an important LIDC for infrastructure construction and state-owned assets operation in Suyu. SYII mainly undertakes Suyu’s municipal projects construction, including water conservancy projects and road renovation projects. The company also engages in affordable housing construction and sales within the region. SYII is in a dominant position in the urban infrastructure industry of Suyu, playing an important role in the urban construction and economic development for the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Strong Government Support: The Suyu government provides strong support to SYII. In 2020, the registered capital of the company increased from the initial of RMB100 million to RMB500 million, mainly increased by capital and physical assets injection from shareholder. Between 2021 and 2022, the company received asset injections from the Suyu government mainly in the form of cash, which reached about RMB322.0 million. Between 2020 and 2023, SYII received financial subsidies with the total amount of RMB138.2 million from the Suyu government. We expect the support from the local government to remain intact given SYII's strategic importance in Suyu.

Economy and Fiscal Condition of Suyu: Suyu is a district under the jurisdiction of Suqian City of Jiangsu Province ("Jiangsu"), and it is located in the north of Jiangsu. In 2023, the economic growth of Suyu accelerated, and its GDP was RMB46.4 billion, representing a year-on-year growth rate of 8.1%, up from 3.3% recorded in 2022. The budgetary revenue increased to RMB4.0 billion in 2023 from RMB3.5 billion in 2022, and the contribution of tax revenue increased to 90.0% from 82.0% over the same period. The fiscal self-sufficiency of the Suyu government was relatively weak but improving, with the budget deficit narrowing to 66.2% in 2023 from 83.6% in 2022. The transfer payment received from the higher government dropped to RMB2.9 billion in 2023 from RMB4.3 billion in 2022. The government fund income, most of which was derived from land use rights revenue, declined to RMB2.2 billion in 2023 from RMB3.0 billion in 2022, owing to weak property market. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Suyu government rose to 100.1% at end-2023 from 79.6% at end-2022.

SYII's Financial and Liquidity Position: SYII's total assets increased steadily to RMB28.7 billion at end-2023 from RMB23.7 billion at end-2021, as the company actively participated in affordable housing and infrastructure project development in Suyu. The total debt of the company increased to RMB12.6 billion at end-2023, compared with that at end-2021 (RMB9.9 billion), indicating the reliance on debt financing of SYII was heavier at end-2023 compared to that at end-2021. At end-2023, the short-term debt and long-term debt accounted for 30.0% and 70.0% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, ranged between 52.7% and 56.6% in 2021-2023.

SYII's liquidity was moderately weak. At end-2023, SYII had unrestricted cash balance of RMB450.3 million, compared with its debt to be due within one year of RMB3,790.4 million. However, SYII has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-2023, the company had unused credit facilities of RMB7,747.0 million.

Rating Sensitivities

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

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

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this SYII's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 31 July 2024, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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