



# Jiangsu Fangyang Group Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB+
Outlook	Positive
Location	China
Industry	Local Investment and Development Companies
Date	16 August 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Jiangsu Fangyang Group Co., Ltd. (“JFG”). Issuer Rating Outlook revised to Positive.

### Summary

The Issuer Credit Rating reflects a high possibility that the People's Government of Lianyungang City, Jiangsu Province (“Lianyungang government”) would provide strong support to JFG if needed, in light of its full ownership of JFG, JFG's strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and state-owned asset operation in Lianyungang City, Jiangsu Province (“Lianyungang”), especially in the Xuwei New District (“Xuwei District”), and the linkage between the Lianyungang government and JFG, 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 Lianyungang government may face significant negative impact on its reputation and financing activities if JFG encounters any operational and financial difficulties.

The Positive Outlook reflects our expectation that JFG's strategic importance would be strengthened given its expanding role in regional industry development. As the production capacities of several large-scale petrochemical projects in Xuwei District are gradually realized, the company is well-positioned to enhance its involvement in various aspects of regional industrial growth, including port logistics, utility sales, wastewater treatment, and environmental protection. Besides, the Lianyungang government will continue to ensure JFG's stable operation.

### Rating Rationale

**Lianyungang Government's Full Ownership:** The Lianyungang government indirectly holds the full ownership of JFG through its wholly-owned subsidiary, Jiangsu Fangyang Holdings Co., Ltd. (“JFH”), and it is the actual controller of the company. The Lianyungang 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 Lianyungang government has assessment mechanism over the company and appoints auditor to supervise the operating performance and financial position on a periodic basis.

**Government Supervision and Strategic Alignment:** JFG remains as the key LIDC in Lianyungang that is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as an important entity in charge of infrastructure projects and land development projects in the Xuwei District, JFG focuses on constructing municipal and engineering projects with strong regional advantages. Besides, the company leads in regional industrial development and spearheads key sectors like port logistics, utility investments, and environmental sustainability. JFG plays an important 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:** JFG received operational and financial support from the government. JFG received a total subsidy amount of RMB47.9 million from 2023 to the first

### Key Figures of Lianyungang and JFG

(RMB billion)	2022	2023
Lianyungang		
GDP	400.5	436.4
GDP growth rate (%)	2.4	10.2
Budgetary revenue	21.3	25.6
Government fund	31.1	33.0
Transfer payment	26.6	27.6
Budgetary expenditure	53.6	57.5
JFG	2023	2024.3
Assets	110.2	112.2
Equity	37.5	38.5
Revenue	17.7	4.77

Source: Lianyungang Bureau of Statistics, Lianyungang Finance Bureau, JFG and Lianhe Global's calculations

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### Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

three months of 2024, mainly including operating subsidies. The Lianyungang government continued to inject capitals and assets into JFG to expand its asset size. Besides, the Lianyungang government will repurchase some infrastructure projects through Xuwei New District Administration Commission and provide policy supports to JFG to ensure its business operation. Given it is the key entity for infrastructure construction and land development in Lianyungang, especially in the Xuwei District, JFG has an advantage in acquiring land resources and major infrastructure projects. We believe JFG is likely to receive government support to support its daily business operation.

**Lianyungang's Economy and Fiscal Condition:** Lianyungang's economic growth rate accelerated to 10.2% in 2023 from 2.4% in 2022, and the GDP amount of Lianyungang reached RMB436.4 billion in 2023, which was ranked 13<sup>th</sup> among all Jiangsu's jurisdictions. The economic structure of Lianyungang was mainly driven by the secondary and tertiary industries, which accounted for 46.1% and 43.9% of its GDP in 2023, respectively.

The aggregate fiscal revenue of the Lianyungang government was mainly derived from budgetary revenue and government fund income. The budgetary revenue of the Lianyungang government increased to RMB25.6 billion in 2023 from RMB21.3 billion in 2022, with the contribution of tax revenue elevated to 76.5% from 59.9% over the same period. The financial self-sufficiency of Lianyungang is insufficient and deteriorating, with the budget deficit widening to 124.5% in 2023 from 94.4% in 2022. In addition, the government fund income slightly rose to RMB27.6 billion in 2023 from RMB26.6 billion in 2022. The outstanding amount of the Lianyungang government's debt continued to expand in 2023, mainly due to the rise in special debts. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, declined to 84.5% at end-2023 from 85.4% at end-2022, mainly due to the larger increase in aggregate revenue.

**JFG's Financial Matrix and Liquidity Position:** JFG's total assets increased to RMB112.2 billion at end-March 2024 from RMB110.2 billion at end-2023, as the local government continuously allocated resources to the company. Its total debt expanded to RMB63.5 billion at end-March 2024 from RMB61.3 billion at end-2023, with the short-term debt accounting for 28.7% of the total debt. The company's financial leverage, as measured by total liability/total asset, slightly declined from 65.9% to 65.7% over the same period. JFG's asset liquidity was weak. The company's project construction activities accumulated sizeable investment properties, fixed assets and construction in progress, together accounting for 54% of total assets at end-March 2024.

JFG has access to multiple financing channels, including bank loans, bond issuance and non-traditional finance to support its debt repayment and business development. We believe JFG's overall liquidity is sufficient to support its debt repayments, as it had unrestricted cash of RMB6.4 billion and undrawn credit facilities of RMB30.5 billion as of end-March 2024, as compared with its debt of RMB19.9 billion to be due within one year.

## Rating Sensitivities

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

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



### Company Profile

JFG, formerly known as Lianyungang Xuwei Development Construction Co., Ltd, was established in April 2009 with an initial registered capital of RMB0.2 billion, funded by the Lianyungang government. After an array of capital injections, JFG's paid-in capital was RMB8.57 billion at end-March 2024. JFG has a shareholding structure in which JFH holds 100% of the company's equity.

JFG is the key LIDC in Lianyungang which is primarily responsible for infrastructure construction and state-owned asset management within the region. Serving as an important entity in charge of infrastructure projects in the Xuwei Distirct, JFG focuses on constructing municipal and engineering projects. Besides, the company leads in regional industrial development and spearheads key sectors like port logistics, utility investments, and environmental sustainability

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