

Yunnan Provincial Energy Investment Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	A
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	11 September 2024

Key Figures of Yunnan and YEIG

(RMB billion)	2022	2023
Yunnan		
GDP	2,895.4	3,002.1
GDP growth rate (%)	4.3	4.4
Budgetary revenue	194.9	214.9
Government fund	62.1	65.3
Transfer payment	446.9	444.7
Budgetary expenditure	670.0	673.0
YEIG	2023	2024.6
Assets	260.5	263.0
Equity	79.4	88.8
Revenue	117.7	50.6

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

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Applicable Criteria

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

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer Credit Rating of Yunnan YEIG Co., Ltd. (“YEIG” or “the company”) to ‘A’ from ‘A-’; Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects the company’s increasing strategic importance in Yunnan, as the company is deepening its roles in the energy transition and development, coal and lithium sources operations, and energy industrial development in Yunnan. The company is well-positioned to enhance its involvement in energy development, construction, operations, investment, and financing, as well as the integration of power, coal, oil, gas, and related energy resources and assets. Besides, it is aligned with the development plans of the Yunnan government and strengthened YEIG’s role as the sole provincial energy investment and development company responsible for regional energy and economy development in Yunnan.

We believe this continues to present a high possibility that the Yunnan government would provide very strong support to YEIG if needed, in light of its absolute majority ownership of YEIG, YEIG’s strategic position as the most important state-owned energy entity for the investment and development of the green energy industry, and the integration of energy resources of Yunnan, and the strong linkage between the Yunnan government and YEIG, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Yunnan government may face significant negative impact on its reputation, business and financing activities should YEIG encounter any operational or financial difficulties.

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

Rating Rationale

Government’s Ownership and Supervision: The Yunnan government indirectly holds 95.2% of YEIG’s shares through Yunnan Provincial Investment Holding Group Co., Ltd. with the State-owned Assets Supervision and Administration Commission of the Yunnan government (“Yunnan SASAC”) is the ultimate controlling shareholder. The Yunnan SASAC has final decision-making rights and supervision over YEIG, including control of the board of directors, major strategic, investment and financing plans. In addition, the Yunnan SASAC appoints an auditor to audit the operating performance and financial of YEIG.

Strategic Importance and Strategic Alignment: As the most important and leading state-owned entity that is responsible for the development of green energy industry and the integration of energy resources of Yunnan, YEIG maintains its strategic role for energy projects investment, construction and operation in the region. The company mainly invests in hydropower, thermal power, wind power, green silicon, natural gas, solar and other new energy projects that are of strategic importance to the economic and energy development of Yunnan. Its strategic importance has further been strengthened upon the completion of the equity injection of the Xiaolongtan coal mine, the largest open-pit coal mine in Yunnan in 2023. Besides, the intended

acquisition of lithium prospecting rights will further enhance its pivotal role as the primary entity for lithium exploration in the region.

YEIG's strategic planning and development have been aligned with the local government's economic and social policies, aiming to develop Yunnan's economic and the green energy industry. The Yunnan government and government-owned entities in the region may face significant negative impact on its reputation, business and financing activities should YEIG encounter any operational or financial difficulties.

Ongoing Government Support: YEIG has received supports from the Yunnan government for its business operation, mainly including capital injections, government subsidies, financial support. It also benefits from preferential tax and/or tax exemption policies in encouraged high-tech industries. YEIG has received solid and stable financial subsidies from the local government, including projects capital, projects subsidies, business performance rewards, etc. In 2023, the Yunnan SASAC provided very strong support to the company through a capital increase and share expansion. This included a capital injection of RMB1.013 billion from the Yunnan SASAC, a 9.0811% equity stake in China Copper Co., Ltd. and 100% ownership of Xiaolongtan Mining Bureau Co., Ltd. These measures have strengthened the company's capital strength and improved its asset quality, demonstrating strong backing from the Yunnan SASAC. We believe YEIG will likely receive ongoing government support.

YEIG's Financial and Liquidity Position: YEIG's total assets showed continuous growth in recent years, with growth rates of 3.8% and 1.0% in 2023 and 1H2024, respectively, yet its financial leverage (total liabilities to assets) decreased to 66.2%. YEIG primarily allocates its capital expenditure investments to wind power, photovoltaic, coal, natural gas pipeline network, and thermal power projects. It may face some capital expenditure pressure given the growth plans of these sectors. Its total adjusted debt decreased to RMB136.9 billion at end-June 2024 from RMB142.1 billion at end-2023, with the short-term debt accounting for 46.1% of its total debt. YEIG's liquidity was sufficient. YEIG had a total unrestricted cash balance of RMB9.1 billion and a total credit line of RMB182.1 billion (unused: RMB72.8 billion) at end-June 2024, compared with its debt to be due within one year of RMB63.1 billion. Besides, YEIG has wide access to multiple financing channels including bank borrowings, syndicated loans, corporate bonds, non-traditional financing channels such as trust loans and finance leases, and access to the equity market through its main subsidiaries, Yunnan Energy Investment Co., Ltd.

Yunnan's Economy and Fiscal Condition: Yunnan maintained medium economic growth during the past two years, with its GDP growth rate recording 4.3% and 4.4% in 2022 and 2023, respectively. The GDP amount of Yunnan reached RMB3,002.1 billion in 2023, which was ranked 18th among all provinces in China. The budgetary revenue of the Yunnan government increased to RMB214.9 billion in 2023 from RMB194.9 billion in 2022, while the government fund income also showed an increasing trend and recorded RMB65.3 billion in 2023, up from RMB52.1 billion in 2022. The financial self-sufficiency of Yunnan was weak but improving, with the budget deficit narrowing to 213.1% from 243.7% over the same period. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, surged to 196.6% at end-2023 from 170.8% at end-2022, mainly due to the increase of special debt.

Rating Sensitivities

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



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

Company Profile

YEIG was established in February 2012, with an initial registered capital of RMB10.2 billion under the approval of the Yunnan government. After several capital injections and equity transfers, the paid in capital of YEIG reached RMB22.0 billion at end-June 2024. The Yunnan government, as the actual controller of the company, has the majority ownership of YEIG via the Yunnan SASAC and other LIDCs in Yunnan.

YEIG is a diversified state-owned entity that primarily engages in the investment and development of the energy sector to assist the implement of the Yunnan government's energy strategies. YEIG invests in hydropower, fossil fuel, wind power, natural gas, solar and other new energy projects, and green energy development. Meanwhile, YEIG diversifies its business into power generation and sales, coal mining and sales, natural gas operation, logistics and trading, financial business, development of industrial parks, salt chemical product and other chemical products, industrial silicon, organic silicon and lithium development, and expand the business cooperation with other countries in the Southeast Asia region.

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