

Yangzhong Oasis Industry Investment Group Co., Ltd.

Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating of Yangzhong Oasis Industry Investment Group Co., Ltd. (“YZOI” or “the company”); Issuer Rating Outlook Stable.

Summary

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

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

Rating Rationale

Yangzhong Government’s Full Ownership: The Yangzhong government directly holds 100% shares of YZOI. The Yangzhong government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Yangzhong government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Importance to Yangzhong and Strategic Alignment: YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. YZOI is mainly engaged in the investment and construction of urban transportation infrastructure, industrial parks, shantytown renovation and other key projects, as well as industrial investment and asset management in Yangzhong. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: YZOI has historically been supported by the Yangzhong government through asset and capital injections, as well as government subsidies. Between 2023 and the first half of 2024, YZOI received the injection of asset and capital totaling RMB 985 million from the Yangzhong government. Furthermore, YZOI was granted subsidies amounting to RMB 542 million in 2023 and RMB 210 million in the first half of 2024, primarily to bolster its business operations. We expect YZOI to receive ongoing support from the Yangzhong government in the coming years considering its strategic importance in Yangzhong.

YZOI’s Financial and Liquidity Position: YZOI’s total assets increased moderately from RMB46.0 billion at end-2023 to RMB47.9 billion at the end-June 2024. The financial

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	27 November 2024

Key Figures of Yangzhou and YZOI (RMB billion)

Yangzhou	2022	2023
GDP	58.6	63.0
GDP growth rate (%)	5.0	8.9
Budgetary revenue	3.6	4.0
Government fund	5.0	7.2
Transfer payment	1.4	1.4
Budgetary expenditure	6.1	5.8
YZOI	2023	2024.6
Asset	46.0	47.9
Equity	47.9	48.6
Revenue	1.8	1.0

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

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Applicable Criteria

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

leverage (total liabilities to assets) and total debt capitalization ratio of YZOI were 49.9% and 42.6% at end-June 2024, respectively. The total adjusted debt of YZOI increased from RMB16.0 billion at end-2023 to RMB17.7 billion at end-June 2024. YZOI's liquidity was tight as it had a cash balance of approximately RMB1.2 billion and unused credit facilities of RMB1.5 billion at end-June 2024, compared with its outstanding debt of RMB7.4 billion to be due within one year. YZOI has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. YZOI has financing channels including bank loans to support its debt repayment and business operation.

Economy and Fiscal Condition of Yangzhong: Yangzhong realized GDP of RMB63.0 billion in 2023, representing a year-on-year growth rate of 8.9%. Yangzhong's GDP was mostly fueled by secondary and tertiary industries, accounting for 53.9% and 43.2% of its total GDP in 2023, respectively. Yangzhong's population reached 0.3 million with an urbanization rate of 71.5% in 2023.

The Yangzhong government's budgetary revenue increased to RMB4.5 billion in 2023 from RMB4.1 billion in 2022, mainly due to the increase of tax revenue driven by high economic growth. Meanwhile, the tax revenue accounted for 38.1% of the budgetary revenue in 2023, up from 37.5% in 2021. The fiscal self-sufficiency rate of the Yangzhong government was insufficient while its budget deficit narrowed to 68.4% in 2023 from 70.0% in 2022, and it continuously received a certain number of subsidies from higher government authorities. As another substantial component of the local fiscal revenue, the revenue from the government-managed fund decreased to RMB3.8 billion in 2023 from RMB4.0 billion in 2022, owing to the weak property market. The Yangzhong government's debt ratio (total debt outstanding/aggregate fiscal revenue) was high in 2023 (208.5%), due to the increase of total debt outstanding from RMB24.2 billion at end-2022 to RMB27.8 billion at end-2023, which was mainly caused by the increase of special purpose debt.

Rating Sensitivities

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

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

Company Profile

Established in October 2019, YZOI was formerly known as Yangzhong Fuheng Asset Management Co., Ltd. The company's registered capital was enlarged to RMB100.0 million in July 2023. In August 2023, the Yangzhong government changed the company's name to YZOI, and allocated 100% of the equity of Yangzhong Oasis New City Industrial Group Co., Ltd. to YZOI. The Yangzhong government is the controlling shareholder of the company, which held 100% of YZOI's equity.

YZOI, as an important LIDC in Yangzhong, is primarily responsible for infrastructure construction and asset operation in Yangzhong. The primary sources of operating revenue for YZOI are merchandise sales, engineering construction, property sales, and academic



education. Besides, the company also generates revenue from agricultural product processing, port operation, product sales and advertising, etc.

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