

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yancheng Dafeng District Xiecheng Industrial Development Co., Ltd.

HONG KONG, 3 December 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Yancheng Dafeng District Xiecheng Industrial Development Co., Ltd. (“YDXID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Yancheng City (“the Yancheng government”) would provide strong support to YDXID (via the People’s Government of Dafeng District of Yancheng City (“the Dafeng government”)) if needed, in light of the Dafeng government’s indirect 100% ownership, YDXID’s strategic importance as an important local investment and development company (“LIDC”) responsible for urban development and operation in the Dafeng District of Jiangsu’s Yancheng City (“Dafeng District”) and the linkage between the local government and YDXID, including appointment of the senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the local government may face significant negative impact on its reputation and financing activities if YDXID encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The local government owns 100% shares of YDXID through Yancheng Dafeng District Urban Construction Group Co., Ltd. (“YDUC”), and is the ultimate controller of the company. The local government has strong control and supervision over the company, including appointments of its senior management, decisions on its strategic development, and supervision of its major investment and funding plans via YDUC. In addition, the local government has an assessment mechanism over the company and periodically appoints auditors to supervise its operating performance and financials.

Strategic Importance and Alignment: YDXID is an important subsidiary of YDUC, the largest LIDC in terms of asset size in Yancheng’s Dafeng District. The company is mainly responsible for infrastructure construction, social housing development and public utility (sewage treatment, gas and electricity supply) within the region. Its development strategy has been aligned with the local government’s economic and social development plans. However, YDXID’s business operation mainly focus on Dafeng District, limiting its strategic importance in Yancheng as a whole.

Strong Government Support: The local government provides strong support to YDXID. The local government injected cash capital and assets (including SOEs' equity and project assets) into YDXID between 2021 and 2023, enhancing its equity base to RMB6,573 million from RMB4,299 million at end-2021. In addition, the company received ongoing operational subsidies over the same period. We expect the support from the local government to remain intact, given YDXID's strategic importance in Yancheng and Dafeng District.

Economy and Fiscal Condition of Yancheng and Dafeng District: Yancheng's GDP growth rate accelerated to 5.9% from 4.6% in 2022, realizing a GDP of RMB740.4 billion in 2023, ranking 8th among 13 prefecture-level cities in Jiangsu Province. Its fixed asset investment of Yancheng continued to grow rapidly in 2023, with a year-over-year growth rate of 9.2%. Dafeng District is a municipal district and sub-central of Yancheng. It administers two provincial-level economic development zones, focusing on the development of new energy industry in recent year. In 2022, Dafeng District recorded GDP of 81.6 billion.

Yancheng government's budgetary revenue and government fund income bounced back in 2023. Nevertheless, its budget deficit further deteriorated to 154.5% in 2023 from 146.7% in 2022. The Yancheng government's leverage was relatively high. The government debt totaled RMB165.5 billion at end-2023, up from RMB153.5 billion at end-2022, mainly due to the new issuance of special debt to support public projects within the region.

YDXID's Financial and Liquidity Position: YDXID's total assets increased to RMB16,931 million at end-June 2024 from RMB10,690 million at end-2021, owing to the local government's asset injections and the company's active participation in Dafeng District's project development. Its financial leverage, as measured by total debt to capitalization stayed at 56.9% at end-June 2024.

YDXID's short-term debt serving pressure is high. At the end of June 2024, YDXID had cash of RMB1,527 million (including RMB1,356 million restricted cash), compared with its debt due within one year of RMB2,246 million. The company had may use bank borrowings and other financing channels to support its debt repayments and business operations. At end-June 2024, the company had unused facilities of RMB840 million.

Rating Sensitivities

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

We would consider upgrading YDXID's rating if (1) there is strengthened support from the local government, or (2) there is an upgrade in our internal credit assessment on the local 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 YDXID'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 Credit Ratings are solicited at the request of the rated entity or a related third party. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

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