CCXAP assigns first-time long-term credit rating of BB_g+ to Jiangsu Yungang Investment Development Co., Ltd., with stable outlook.

Hong Kong, 10 October 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a first-time BB_g+ long-term credit rating to Jiangsu Yungang Investment Development Co., Ltd ("YGID" or the "Company"), with stable outlook.

The BB_g+ long-term credit rating of YGID reflects Lianyun District Government's moderate capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company's characteristics. Our assessment of Lianyun District Government's capacity to support reflects the Lianyun District's relatively small scale of the economy as a county-level district in Lianyungang City, while it has good economic growth and fiscal metrics.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) direct and full ownership by the Lianyun District Government; (2) strong policy role in the industrial development of Lianyun District; and (3) track record of receiving government support. However, the Company's rating is constrained by its (1) medium commercial business exposure; (2) moderate access to funding with limited financing flexibility; and (3) moderate contingent liabilities.

Corporate Profile

Established in 2009, YGID is the primary local infrastructure investment and financing company ("LIIFC") focusing on industrial investment in the Lianyun District, Lianyungang City. YGID undertakes the role of local infrastructure construction, industrial supporting projects and comprehensive services in the Lianyun Economic and Development Zone ("Lianyun EDZ"), a provincial-level EDZ in Lianyun District. After years of development, the Company has developed diversified business segments, including infrastructure construction, service businesses such as sewage treatment and inland port operation, photovoltaic (PV) power generation, property leasing, and trading. As of 30 June 2022, YGID was wholly-owned and controlled by the Lianyun District Government.

Rating Rationale

Credit Strengths

Strong policy role in the industrial development of Lianyun EDZ. YGID is one of the two major LIIFCs in Lianyun District and the key industrial investment platform that undertakes the functions of infrastructure development, industrial supporting projects construction and providing comprehensive services in the Lianyun EDZ and the SCO Park, which are the key industrial parks of Lianyun District. YGID has an essential role in the development of Lianyun EDZ as seen by its large contribution to the local infrastructure construction such as roads, land consolidation and resettlement housings. As of 30 June 2022, the Company has completed around 46 infrastructure construction projects with total investments of RMB824.7 million.

Good track record of receiving government support. YGID has a solid track record of receiving government support in various forms such as capital injection, financial subsidies, proceeds of project management and asset injections. In 2019, the local government injected cash of RMB1.0 billion into the Company, significantly enhancing its capital strength. In order to support the Company's operation, the local government has also provided financial subsidies, such as interest operating subsidies, of RMB372 million in total from 2019 to 2022H1.

Credit Challenges

Medium exposure to commercial business. YGID has medium exposure to commercial business, which has increased along with the rising local industrial investments. The Company is engaged in commercial activities including trading, services, PV power generation and property leasing. The risk nature of such activities is generally higher than traditional infrastructure construction projects and direct government financial support will be more difficult under stricter regulatory supervision on the increase in government's implicit debt. YGID relies on external financing to support the development of its commercial businesses.

Moderate access to funding. YGID has moderate access to funding constrained by its small operating scale. It relies highly on indirect financing particularly asset-pledge loans. It has limited access to the domestic debt market. In addition, the Company demonstrated a reliance on short-term debt which accounted for 74.9% of total debt as of 31 December 2021. At the same time, approximately 47.2% of YGID's assets were restricted as collaterals for financing, which we believe will limit its financing flexibility. The limited access to funding will also make YGID less resilient to the change in the financing market environment.

Moderate contingent liabilities. YGID has moderate contingent liabilities relative to its net assets. As of 30 June 2022, the Company has provided external guarantees of RMB1.2 billion, equivalent to 24.2% of its net assets. Most of these external guarantees were provided to other local LIIFCs or state-owned enterprises. For example, the Company provided external guarantees of RMB616 million to Jiangsu Haizhou Bay Development Group Co., Ltd, another LIIFC owned and controlled by the Lianyun District Government. Large guarantee exposure may increase financial risk on YGID caused by the credit risk of local state-owned enterprises and the change of economic condition.

Rating Outlook

The stable outlook on YGID's rating reflects our expectation that the Lianyun District Government's capacity to provide support will be stable; and the Company's characteristics, such as its primary role in the development of Lianyun District and the Lianyun EDZ, which is expected to remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Lianyun District Government's capacity to support materially strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as a material decrease in external guarantees, reduced exposure to commercial business, or improved financing abilities.

What could downgrade the rating?

The rating could be downgraded if (1) Lianyun District Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as a decrease in the importance of its policy role, weakened government payments, or deteriorated debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

Regulatory Disclosures

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