

CCXAP affirms Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook

Hong Kong, 4 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd. (“YETD” or the “Company”) at BBB_g+. The rating outlook is stable. At the same time, CCXAP has affirmed YETD’s BBB_g+ senior unsecured debt rating.

The BBB_g+ long-term credit rating of YETD reflects (1) Yangzhou Municipal Government’s very strong capacity to provide support; and (2) the local government’s high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Yangzhou Municipal Government’s capacity to provide support reflects Yangzhou City’s good industrial fundamental and relatively good fiscal stability.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and ultimate control by the Yangzhou Municipal Government; (2) strong strategic position in primary land development and infrastructure construction in Yangzhou Economic and Technological Development Zone (“Yangzhou ETDZ”); (3) good track record of receiving government support; and (4) diversified financing channels.

Corporate Profile

Established in 1992, YETD, formerly known as Yangzhou Economic and Technological Development Zone Development Corporation, is the largest state-owned enterprise in Yangzhou ETDZ by asset size. The Company is mainly engaged in various business segments, including primary land development, infrastructure construction, real estate, and others such as commodity sales, property leasing, and property management. As of 30 September 2022, the Company was directly and wholly owned by the Yangzhou Municipal Government, with a registered and paid-in capital of RMB20.6 billion.

Rating Rationale

Credit Strengths

Key role in primary land development and infrastructure construction in Yangzhou ETDZ.

As the largest state-owned enterprise in Yangzhou ETDZ by asset size, YETD is responsible for the land development and infrastructure construction in Yangzhou ETDZ. It plays a key role in promoting the social and economic development of Yangzhou ETDZ and is designated to carry out the directions and policies for the municipal development of the Yangzhou Municipal Government and Yangzhou ETDZ Management Committee. We believe that the important strategic position of Company to Yangzhou ETDZ’s economic development and public welfare is unlikely to be replaced in short-to-medium term.

Good track record of receiving government supports. YETD has received ongoing support from the Yangzhou Municipal Government in the form of operating subsidies, interest grants, capital injections, and high-quality asset transfers. From 2021 to 2022Q3, YETD received a total of RMB617 million in financial subsidies and RMB1.2 billion in interest grants. After years of capital injections by the Yangzhou Municipal Government, the Company's paid-in capital has increased from the original RMB20.0 million to RMB20.6 billion as of end-2022Q3. In addition to financial support, the local government has continuously transferred high-quality equity over the years to enhance the Company's asset strength.

Diversified funding channels. YETD had diversified funding channels including bank loans and capital markets. The Company has a sufficient approved line of credit from domestic banks, with total credit facilities of RMB22.6 billion and available credit facilities of RMB5.4 billion as of 30 September 2022. The Company also has good track record of fund-raising activities in debt capital market. For example, in 2022, the Company raised debt of RMB7.2 billion via 15 tranches of onshore bonds, with coupon rates from 2.19% to 5.4%, and raised USD300 million through the offshore market. In addition, the Company's financing costs are relatively reasonable, and its reliance on non-standard financing is low.

Credit Challenges

Medium exposure to commercial activities. In addition to public activities, YETD is also engaged into commercial businesses including real estate, commodity sales and leasing business. We consider the Company's exposure to commercial businesses to be medium, accounting for around 16.1% of its total assets. As of 30 March 2022, the Company had a total of 689,800 square meters of real estate projects under construction. In addition, the Company had 3 real estate projects under planning, all of which were commercial land. The Company's real estate project investment scale is relatively large, with a total outstanding amount of RMB5.3 billion, considering the volatility of the property market and the tightening of regulatory measures, the Company will focus on the land development sector and carry out the real estate business under the overall planning of the Yangzhou ETDZ Management Committee.

Fast-growing debt from development projects. As a major investment and financing entity in Yangzhou ETDZ, YETD has a large amount of projects in the pipeline, causing large capital expenditure pressure. As of 31 March 2022, the Company had 31 projects under construction, with a cumulative investment of RMB9.0 billion. The projects include primary land development, infrastructure construction, real estate development, and standard workshops construction. The Company mainly funded these projects through external financing over the past years, resulting in its high debt leverage. The Company's total debt increased from RMB28.6 billion in 2019 to RMB41.3 billion at end-2022Q3, with a high capitalization ratio, as measured by total debt to total capital, of 62.5%.

High contingent liabilities risk from external debt guarantee. YETD has large contingent risk exposures as the Company has a large number of external guarantees that may increase its repayment obligations. As of 30 September 2022, the Company had outstanding external guarantees of RMB10.7 billion, accounting for 43.3% of its net assets. Although the

counterparties of external guarantees are all local state-owned enterprises, but the external guarantees amount is substantial, which is credit negative to YETD's rating.

Rating Outlook

The stable outlook on YETD's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Yangzhou ETDZ.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as a reduction in the exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional significance or weakened access to funding.

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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