

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Yangjing Petrochemical Group Co., Ltd., with stable outlook.**

Hong Kong, 31 May 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Yangjing Petrochemical Group Co., Ltd. (“JYJP” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of JYJP reflects Lianyungang Municipal Government’s strong capacity to provide support and its high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Lianyungang Municipal Government’s capacity to provide support reflects Lianyungang City’s gross regional production (“GRP”) of over RMB400 billion with good industrial development based on its port resources.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) increasing importance along with the fast development of Xuwei New Area; (2) essential role in infrastructure construction of Petrochemical Industrial Base; and (3) track record of receiving government support. However, the Company’s rating is constrained by (1) medium business risk to commercial activities such as self-operated construction in energy facilities; and (2) high debt leverage with an increasing short-term debt burden.

### **Corporate Profile**

Established in 2014, JYJP is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Lianyungang City, mainly engages in the construction, development and operation management of Lianyungang Petrochemical Industrial Base in Xuwei New Area. Xuwei New Area is the pilot area of the National East, Central and Western Regional Cooperation Demonstration Zone (“ECW Cooperation Demonstration Zone”) approved by China State Council in 2011, and one of the seven major petrochemical industry bases in China is located here. JYJP has a diversified business scope including infrastructure construction, industrial project construction, energy supply, self-operated construction, leasing and material sales. As of 31 December 2022, Lianyungang Municipal Government was the ultimate controller of JYJP, directly holding 51.1% shares and indirectly holding 24.4% shares of the Company through Jiangsu Fangyang Group Co., Ltd. (“JFYG”). The Management Committee of Xuwei New Area held the remaining of 24.44% through Jiangsu Xianghe Agricultural Development Co., Ltd.

### **Rating Rationale**

#### **Credit Strengths**

**Increasing importance along with the fast development of Xuwei New Area.** JYJP is one of the key LIIFCs in Xuwei New Area in Lianyungang City. Xuwei New Area’s economic strength has improved with years of development and the area plays a more important role in Lianyungang City. It recorded a GRP of RMB18.4 billion in 2022, representing a YoY growth of 38.3% and accounting for 4.6% of Lianyungang’s GRP.

**Essential role in infrastructure construction of Petrochemical Industrial Base.** The Company has an essential role in the development, construction, and operation of Petrochemical Industrial Base in Xuwei New Area, primarily responsible for the infrastructure construction projects, such as roads, bridges and greening projects. We expect JYJP to maintain its dominant position in undertaking infrastructure construction in Petrochemical Industrial Base given its good project reserves.

**Track record of receiving government support.** The Company has received comprehensive support from the local government, in terms of capital injections, project repayments, and operating subsidies. For example, the local government injected capital of RMB1.8 billion in cash into the Company from 2020 to 2022, which substantially enhanced the capital strength of the Company. We expect JYJP to receive ongoing government support given its essential role in Petrochemical Industrial Base and ongoing infrastructure construction.

### Credit Challenges

**Medium commercial business risk.** After years of development, JYJP has developed diversified businesses such as self-operated construction in energy facilities, energy supply, leasing and material sales, which are essential to promote the development of local industries. Based on our assessment, although assets of such businesses accounted for a large portion of total assets, the Company had medium commercial business risk given the Company conducted some of these businesses with monopoly advantages in the Petrochemical Industrial Base.

**High debt leverage with an increasing short-term debt burden.** JYJP reported fast debt growth owing to its infrastructure construction and self-operated construction over the past few years. Meanwhile, the Company had a high short-term debt burden with the short-term debt accounting for 42.4% of the total debt as of end-2022. Considering delayed payments from the local government and its ongoing investment, we expect the Company's debt leverage will remain at a relatively high level in the next 12 to 18 months.

### Rating Outlook

The stable outlook on JYJP's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important position in the development of Xuwei New Area over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) the Lianyungang Municipal Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as lower exposure to high-risk commercial activities and improved debt management.

#### What could downgrade the rating?



The rating could be downgraded if (1) the Lianyungang Municipal 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 policy significance, significantly increased exposure to risky commercial activities or material 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Kelly Liang

*Credit Analyst*

+852-2860 7127

[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)



Client Services: +852-2860 7111



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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656