

## **CCXAP affirms Yancheng High-tech Zone Investment Group Co., Ltd.'s long-term credit rating of BBB<sub>g</sub>, with stable outlook.**

Hong Kong, 23 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Yancheng High-tech Zone Investment Group Co., Ltd.’s (“YHZI” or the “Company”) long-term credit rating of BBB<sub>g</sub>, with stable outlook.

The BBB<sub>g</sub> long-term credit rating of YHZI reflects the Yancheng Municipal Government’s very strong capacity to provide support and high willingness to support based on our assessment of the Company’s characteristics. Our assessment of the Yancheng Municipal Government’s capacity to support reflects Yancheng City’s growing economic and fiscal strengths as well as sustainable industrial development.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) wholly ownership by the Yancheng Municipal Government; (2) strategic role in the public activities of Yancheng City, particularly in the Yancheng High-tech Zone; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt-driven commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) large exposure to external guarantees.

### **Corporate Profile**

Established in 2009, YHZI is one of the major local infrastructure investment and financing companies (“LIIFCs”) for the Yancheng Municipal Government. YHZI is primarily engaged in infrastructure construction, primary land development, and property leasing and management businesses. The Company also conducts other businesses including property leasing, material trading and provision of guarantees. As of 31 March 2023, the Company was directly and wholly owned by the Yancheng Municipal Government.

### **Rating Rationale**

#### **Credit Strengths**

**Strategic role in the public activities of Yancheng City, particularly in the Yancheng High-tech Zone.** YHZI is the third largest LIIFC by total assets in Yancheng City and the largest LIIFC in Yancheng High-tech Zone by total assets. It has a dominant business position as entrusted by the government to develop the Yancheng High-tech Zone. It has strong strategic functions in local public activities and assisting industrial development.

**Good track record of receiving government support.** YHZI has a solid track record of receiving government support in various forms such as capital injection, operating subsidies, and government payment for construction projects. In addition, the Company is expected to receive ongoing government payments for its public policy activities as relevant repurchase agreements were signed with the government.

## Credit Challenges

**Increasing debt-driven commercial activities.** In addition to its core business in infrastructure construction and primary land development, YHZI also diversified into other business segments such as property leasing and management, greening and fund investment. The Company has medium exposure to commercial activities, with increasing debt-driven commercial business. Some of the commercial activities are subject to market conditions and counterparty risk.

**High debt leverage and moderate asset liquidity.** YHZI shows a rising debt burden owing to its expansion in the construction of public-policy projects and property leasing projects over the past few years. The total capitalization ratio, as measured by total debt to total capital, remained at a high level of 67.4% as of 31 March 2023. Besides, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, which weaken the asset liquidity.

**Large exposure to external guarantees.** The Company's credit profile is undermined by a large number of external guarantees. As of 31 March 2023, the total amount of external guarantee (including the exposure to its guarantee business) was RMB17.4 billion, which accounted for 60% of its net assets. The majority of external guarantees from the guarantee business were provided to private-owned enterprises within the Yancheng High-tech Zone, which accounted for 4.0% of its total amount of external guarantee.

## Rating Outlook

The stable outlook on YHZI's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in Yancheng City and the Yancheng High-tech Zone.

### What could upgrade the rating?

The rating could be upgraded if (1) the Yancheng Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as improved debt management and reduced exposure to external guarantees.

### What could downgrade the rating?

The rating could be downgraded if (1) the Yancheng Municipal 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 reduced regional significance or a material increase in the exposure to commercial activities.

## 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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