

## Credit Opinion

4 April 2023

Ratings	
Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd

### Surveillance credit rating report

**CCXAP affirms Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd's long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

### Summary

The BBB<sub>g</sub> long-term credit rating of Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd ("YETD" or the "Company") 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 provide 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.

However, the Company's rating is constrained by the Company's (1) medium exposure to commercial activities; (2) fast-growing debt from development projects; and (3) high contingent liability risk that results from external debt guarantees.

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.

## Rating Drivers

- Key role in primary land development and infrastructure construction in Yangzhou ETDZ
- Strong support from government payments
- Diversified financing channels
- Medium exposure to commercial activities
- Fast-growing debt from development projects
- High contingent liability risk from external debt guarantee

## Rating Sensitivities

### 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.

## Key Indicators

	2019FY	2020FY	2021FY	2022Q3
Total Asset (RMB billion)	54.2	59.9	66.5	71.7
Total Equity (RMB billion)	25.0	24.7	24.8	24.7
Total Revenue (RMB billion)	1.9	2.0	2.2	1.2
Total Debt/Total Capital (%)	57.7	56.3	60.4	62.5

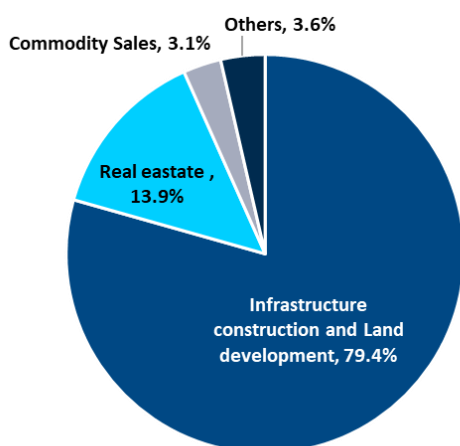
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

## 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.

### Exhibit 1. Revenue Structure in 2021



Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the Yangzhou Municipal Government has a very strong capacity to provide support, given it has good industrial fundamental, fast economic growth and relatively good fiscal stability.

Yangzhou City is a prefecture-level city administrated under Jiangsu Province. Jiangsu's economic and fiscal strength outperforms other provinces in China. In 2022, the gross regional product ("GRP") of Jiangsu Province was RMB12.3 trillion, ranking second in the country; its GRP growth rate was 2.8%. Affected by the COVID-19 pandemic and tax refund factors, its general public budget revenue decreased to RMB925.9 billion in 2022 from RMB1 trillion in 2021, with tax revenue accounting for 73.5% of its general public budget revenue. With the end of the pandemic and recovery of economic development, we expect that Jiangsu's economy will recover steadily supported by its strong integrated strength.

### Exhibit 2. Key Economic and Fiscal Indicators of Jiangsu Province

	2020FY	2021FY	2022FY
GRP (RMB billion)	10,271.9	11,636.4	12,287.6
GRP Growth (%)	3.7	8.6	2.8
General Budgetary Revenue (RMB billion)	905.9	1,001.5	925.9
General Budgetary Expenditure (RMB billion)	1,368.2	1,458.5	1490.3
Local Government Debt (RMB billion)	1722.8	1,896.4	2,069.4

Source: Statistics Bureau of Jiangsu Province, CCXAP research

Yangzhou City is in the middle of Jiangsu Province, As the hub city of the Yangtze River and the Beijing-Hangzhou Grand Canal, Yangzhou City has a significant location advantage. It was an important salt and grain distribution center in history, and is now the water source of the South-to-North Water Diversion Project. The location advantage of Yangzhou City helps support its rapid economic growth. In recent years, Yangzhou has developed manufacturing and modern service industries, optimized the agricultural structure, promoted the transformation and upgrading of the manufacturing industry, and expanded strategic emerging industries, such as new light sources, new energy, high-end manufacturing, biotechnology and new medicine, and new generation information technology. Benefiting from its good location advantages and optimized industrial structure, Yangzhou's GRP reached over RMB710.5 billion in 2022, ranking medium level in Jiangsu Province.

Despite the impact of the COVID-19 pandemic, Yangzhou was still able to maintain a good economic growth rate of 4.3% in 2022. In 2022, Yangzhou reported a general budgetary revenue of RMB32.5 billion. Tax income accounted for 73.2% of its fiscal revenue, representing a relatively good fiscal stability. However, recent fluctuations in the real estate market may affect its fiscal stability as government funds accounted for around 60% of its fiscal revenue, which mainly came from land sales. The high correlation between its fiscal revenue and the property market would be a credit negative because this may increase the government's fiscal pressure when the property market underperforms. At the end of 2022, Yangzhou's local government debt balance was RMB110.5 billion, accounting for 15.66% of GRP.

### Exhibit 3. Key Economic and Fiscal Indicators of Yangzhou City

	2020FY	2021FY	2022FY
GRP (RMB billion)	604.8	669.6	710.5
GRP Growth (%)	3.5	7.4	4.3
General Budgetary Revenue (RMB billion)	33.7	34.4	32.5
General Budgetary Expenditure (RMB billion)	66.8	68.5	69.9
Local Government Debt (RMB billion)	90.6	97.8	110.5

Source: Statistics Bureau of Yangzhou City, CCXAP research

Established in 1992, Yangzhou ETDZ is located at the intersection of the Yangtze River and the Beijing Hangzhou Canal. In July 2009, it became a state-level economic and technological development zone. Yangzhou ETDZ adopts and implements the “6+3+2+1” comprehensive development structure, consisting of six key industrial zones, three functional sectors, two new towns and one Daijiang Scenery Belt. In recent years, with the rapid development of pillar industries such as solar photovoltaic, semiconductor, lighting, and smart grid industries, Yangzhou ETDZ has become a strategic economic growth engine for Yangzhou City's economy. In 2022, Yangzhou ETDZ's GRP increased to RMB73 billion from RMB65.8 billion in 2021, which accounted for about 10% of Yangzhou City's GRP, making an important contribution to the city's economic and social development. Yangzhou ETDZ also receives continuous support from the Jiangsu Provincial Government and the Yangzhou Municipal Government, such as the development of high-tech industries and Daijiang Scenery Belt, providing support for the long-term sustainable development of YETD.

### Government's Willingness to Provide Support

#### 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.

Commissioned by Yangzhou ETDZ Management Committee, YETD continues to carry out primary land development in Yangzhou ETDZ, with stable business model. From 2019 to March 2022, the Company completed 23 primary land development projects in Yangzhou ETDZ, and received a total of RMB2.9 billion from the local government. The Company also has a good business sustainability. As 31 March 2022, YETD had 10 land development projects under construction, with a total land area of 529,365 square meters and an outstanding amount of RMB707.2 million; it had land development projects under planning of 66,400 square meters, with an outstanding amount of around RMB773 million.

YETD is also entrusted by Yangzhou ETDZ Management Committee to undertake the construction of key municipal infrastructure, including roads, bridges, pipelines, and resettlement housing. As of March 2022, the Company had undertaken and completed 12 municipal infrastructure projects in Yangzhou ETDZ, including resettlement housing, river improvement facilities, and schools, and received a total of RMB8.3 billion from the local government. At the same time, the Company had 14 municipal infrastructure construction projects under construction or planning, with an uninvested amount of RMB6.6 billion, exerting high capital expenditure pressure. Considering about 90 square kilometers of undeveloped area in Yangzhou ETDZ, we believe the Company's public development business is highly sustainable, but with high investment pressure.

### **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.

The Company's real estate business is mainly operated by its real estate subsidiary, Yangzhou Jiulongwan Real Estate Co., Ltd. ("Jiulongwan Real Estate"). Jiulongwan Real Estate carries out real estate development projects in accordance with the planning of the Yangzhou ETDZ Management Committee, mainly to enhance competitiveness in promoting investment in Yangzhou ETDZ. 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. Overall, the Company's real estate sales income is a good supplement to its operating income, accounting for 13.9% of its total income in 2021. However, 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.

As of 31 March 2022, the Company had 4 self-operated projects under construction, with an estimated investment of RMB2.2 billion, including a standardized factory building and warehouse. After the self-operated project is completed, it will generate rental or sales income by attracting high-quality enterprises and talents to move in, so as to achieve capital balance. However, as of end-2021, rental income from completed self-operated projects accounted for only 2.2% of the Company's total revenue, the overall occupancy rate was relatively low. We expect that the large initial investment and long payback period of self-operated products will bring large financial pressure on the Company.

YETD conducted its commodity sales business through its subsidiary Yangzhou Caoqiao Trade Industrial Co., Ltd. ("Caoqiao Trade"). It mainly sells building materials to construction companies working on construction projects in Yangzhou ETDZ. The commodity sales business scale is small, and the gross profit margin is low. In 2021, the gross profit margin was only 0.48%.

### **Good track record of receiving governmental 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. In September 2019, the Yangzhou ETDZ Management Committee injected 98.52% of the shares of Yangzhou Xinguangyuan Technology Development Co. Ltd. into the Company, and the Company's capital reserve increased by RMB1.1 billion at the end of the year.

### **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%. In terms of debt structure, the Company's short-term debt accounted for 35.3% of its total debt, an improvement from 41.7% in 2021. We expect the Company will continue to rely on external financing to meet its future capital needs, and its debt leverage will remain at a relatively high level in the next 12 to 18 months, considering its large construction projects in the pipelines.

### **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.

### **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.

## **ESG Considerations**

YETD faces environmental risks because it has undertaken primary land development and housing development projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

YETD bears social risks as it implements public policy initiatives by undertaking infrastructure construction projects in ETDZ of Yangzhou City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

YETD's governance considerations are also material as the Company is subject to oversight by the Yangzhou Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Structural Considerations

We did not notch YETD's senior unsecured debt rating for structural subordination, reflecting our expectation that in the event of financial distress, the government is likely to provide support to YETD, thereby increasing the recovery prospects for the Company's creditors. We also see that the legal subordination risk is mitigated by the strategic importance of YETD's infrastructure and public facility assets, thus we expect that government support will be provided to YETD to preserve its ownership in such assets.

## Rating Methodology

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

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