

Credit Opinion

31 May 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

kelly_liang@ccxap.com

Christy Liu +852-2860 7130

Credit Analyst

christy_liu@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Jiangsu Yangjing Petrochemical Group Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g- to Jiangsu Yangjing Petrochemical Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jiangsu Yangjing Petrochemical Group Co., Ltd. (“JYJP” or the “Company”) reflects (1) the Lianyungang Municipal Government’s 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 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 the Petrochemical Industrial Base; and (3) track record of receiving government support.

However, the rating is constrained by the Company’s (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.

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.

Rating Drivers

- Essential role in infrastructure construction of the Petrochemical Industrial Base
- Medium commercial business risk
- Track record of receiving government support
- High debt leverage with an increasing short-term debt burden
- Good access to bank borrowing

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY
Total Asset (RMB billion)	9.5	18.0	20.4
Total Equity (RMB billion)	4.3	6.9	8.1
Total Revenue (RMB billion)	1.0	3.8	5.1
Total Debt/Total Capital (%)	47.3	56.5	57.9

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

Source: CCXAP research

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 51.12% shares and indirectly holding 24.44% shares of the Company through Jiangsu Fangyang Group Co., Ltd. ("JFYG"). The Management Committee of Xuwei New Area held the remaining 24.44% through Jiangsu Xianghe Agricultural Development Co., Ltd.

From 2020 to 2022, Lianyungang City's economic strength improved steadily with GRP increasing from RMB327.7 billion to RMB400.5 billion, ranking Top 100 among all prefecture-level cities in China. However, affected by the government policy of tax rebates, in 2022, Lianyungang Municipal Government's tax revenue decreased by 41.5% to RMB12.7 billion from 2021, causing general budget revenue to decrease to RMB21.3 billion and fiscal stability (tax/general budget revenue) decrease to 59.9%. Moreover, the fiscal balance of Lianyungang Municipal Government was relatively weak, the fiscal balance ratios (General Budgetary Revenue/General Budgetary Expenditure) were less than 50% over the past three years, indicating high reliance on fiscal support from high-tier governments. The local government's outstanding debt amounted to RMB68.0 billion as of the end of 2022, accounting for about 17% of GRP.

Exhibit 4. Key economic and fiscal indicators of Lianyungang City

	2020FY	2021FY	2022FY
GRP (RMB billion)	327.7	372.8	400.5
GRP Growth (%)	3.0	8.8	2.4
General Budgetary Revenue (RMB billion)	24.5	27.5	21.3
General Budgetary Expenditure (RMB billion)	50.2	53.4	53.6
Local Government Debt (RMB billion)	61.4	65.8	68.0

Source: Statistics Bureau of Lianyungang City, CCXAP research

Xuwei New Area is a functional zone under the jurisdiction of Lianyungang City with a total planned area of 467 square kilometers, located in the southeast of Lianyungang City. It is the pilot area of the ECW Cooperation Demonstration Zone approved by the State Council of China in 2011. It mainly develops leading industries such as petrochemicals, high-end equipment manufacturing, port logistics trade processing, and high-performance new materials. With its clear strategic position in the industrial development of Lianyungang City, Xuwei New Area has received good support from high-tier governments including policy advantages and financial support. Lianyungang Petrochemical Base is one of the key functional zones in Xuwei New Area and one of the seven major petrochemical industry bases in China approved by the National Development and Reform Commission in 2013. Over years of development, Lianyungang Petrochemical Base has attracted a number of large petrochemical companies to settle in and formed three industrial clusters consisting of Shenghong Holding Group Co., Ltd., Sinochem International Corporation and Satellite Chemical Co., Ltd, with a total planned investment of more than RMB300 billion.

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. The tax revenue of three major petrochemical enterprises in the Lianyungang Petrochemical Base all contributed to Xuwei New Area. In 2022, Xuwei New Area's general public budgetary revenue would be RMB1.8 billion if removing the impact of taxes refund. Xuwei New Area Government's general budgetary revenue decreased from RMB874 million in 2021 to -RMB3.2 billion in 2022 because of the tax rebate policy from the government.

Government's Willingness to Provide Support

Essential role in infrastructure construction in Petrochemical Industrial Base

JYJP is one of the key LIIFCs in Xuwei New Area in Lianyungang City. It 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.

JYJP undertakes infrastructure construction by signing construction agreements with the Construction Bureau of Xuwei New Area and carrying out the construction work accordingly. The Company typically receives payments based on the investment amount plus 20% as management fee upon completion. As of 31 December 2022, the Company has completed 2 key projects, with a total investment of RMB301 million. The Company also had more than 10 key projects under construction, with a total investment of RMB5.0 billion and an outstanding amount of RMB1.9 billion, including Ecological Environment Improvement Project and 300,000-ton Channel of the Petrochemical Base Project, which would fundamentally improve the function of the port and further consolidate the sustainable development of Petrochemical Industrial Base. In addition, there were number of projects under planning with a total investment of RMB4.8 billion, including the infrastructure construction of Strategic New Park in Xuwei New Area that is under government's planning.

In addition, JYJP supported enterprises moving into the park by undertaking industrial project construction for them, including soft foundation treatment work such as earthwork backfilling, vacuum preloading, and pile foundation construction. The Company conducts these projects by signing construction agreements with customers and receives installment payments with a markup in return during the construction and upon completion. As of 31 December 2022, the Company had 6 key projects under construction, with a total investment of RMB806 million and an uninvested amount of RMB193 million.

Overall, we expect JYJP to maintain its dominant position in undertaking infrastructure construction in Petrochemical Industrial Base given its good project reserves.

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.

Apart from public infrastructure construction, JYJP also undertakes self-operated constructions in energy facilities. The Company focuses on pipe galleries, public engineering island, natural gas storage stations and high-pressure pipelines, and comprehensive service center constructions within the Petrochemical Industrial Base. The pipe galleries are built according to the overall planning of the Petrochemical Industrial Base to transport liquid or gas to be used in the production process by the settled enterprises. The investment in such self-operated projects will be balanced by the future operating income, such as rental income of the pipe galleries and sales revenue of natural gas, and the Company may rely on external financing for these self-operated projects. As of 31 December 2022, the Company had 12 key projects under construction, with a total investment of RMB11.7 billion and an uninvested amount of RMB6.9 billion. The large future investment would increase JYJP's pressure on capital expenditure.

Leasing of comprehensive service center, pipe galleries and supporting service area in the Petrochemical Industrial Base that were constructed by JYJP also generated supplementary income for the Company. The comprehensive service center has a total leasable area of 94.3 million square meters, including supporting services buildings, office facilities and accommodation. The pipe galleries have a total leasable area of around 555,200 square meters. However, the occupancy rates of these leasable assets were relatively low as most enterprises using the leasing facilities were at their early stages of operation. We expect the occupancy rates will increase as these enterprises start to increase their production.

Energy supply business is the largest contributor of JYJP's revenue with high gross profit, including sales of natural gas, refined oil and steam that are essential in the production process of the enterprises within the Petrochemical Industrial Base. The Company has a low capital occupation as the most downstream customers need to make prepayments to the Company for natural gas and steam before receiving the goods. These products are mainly provided to enterprises within the Petrochemical Industrial Base at prices guided by the government. However, the customer and supplier concentration risks for natural gas and steam were high as the sales from the top 5 customers and procurements from top 5 suppliers accounted for around 90% of its total sales and its total procurement in 2022, respectively, which can lead to credit contagion risk from customers and lower bargaining power facing with suppliers.

JYJP's material sales business generated considerable amount of income but a relatively small gross profit margin. The products mainly include building materials and bulk petrochemical products, such as methanol, styrene, and petroleum benzene. The Company adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers, and receives 10% of contract as a guarantee margin. The customer and supplier concentration risks were high as the sales from the top 5 customers and procurements from the top 5 suppliers accounted for more than 60% of its total sales and more than 70% of its total procurement in 2022, respectively, some of the customers are private-owned enterprises.

Track record of receiving government support

In recognition of the strategic importance of JYJP's businesses to the industrial development of Xuwei New Area, the Company has received comprehensive support from the local government, in terms of capital injections, project repayments, and operating subsidies. The Company is expected to receive government payments in the future for its infrastructure construction projects as the related agreement is signed with the local government. However, the government payment was slow and was subject to annual government fiscal arrangement. From 2020 to 2022, the Company received a total of RMB583.4 million in project repayments.

In addition, the Company has received a large-scale capital injection of RMB1.8 billion in cash from the Lianyungang Municipal Government and the Management Committee of Xuwei New Area from 2020 to 2022. The local government also injected state-owned assets of RMB460.7 million into JYJP, such as pipe galleries and education base training centers. These assets greatly increase capital strength and overall competitiveness of the Company. Furthermore, the local government provided continuous operating subsidies with total amount of more than RMB56.3 million from 2020 to 2022. We expect JYJP to receive ongoing government support given its essential role in Petrochemical Industrial Base and ongoing large investment in infrastructure construction.

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. As of end-2022, the Company's total debt increased to RMB11.1 billion from RMB3.8 billion at end-2019, and its capitalization ratio, as measured by total debt to total capital, was reported at 57.9%. At the same time, the Company had a high short-term debt burden with the short-term debt accounting for 42.4% of the total debt. The cash to short-term debt ratio decreased to 0.7x in 2022 from 1.1x in 2020. Furthermore, the Company had a considerable amount of assets pledged for loans, including cash and land assets. 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.

Exhibit 5. Key projects under construction and planning as of 31 December 2022

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<i>Project under construction</i>				
Infrastructure construction	16	5.0	3.1	1.9
Industrial project construction	6	0.8	0.6	0.2
Self-operated construction	12	11.7	4.8	6.9
<i>Project under planning</i>				
Infrastructure construction	13	4.8	-	4.8
Total	47	22.3	8.5	13.8

Source: Company information, CCXAP Research

Good access to bank borrowing

JYJP has good access to bank borrowing which could partially release its pressure on debt repayment and capital expenditure. It has maintained a good relationship with joint-stock commercial banks and large state-owned commercial banks. As of end-2022, the Company has obtained total credit facilities of around RMB22.0 billion from banks, with an unutilized amount of around RMB7.8 billion, which were provided by diversified banks. At the same time, the Company also tapped into non-standard financing channels such as financial leasing and factoring to meet its funding needs. It had manageable exposure to non-standard financing of less than 10% of the total debt as of end-2022.

Overall, considering JYJP's essential role in the development of the Petrochemical Industrial Base in Xuwei New Area, we expect the Company to maintain fair access to funding from commercial banks. In addition, the support of the open financing policy from the higher-tier government may help the Company expand its access to debt capital markets to some extent.

ESG Considerations

JYJP faces environmental risks because it has undertaken infrastructure construction 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. There are a number of measures implemented for environmental and safety protection in the Petrochemical Industrial Base, such as Biological Management and Control Platform to monitor the air quality and State-level Emergency Rescue Base to quickly handle emergency situations.

JYJP bears social risks as it implements public policy initiatives by building public infrastructure in Petrochemical Industrial Base. 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.

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

Rating Methodology

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

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

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656