

## Credit Opinion

23 June 2023

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

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## Yancheng High-tech Zone Investment Group Co., Ltd.

### Surveillance credit rating report

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

### Summary

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. YHZI's rating reflects 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 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 Company's rating is strained by (1) increasing debt-driven commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) large exposure to external guarantees.

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.

## Rating Drivers

- Dominant business position in the Yancheng High-tech Zone
- Significant role in local public activities
- Medium exposure to commercial activities
- High debt leverage and moderate asset liquidity
- Diversified funding sources
- High contingent risk associated with large external guarantee

## Rating Sensitivities

### 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.

## Key Indicators

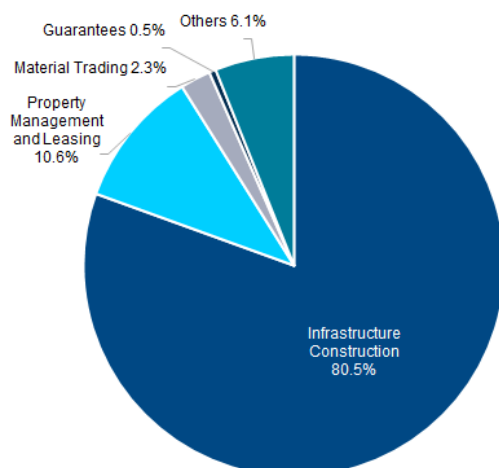
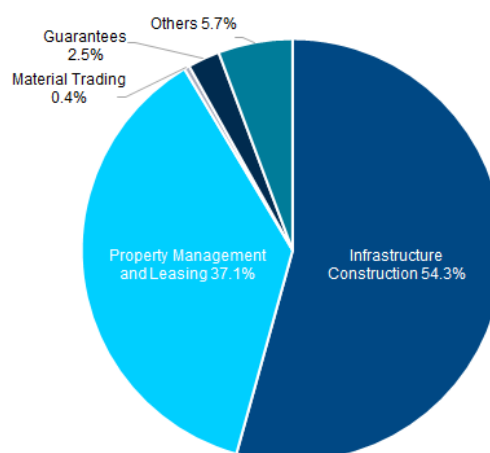
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	69.1	79.1	85.3	88.7
Total Equity (RMB billion)	21.7	24.5	27.1	27.9
Total Revenue (RMB billion)	2.4	2.6	2.9	1.0
Total Debt/Total Capital (%)	67.1	67.8	67.0	67.4

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

Source: CCXAP research

## 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.

**Exhibit 1. Revenue structure in 2022****Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Yancheng Municipal Government has very strong capacity to provide support given its good economic fundamentals and fiscal strengths.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2022, its total gross regional product ("GRP") amounted to RMB12.3 trillion, growing by 2.8% year-over-year ("YoY"). The GRP per capital was RMB144,390 for the same period, which was the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which help support sustainable economic growth in the long run. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8<sup>th</sup> among 13 municipals in Jiangsu Province. On the back of steady economic growth and optimized upgrading of the industrial structure, the general budgetary revenue increased year by year. In 2022, the Yancheng Municipal Government reported a general budgetary revenue of RMB45.3 billion, of which taxes income accounted for around 65.6%. If excluding the impact of tax rebates, the general budgetary revenue increased by 8.1%. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) was at a moderate level of 40.5%. As of the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion, accounting for about 21.7% of GRP.

**Exhibit 3. Key Economic and Fiscal Indicators of Yancheng City**

	2020FY	2021FY	2022FY
GRP (RMB billion)	595.3	661.7	708.1
GRP Growth (%)	3.5	7.7	4.6
General Budgetary Revenue (RMB billion)	40.0	45.1	45.3
General Budgetary Expenditure (RMB billion)	97.4	105.3	111.8
Local Government Debt (RMB billion)	137.0	147.3	153.5

Source: Statistics Bureau of Yancheng City, CCXAP research

Formed in 2006, the Yancheng High-tech Zone is one of the key developing districts in Jiangsu Province. It was the first provincial-level high-tech zone in Yancheng City in November 2012, and was upgraded to national level in February 2015, with the approval of the State Council of China. The High-tech Zone plays a particularly important role in industry upgrades of Yancheng City and focuses on the development of four industries including intelligent terminal, new energy, high-end equipment, and modern services, targeting to attract domestic and foreign high-tech manufacturers to invest in the High-tech Zone. Over 400 enterprises, including Dongjiu Heavy Industry Co., Ltd., Dongshan Precision Manufacturing Co., Ltd., and Xiaomi Corporation, have settled in the Yancheng High-tech Zone. The economic and fiscal performance of the Yancheng High-tech Zone continues to improve, providing a good operating environment for the Company. In 2022, Yancheng High-tech Zone achieved a GRP of RMB57.4 billion and a general public revenue of RMB4.1 billion, representing a YoY increase of 9.3% and 3.3% respectively.

**Government's Willingness to Provide Support****Dominant business position 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. The Company has undertaken the majority of local infrastructure construction and primary land development projects within the Yancheng High-tech Zone. Directed by the local government, YHZI has also participated in policy-driven commercial businesses such as local property leasing, equity investments and financial services, targeting to attract foreign and domestic investments. Given YHZI's strong strategic positioning, we believe the cost of substitution for the government is high and YHZI will not be easily replaced by other companies in the near future.

**Significant role in local public activities**

YHZI's primary public activities include local infrastructure construction and primary land development projects. As of 31 March 2023, the Company has completed several infrastructure construction projects, such as roads, schools, pipelines, greening, flood control facilities, and industrial parks, with a total investment of around RMB20.0 billion. These projects are essential to the economic and social development of the Yancheng High-tech Zone and also benefit local employment. YHZI's primary land development projects are mandated by the Management Committee of Yancheng High-tech Zone. It has completed a large number of land consolidation projects of approximately 8,135 mu and has totally invested RMB3.1 billion as of 31 March 2023, including some shantytown renovation projects that help improve the city's image and local land development.

YHZI's public project reserves are mainly driven by infrastructure construction. As of 31 March 2023, it had 5 key projects under construction, with an outstanding investment of RMB11.6 million. The Company also had 4 key projects under planning, such as staff apartments and entrepreneurial district renovation and upgrading,

with a total planned investment of RMB4.2 billion. In terms of primary land development, the Company had 2 key projects under consolidation and one project under planning, with a total investment of RMB1.0 billion. The sufficient project reserves showed the sustainability of the Company's public-policy businesses.

### **Solid 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. The Company received a capital injection from the government in the form of cash of RMB200 million in 2022, enhancing the capital strength of the Company. The Company had received a total of around RMB734 million in subsidies in the past three years.

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. As of 31 March 2023, the Company has received RMB8.0 billion of project repayments from the government. However, these payments have a close linkage with the government's fiscal position and local land market, which would be volatile. Despite the track record of ongoing project payments from the government over the past three years, there are relatively large receivables due from the local government. The Company still needs to rely more on external financing to meet its occasional funding gaps.

### **Medium exposure to 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. Commercial activities represent 30% to 40% of the Company's total assets, according to our estimation. However, some of the commercial activities are subject to market conditions and counterparty risk.

The Company has a large-scale investment property portfolio including non-standard factories, industrial parks and office buildings. The total leasable area increased to approximately 1.8 million square meters ("sqm") as of 31 March 2023 and is expected to increase given a large investment in constructing investment properties. For non-standard factories, the Company usually signs a lease agreement with the lessee before project commencement, promising a lease period for a certain time (normally 6-8 years). The lessee will eventually acquire the factory at the end of the contract period. The overall occupancy rates in 2022 were relatively high and the occupancy rates for standardized factories were also increasing from 2021. A large portion of the non-standard factory projects may reduce the operating risk of the property leasing business to a certain extent.

Moreover, the Company has developed equity and industrial fund investment businesses, mainly investing in manufacturing businesses and local industrial corporates to promote the development of local industries. The equity investment and funds exit mainly through IPO, secondary market, or shareholder buyback. The returns of the fund investments are subject to the changes in regional environment, industrial conditions, and financial performance of the investees. The returns of listed companies are also subject to the price volatility of the stock market.

The Company also conducts a small-scale material trading business, mainly including steel, coal, metallic material and electronic devices. The Company has a high customer concentration risk as the top 5 customers accounted for a very high proportion of its total sales in 2022. Most of the counterparties are construction companies within the Yancheng High-tech Zone and the main products include steel, coal and electronic devices. Such business is highly affected by macroeconomic and real estate market. As affected by the market price

fluctuation, gross profit from this business sector decreased from 2021 to 2022. The Company will scale down the material trading business in the future.

### **High debt leverage and moderate asset liquidity**

YHZI shows rising debt burden owing to its expansion in the construction of public-policy projects and property leasing projects over the past few years. As of 31 March 2023, the Company's total debt increased to RMB57.6 billion from RMB51.5 billion at end-2021. 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. At the same time, the Company bore high short-term debt burden with the short-term debt accounting for 41.0% of the total debt. At the same time, the cash to short-term debt ratio decreased to 0.4x from 0.6x as of end-2021. Considering the ongoing investment in projects under construction and the increase in investment in land consolidation, infrastructure construction and property construction, we expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Besides, YHZI's asset liquidity was moderate. As of 31 March 2023, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB13.8 billion, accounting for 49.5% of net assets. On top of that, as of 31 March 2023, the Company's inventories, other receivables, and receivables accounted for around 63.0% of the total asset. The Company's inventories mainly include costs of land consolidation and infrastructure constructions, which are considered low liquidity.

### **Diversified funding channels**

The Company's large investment needs and short-term debt pressure could be partially supported by its good refinancing ability. The Company has good access to funding through onshore and offshore debt capital markets and large domestic banks. As of 31 March 2023, it had total credit facilities of approximately RMB37.3 billion with an unused portion of RMB12.0 billion, mainly from joint-stock commercial banks and urban commercial banks. YHZI also has access to both onshore and offshore debt capital markets and has a track record of issuing different financial products in the onshore bond market such as SCPs, MTNs and PPNs. From January to May 2023, the Company raised RMB3.0 billion from the domestic bond market. Furthermore, the Company issued 1 offshore bond raising USD100 million at the beginning of 2022. However, the Company's exposure to nonstandard financing has increased, accounting for around 38% as of end-2022, which may exert a higher pressure on debt repayment.

### **High contingent risk associated with large external guarantee**

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. After excluding the exposure to its guarantee business, the Company still had an external guarantee of RMB16.7 billion, all of which were provided to state-owned companies in Yancheng City, accounting for around 60% of its net assets. The majority of external guarantees from 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. As of 31 March 2023, the Company had 14 unsettled compensatory guarantees with a total amount of principal to be recovered of RMB31.4 million, all of which have provided counter-guarantee measures. The related contingent risk exposure is still a key credit concern to YHZI's credit profile.

## ESG Considerations

YHZI is exposed to environmental risks because it has undertaken the majority of local infrastructure construction projects and public services. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close monitoring during the construction phase.

YHZI bears social risks as it plays a crucial role in the social welfare of the residents in the Yancheng High-Tech zone. YHZI is the key LIIFC in the High-tech Zone and undertakes different development businesses that affect local public welfare and employment. 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.

YHZI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the Yancheng Municipal Government and has to 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 \(July 2022\)](#).

## Appendix

### Exhibit 4. Peer Comparison

	Yancheng High-tech Zone Investment Group Company Limited	Yancheng Oriental Investment & Development Group Company Limited	Yancheng City Assets Investment Group Company Limited
Long-Term Credit Rating	BBB <sub>g</sub>	BBB <sub>g</sub>	BBB <sub>g</sub> +
Shareholder	Yancheng Municipal Government	Yancheng Municipal Government	Yancheng Municipal Government
Positioning	The largest platform of Infrastructure construction and investment in the Yancheng Hi-tech Zone	The largest Infrastructure investment and financing platforms in the Yancheng ETDZ	One of the largest Infrastructure construction and asset management platforms in Yancheng City
Total Asset (RMB billion)	85.3	67.2	119.1
Total Equity (RMB billion)	27.1	24.7	38.0
Total Revenue (RMB billion)	2.9	2.5	6.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: CCXAP research

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