Credit Opinion

10 November 2023

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

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Jiangsu Yungang Investment Development Co., Ltd.

Surveillance credit rating report

CCXAP has upgraded Jiangsu Yungang Investment Development Co., Ltd.'s long-term credit rating to BBB$_g$-, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Jiangsu Yungang Investment Development Co., Ltd. ("YGID" or the "Company") to BBB$_g$- from BB$_g$+, reflecting our expectation of stronger support from the local government to the Company after the change of its shareholding, given its good business prospects along with the development of Lianyun District.

The BBB$_g$- long-term credit rating of YGID 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 the local government's capacity to provide support reflects Lianyungang City's gross regional production ("GRP") of over RMB400 billion, with good industrial development and port resources. In addition, Lianyun District is a county-level district in Lianyungang City with good economic growth and fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) ultimate control by the Lianyungang Municipal Government after the change of shareholding; (2) strong policy role in the industrial development of Lianyun District, especially the Lianyun Economic and Development Zone ("Lianyun EDZ"); and (3) track record of receiving government support.

However, the rating is constrained by the Company's (1) medium commercial activities exposure; (2) moderate access to funding with limited financing flexibility; and (3) medium contingent liability risk.

The stable outlook on YGID's rating reflects our expectation that the local government's capacity to provide support will be stable; and the Company's characteristics, such as its primary role in the development of the Lianyun District and Lianyun EDZ, which is expected to remain unchanged over the next 12 to 18 months.

Rating Drivers

- Strong policy role in the industrial development of Lianyun EDZ
- Medium exposure to commercial activities
- Track record of receiving government support
- Rising debt level driven by increasing local investments
- Moderate access to funding with limited financing flexibility
- Medium contingent liability risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the local government’s capacity to support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government’s willingness to support such as an increase in the importance of its policy role or reduced exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 an increase in risk exposure to commercial activities, weakened government support, or deteriorated debt management.

Key Indicators

	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	8.1	10.1	11.3	12.9
Total Equity (RMB billion)	4.2	4.8	4.9	4.7
Total Revenue (RMB billion)	0.6	0.7	0.7	0.6
Total Debt/Total Capital (%)	41.8	45.2	50.0	55.6

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

Source: Company information, CCXAP research

Corporate Profile

Established in 2009, YGID is the primary local infrastructure investment and financing company (“LIIFC”) focusing on industrial investment in the Lianyun District, Lianyungang City. YGID undertakes the role of local infrastructure construction, industrial supporting projects and comprehensive services in the Lianyun EDZ, a provincial-level EDZ in the Lianyun District. After years of development, the Company has developed diversified business segments, including infrastructure construction, service businesses such as sewage treatment and inland port operation, photovoltaic (PV) power generation, property leasing, and trading. During the period from September to October 2023, Lianyun District Government transferred its shareholding of some important state-owned enterprises to Jiangsu Haizhou Bay Holding Group Co., Ltd.(“Haizhou Bay Holding”), which includes YGID. At the same time, the ultimate controller of Haizhou Bay Holding changed from Lianyun District Government to Lianyungang Municipal Government.

Exhibit 1. Shareholding chart as of 10 October 2023

连云港市人民政府
Lianyungang Municipal Government

100%

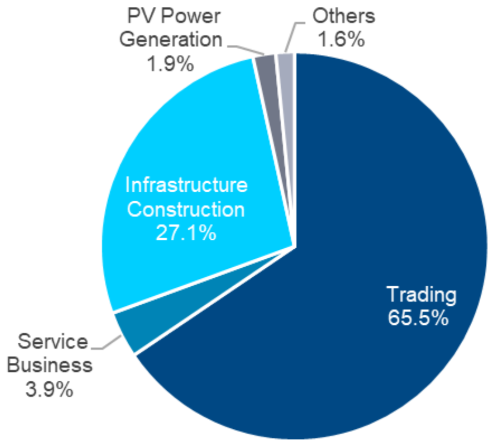
江苏海州湾控股集团有限公司
Jiangsu Haizhou Bay Holding Group Co., Ltd. ("Haizhou Bay Holding")

100%

江苏云港投资发展有限公司
Jiangsu Yungang Investment Development Co., Ltd. ("YGID")

Source: Company information, CCXAP Research

Exhibit 2. Revenue structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the local government has a strong capacity to provide support, given Lianyungang Municipal Government's GRP of over RMB400 billion, ranking Top 100 among all the prefecture-level cities in China. It also has good industrial development and port resources. In addition, Lianyun District is a county-level district in Lianyungang City with good economic growth and fiscal metrics. However, Lianyungang Municipal Government's fiscal metrics are moderate.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world's 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 GRP amounted to RMB12.3 trillion with a year-over-year ("YoY") growth rate of 2.8%. The GRP per capital was RMB144,390 for the same period, which was the highest one among all provinces in China.

Lianyun District is located in the easternmost of Lianyungang City, Jiangsu Province. Lianyungang City is one of the first 14 Chinese coastal cities opening to the outside world and has one of the major ports of China, the Lianyun Port. With geographic advantages, it has developed industries such as petrochemicals, ferrous metallurgy and mechanical equipment manufacturing. Currently, Lianyungang City also promotes new industries such as new medicine, new materials, new energy and high-end equipment industry. The economic strength of Lianyungang City was moderate among provincial-level cities in Jiangsu Province but improved steadily in recent years. In 2022, Lianyungang City reported a Gross Regional Product ("GRP") of RMB400.5 billion, an increase of 2.4% from 2021. The self-sufficiency ratio of the Lianyungang City Government is moderate and relies on fiscal support from high-tier governments. In 2022, affected by the government policy of tax rebates, Lianyungang Municipal Government's tax revenue decreased by 41.5% to RMB12.7 billion from 2021, causing the general budget revenue to decrease to RMB21.3 billion and fiscal stability (tax/general budget revenue) decrease to 59.9%. As of the end of 2022, the local government's outstanding debt increased to around RMB68.0 billion, accounting for about 17% of GRP. During the first half year of 2023, Lianyungang City reported a GRP of RMB195.6 billion with YoY growth of 12.9%, benefiting from large projects put into production in that year.

Exhibit 3. 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: Lianyungang Municipal Government, CCXAP research

Lianyun District has abundant ocean and tourism resources and has been awarded as an all-for-one tourism demonstration zone since 2016. The local government has also promoted industrial development by establishing industrial parks to attract investments, such as the SCO(Lianyungang) International Logistics Park ("SCO Park") and the Lianyun EDZ, where YGID mainly operates. Metal materials and chemical industries are Lianyun District's pillar industries. Lianyun District has a small economic size among county-level cities in Lianyungang City but has kept ongoing economic growth over the past few years. The fiscal balance and stability of Lianyun District were good. In 2022, the tax revenue, a stable source for Lianyun District Government's general budgetary revenue, decreased by 8.2% from last year, mainly because of the government tax rebate policy. The fiscal balance ratio remained at a high level of 107.5% and tax accounted for 74.4% of its budgetary revenue as of the end of 2022. As of the end of 2022, the Lianyun District Government reported outstanding government debts of RMB2.1 billion, which accounted for around 8.2% of GRP and 41.1% of Lianyun District Government's total fiscal revenue.

Exhibit 4. Key Economic and Fiscal Indicators of Lianyun District

	2020FY	2021FY	2022FY
GRP (RMB billion)	21.5	25.5	25.6
GRP Growth (%)	4.5	10.2	0.8
General Budgetary Revenue (RMB billion)	1.4	2.1	2.2
General Budgetary Expenditure (RMB billion)	1.6	2.0	2.0
Local Government Debt (RMB billion)	1.8	1.8	2.1

Source: Lianyun District Government, CCXAP research

Lianyun EDZ was established in 1992 and became a provincial-level development zone in 2006. It is one of the key industrial development areas of Lianyun District and has formed an industrial cluster dominated by new energy, chemical and metal materials industry. Lianyun EDZ has attracted a number of enterprises such as Lianyungang Huale Alloy Group Co., Ltd., Jiangsu Sanjili Chemical Co., Ltd., Wilmar Polymer Materials (Lianyungang) Co., Ltd., Lianyungang Hengxintong Mining Co., Ltd. and Chinalco Jiangsu Rare Earth Co., Ltd. In 2019, mandated by the Lianyungang Municipal Government, the Management Committee of the Lianyun EDZ assumed the responsibility for the development and management of the SCO Park. SCO Park is a provincial and municipal hub for modern service industries and a key municipal logistics base, aiming to be a commercial logistics center for the Central Asia-Pacific Rim and a global logistics cooperation location servicing the countries and regions along the “Belt and Road”. In 2022, SCO Park completed logistics flow of 64.9 million tons with a YoY growth of 48.2%. SCO Park has already attracted domestic and foreign logistic enterprises, such as Jiangsu Tongyi International Logistics Co., Ltd, etc. The local government targets to promote the development of four sectors namely modern logistics, new materials, high-end manufacturing, and marine industry in the SCO Park.

Government’s Willingness to Provide Support

Strong policy role in the industrial development of Lianyun EDZ

In 2023, the local government positioned Haizhou Bay Holding as the entity to consolidate the main LIIFCs in Lianyun District, including Jiangsu Haizhou Bay Development Group Co., Ltd.(“HZDG”) and YGID. YGID is the key industrial investment platform that undertakes the functions of infrastructure development, industrial supporting project construction and providing comprehensive services in the Lianyun EDZ and the SCO Park, which are the key industrial parks of the Lianyun District. The success of the Lianyun EDZ and the SCO Park is important to the industrial and economic development of the Lianyun District as it contributed a majority part of tax revenue and fiscal income for the region. YGID has an essential role in the development of Lianyun EDZ as seen by its large contribution to the local infrastructure construction such as roads, land consolidation and resettlement housings. YGID is also involved in commercial activities to support the industrial development in the Lianyun EDZ such as sewage treatment, property leasing and inland port handling, which help facilitate enterprises to move in their production lines and reduce the cost of conducting businesses in the Lianyun EDZ.

YGID’s policy role is expected to be consolidated as the key developer in the Lianyun EDZ and SCO Park. Its businesses will increase along with the development of the SCO Park and Lianyun EDZ after the consolidation, including the construction of supporting facilities and provision of services. Given YGID’s essential roles, the replacement cost for the local government is high and the ongoing government support is very likely.

Medium exposure to commercial activities

YGID has medium exposure to commercial business, which has increased along with the rising local industrial investments. The Company is engaged in commercial activities including trading, services, PV power generation and property leasing, which generate additional income sources. The risk nature of such activities is generally higher than traditional infrastructure construction projects and direct government financial support will be more difficult under stricter regulatory supervision on the increase in government’s implicit debt. YGID relies on external financing to support the development of its commercial activities.

In order to support local industrial development, YGID provides industrial sewage treatment and inland port handling services to local enterprises, which are self-sustaining businesses. The Company is the only industrial sewage service provider in the park and has strong regional advantages. However, with its policy-driven nature, the pricing flexibility is low, making YGID less resilient to changes in operating costs. Given the Company’s limited servicing area and client bases, the performance of the port handling business fluctuates by regional logistic flow. For example, the Company has experienced a negative profit margin in its port handling business during the outbreak of the pandemic.

YGID is also engaged in trading business and products mainly including aluminum, rebar, coiled screw, electrolytic copper and construction materials to meet the needs of local enterprises. The trading business represents a large portion of its revenue stream but generates a minimal profit. YGID's trading business has low price risk as most orders are fulfilled on an on-demand basis. However, the suppliers and customers of the trading business were still highly concentrated in 2022. There are also some additional capital needs for trading business because a credit period of no more than 30 days is normally provided to customers.

YGID started its PV power generation business through the acquisition of two enterprises with PV power installed capacity of 16MW in 2019. The PV power generation has offered a recurring income source to the Company. In 2022, the revenue from PV power generation power remained at around RMB14 million. In 2023, the Company plans to invest RMB280 million in a PV power generation project in the form of equity investment.

Track record of receiving government support

YGID has a track record of receiving government support in various forms such as capital injection, financial subsidies, proceeds of project management and asset injections. In 2019, the local government injected cash of RMB1.0 billion into the Company, significantly enhancing its capital strength. In order to support the Company's operation, the local government has also provided financial subsidies, such as interest operating subsidies, of RMB344 million in total from 2020 to 2023H1.

However, government payments for YGID's public infrastructure projects are highly subject to the local government's fiscal budget. The Company is designated by the Management Committee of the Lianyun EDZ directly or indirectly through its agency, Jiangsu Jinfu Port Construction Co., Ltd. The government will pay the Company construction costs with an additional management fee of 15% after the settlement of the construction projects. From 2020 to 2023H1, the Company received infrastructure project repayments of RMB109 million.

Besides, the Company also receives government support in the form of project allocation and assistance in the application of special bond funds. The Company will undertake more important tasks along with the development of Lianyun EDZ and SCO Park. For example, the Company is engaged in the tidal flat solar photovoltaic power generation project with capacity of 2 million KWh, an important project of Lianyungang Municipal Government. Given the Company's strong public policy role and expanding public-related activities in the Lianyun EDZ and the SCO Park, we expect the Company will continue to receive government support over the next 12 to 18 months.

Exhibit 5. Track record of government support from 2020 to 2023H1

(RMB million)	2020	2021	2022	2023H1
Financial subsidies	85	112	97	50
Infrastructure project repayments	109	-	-	-
Total	**194**	**112**	**97**	**50**

Source: Company information, CCXAP Research

Rising debt level driven by expanding local investments

YGID has an increasing debt level because of its fast local investment pace, with slow government repayments for its infrastructure construction business. The Company's total debt increased to RMB5.9 billion at end-

2023H1 from RMB4.0 billion at end-2021. The Company's leverage level remained at a moderate level, with a total capitalization ratio of 55.6% as of 30 June 2023.

YGID has a large investment plan for its infrastructure construction and commercial activities. As of 30 June 2023, the Company had several infrastructure projects under construction with outstanding investments of RMB974 million. Moreover, the Company expects to expand its commercial businesses, such as increasing the capacity of its sewage services and PV power generation. Although some of them can be supported by government special funds, there are still large capital needs for construction projects. With large investment needs, we expect the Company's debt level will continue to increase in the next 12 to 18 months.

Moderate access to funding with limited financing flexibility

YGID has moderate access to funding constrained by its small operating scale. It relies highly on indirect financing, particularly asset-pledge loans. It has limited access to the domestic debt market. In June 2022, it issued offshore bonds of EUR33 million, which had an irrevocable standby letter of credit from China Zheshang Bank Co., Ltd. In addition, the Company demonstrated an increasing reliance on short-term debt, which accounted for 81.4% of total debt as of 30 June 2023. At the same time, approximately 41.4% of YGID's assets were restricted as collaterals for financing that, in our view, will limit its financing flexibility. The limited access to funding will also make YGID less resilient to the change in the financing market environment. In addition, the non-standard financing accounted for around 11% of total debts as of 30 June 2023.

The Company has relatively weak balance-sheet liquidity and requires refinancing for its operations. As of 30 June 2023, the Company had cash on hand of RMB3.4 billion, which was insufficient to cover its short-term debts of RMB4.8 billion. Nevertheless, YGID's good relationship with domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk. As of 30 June 2023, the Company had total credit facilities of RMB3.9 billion and undrawn credit facilities of RMB542 million.

Medium contingent liability risk

YGID has medium contingent liability risk relative to its net assets. As of 30 June 2023, the Company has provided external guarantees of RMB2.9 billion, equivalent to 61.9% of its net assets. Most of these external guarantees were provided to other local LIIFCs or state-owned enterprises. For example, the Company provided external guarantees of RMB917 million to HZDG, a subsidiary of Haizhou Bay Holding. The Company has provided guarantees of around RMB8.0 million to Kebang Petrochemical (Lianyungang) Co., Ltd., a private enterprise in Lianyun EDZ, with sufficient counter-guarantee measures. Large external guarantee exposure may increase financial risk on YGID caused by the potential credit risk of local state-owned enterprises and the change in economic condition. Nevertheless, the Company currently has stricter controls over its guaranteed exposure.

ESG Considerations

YGID bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

The Company is also exposed to social risks as a public services provider in Lianyun District, Lianyungang City. Demographic changes, public awareness, and social priorities shape the government's target for YGID or affect the government's propensity to support the Company.

YGID's governance considerations are also material as the Company is subject to oversight and reporting requirements to the local government, 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).

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