

## Credit Opinion

11 April 2024

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

### Analyst Contacts

Allen Lin +852-2860 7128

Credit Analyst

[allen\\_lin@ccxap.com](mailto:allen_lin@ccxap.com)

Amy Chen +852-2860 7140

Assistant Credit Analyst

[amy\\_chen@ccxap.com](mailto:amy_chen@ccxap.com)

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

[elle\\_hu@ccxap.com](mailto: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

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

### Surveillance credit rating report

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

### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd ("YETD" or the "Company") to A<sub>g</sub>- from BBB<sub>g</sub>+, reflecting the improving comprehensive strength of Yangzhou City and the Company's significant role in the regional development of Yangzhou Economic and Technological Development Zone ("Yangzhou ETDZ").

The A<sub>g</sub>- long-term credit rating of YETD 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 steadily improving economic profile, along with good fiscal stability.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong strategic position in primary land development and infrastructure construction in Yangzhou ETDZ; (2) good track record of receiving government support; and (3) good access to diversified financing channels. However, the Company's rating is constrained by the Company's (1) medium exposure to commercial activities; (2) fast debt growth driven by development projects; and (3) high contingent liability risk caused by large 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

- Strong strategic position in primary land development and infrastructure construction in Yangzhou ETDZ
- Good track record of receiving government support
- Good access to diversified financing channels
- Medium exposure to commercial activities
- Fast debt growth driven by development projects
- High contingent liability risk caused by large 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 increased strategic importance and improved debt management.

### 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

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	59.9	66.5	75.4	86.9
Total Equity (RMB billion)	24.7	24.8	27.3	27.5
Total Revenue (RMB billion)	2.0	2.2	2.4	2.0
Total Debt/Total Capital (%)	56.3	60.4	59.3	64.8

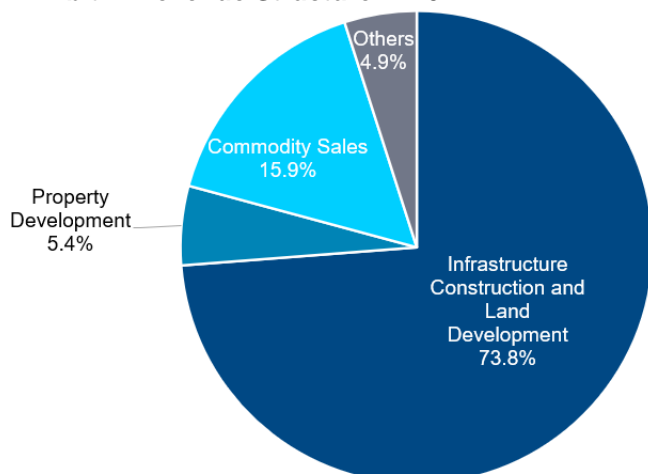
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

## Corporate Profile

Established in 1992, YETD is one of the essential local infrastructure investment and financing companies ("LIIFCs") in Yangzhou City, particularly the Yangzhou ETDZ. The Company occupies a dominant position in primary land development and urban infrastructure construction in the region. Meanwhile, YETD is also engaged in various commercial business segments, including property development, commodity sales, and property leasing. In July 2023, in order to improve the efficiency of state-owned capital operations and stimulate the operational vitality of state-owned enterprises ("SOEs"), Yangzhou Municipal People's Government established Yangzhou Industrial Investment State-owned Holding (Group) Co., Ltd. ("YZII"), and transferred 100% shares of the Company to YZII. As of 30 September 2023, the Company was directly and wholly owned by YZII, and Yangzhou Municipal People's Government was still the ultimate controller.

### Exhibit 1. Revenue Structure in 2022



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 its good industrial fundamental and steadily improving economic profile, along with good fiscal stability.

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, chemical, and textile. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP also ranked top among all provinces in China for years.

Yangzhou City is located in the middle of Jiangsu Province and at the intersection of the Yangtze River and the Beijing-Hangzhou Grand Canal with significant geographical advantages. 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 City's GRP reached over RMB742.3 billion in 2023 and ranked medium level in all prefectural-level cities in Jiangsu Province, with a YoY growth higher than that of Jiangsu Province. In 2023, Yangzhou Municipal Government's general budgetary revenue increased to RMB34.8 billion from RMB34.4 billion in 2021. Tax income continued to be the main source of general budgetary revenue, the average fiscal stability ratio (tax revenue/ general budget revenue) over the past three years was 77.6%. However, Yangzhou Municipal Government's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was relatively low, average ratio was 48.6% over the past three years. At the end of 2023, Yangzhou's Municipal Government debt balance was RMB121.7 billion, accounting for 16.4% of GRP.

**Exhibit 2. Key Economic and Fiscal Indicators of Yangzhou City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	669.6	710.5	742.3
GRP Growth (%)	7.4	4.3	6.0
General Budgetary Revenue (RMB billion)	34.4	32.5	34.8
General Budgetary Expenditure (RMB billion)	68.5	69.9	71.1
Local Government Debt (RMB billion)	97.8	110.5	121.7

Source: Yangzhou Municipal Government, CCXAP research

Yangzhou ETDZ was established in 1992 and was upgraded to national-level economic and development zone in 2009. The leading industries in Yangzhou ETDZ are represented by green optoelectronics, automobiles and parts, and high-end light industry. At the same time, combined with the development conditions, it vigorously develops strategic emerging industries such as new energy, new materials, a new generation of information technology, and high-end equipment manufacturing. In recent years, with the continuous acceleration of industrial transformation and the reasonable layout of the industry, Yangzhou ETDZ has become a strategic economic growth engine for Yangzhou City's economy and has many leading enterprises settled such as YAPP Automotive Systems Co., Ltd. and Hisense Home Appliances Group Co., Ltd. According to the results of the assessment and evaluation of the comprehensive development level of 230 national-level economic and technological development zones in China announced by the Ministry of Commerce in 2023, Yangzhou ETDZ entered the list of the top 100 economic and technological development zones in China and ranked 84<sup>th</sup>. In 2023, Yangzhou ETDZ's GRP increased to RMB74.6 billion, with a high YoY increase of 7.0%. Meanwhile, its general budgetary in 2023 increased to RMB2.8 billion, and the fiscal self-balance ratio remained high of 123.5%. 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.

**Exhibit 3. Key Economic and Fiscal Indicators of Yangzhou ETDZ**

	2021FY	2022FY	2023FY
GRP (RMB billion)	65.8	73.0	74.6
GRP Growth (%)	9.8	8.0	7.0
General Budgetary Revenue (RMB billion)	2.5	2.5	2.8
General Budgetary Expenditure (RMB billion)	1.7	1.9	2.2
Local Government Debt (RMB billion)	3.9	4.7	5.2

Source: Yangzhou ETDZ Management Committee, CCXAP research

**Government's Willingness to Provide Support****Strong strategic position in primary land development and infrastructure construction in Yangzhou ETDZ**

As one of the essential LIIFCs in Yangzhou ETDZ, YETD is the sole entity responsible for the primary land development in Yangzhou ETDZ, along with large scale of regional infrastructure construction projects. It plays a key role in promoting the social and economic development of Yangzhou ETDZ and has made great contributions to the improvement of the investment environment and the continuous expansion of the scale of investment attraction in the region. The other major state-owned enterprise in Yangzhou ETDZ is Yangzhou Economic and Technological Development Zone State-owned Holding (Group) Co., Ltd. ("YESH"), which is mainly responsible for infrastructure construction and investment and operation of state-owned assets in

Yangzhou ETDZ. 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.

As the sole primary land development entity in Yangzhou ETDZ, YETD continues to carry out primary land development of industrial and commercial lands in the region commissioned by the Yangzhou ETDZ Management Committee. Yangzhou ETDZ Management Committee settles the development payments with the Company quarterly, and pays the actual costs along with 12% commission fees to YETD at the end of year. From 2021 to 30 September 2023, the Company has completed series of primary land development projects in Yangzhou ETDZ with a total investment amount of RMB2.9 billion, and has received a total of RMB2.5 billion from the local government. The Company also has sufficient projects reserves to maintain the business sustainability. As of 30 September 2023, YETD had 6 land development projects under construction, with an outstanding amount of RMB930 million. Meanwhile, the Company had 3 land development projects under planning, with a total investment amount of RMB773 million.

Entrusted by Yangzhou ETDZ Management Committee, YETD also undertakes the construction of key municipal infrastructure in Yangzhou ETDZ, mainly including roads, bridges, pipelines, and resettlement housing. Yangzhou ETDZ Management Committee settles and pays to YETD annually according to the actual construction costs and 12% markup after audit. Specifically, after YETD completed the construction of resettlement housing, the Yangzhou ETDZ Management Committee shall repurchase in the form of development cost plus markup. From 2021 to 2023Q3, the Company had undertaken and completed several municipal infrastructure projects in Yangzhou ETDZ with a total investment amount of RMB3.6 billion, including resettlement housing, river improvement facilities, and schools, and received a total payment of RMB3.8 billion from the local government. At the same time, the Company had 7 municipal infrastructure construction projects under construction with an outstanding investment amount of RMB3.3 billion, and 5 projects under planning with a total investment amount of RMB1.9 billion, exerting relatively high capital expenditure pressure.

### **Medium exposure to commercial activities**

Apart from public activities, YETD is also engaged in diversified commercial businesses including property development, commodity sales and leasing business. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% to 30% of its total assets.

The Company's property development business is mainly operated by its 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 September 2023, the Company had completed 4 property development projects with a total investment amount of RMB3.2 billion, while the sale process was relatively slow with the received sales payments of RMB2.1 billion. In addition, the Company had 4 property projects under construction with an outstanding investment amount of RMB760 million, and 3 projects under planning with a total investment amount of RMB5.3 billion. Considering the relatively large investment of projects under construction and planning and the volatility of the property market, the Company may face capital expenditure and destocking pressure. Overall, the Company will focus on the land development sector and carry out the property development business under the overall planning of the Yangzhou ETDZ Management Committee.

YETD also constructs standard factories for enterprises settled in Yangzhou ETDZ and achieves leasing revenue. As of 30 September 2023, the Company had 10 self-operated projects under construction, with an outstanding investment amount of RMB4.9 billion, including standardized factory buildings and warehouses.

However, in 2022 and 2023Q3, the Company achieved leasing revenue of RMB26.4 million and RMB164.8 million respectively, and the contribution to the total revenue was relatively limited. 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 and mainly sells building materials to construction companies working on construction projects in Yangzhou ETDZ. The Company's commodity sales business is based on order-with-sales model, which can effectively prevent and resolve destocking pressure and the risk of price fluctuations. During the past few years, the Company's commodity sales business has expanded and the revenue has increased steadily, increasing to RMB676.8 million in 2023Q3 from RMB69.2 million in 2021. However, the gross profit rate of the business maintained to be relatively low of less than 1%. Moreover, there was a high concentration of suppliers and customers for the Company's commodity sales business with top five suppliers and customers accounting for more than 95% and 90%, which could bring higher operational risks to the Company.

### **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 2022 to 2023Q3, YETD received a total of RMB605.3 million in financial subsidies and RMB800 million in interest grants. In 2022, the Yangzhou Municipal People's Government made a monetary capital increase of RMB3.5 billion to the Company, increasing its paid-in capital and enhancing the capital strength. In addition, YETD continued to receive payments from completed construction projects from the local government, totaling of RMB2.5 billion. Given the Company's strategic importance in the development of Yangzhou ETDZ, we believe that the local government will provide YETD with ongoing operational and financial support.

### **Fast-growing debt from development projects**

As a major investment and financing entity in Yangzhou ETDZ, YETD has a large scale of projects in the pipeline, causing large capital expenditure pressure. As of 30 September 2023, the Company had 27 projects under construction, with the outstanding investment amount of RMB9.0 billion, and 8 projects under planning with a total investment amount of RMB2.7 billion. The projects include primary land development, infrastructure construction, property 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 RMB30.5 billion in 2020 to RMB50.5 billion at end-2023Q3, and its capitalization ratio, as measured by total debt to total capital, also increased from 56.3% to 64.8% during the same time period. In terms of debt structure, the Company's short-term debt accounted for 22.7% of its total debt as of 30 September 2023, an improvement from 32.1% in 2022. 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.

Apart from that, YETD's other receivables and inventories accounted for a relatively large proportion of its total assets, which constrained the Company's liquidity profile. Specifically, the inventories were mainly development costs resulting from land development, infrastructure construction and property development, along with undeveloped lands, which were difficult to monetize in the short term. Other receivables mainly included payments from the local government departments or SOEs due to projects construction.

### **Good access to diversified funding channels**



YETD has diversified funding channels including bank loans and direct financing, which could partially release its capital expenditure and debt repayment stress. As of 30 September 2023, bank loans were the Company's main funding source and accounted for 56.9% of the total debt. Meanwhile, the Company has maintained a good relationship with large domestic banks such as Industrial and Commercial Bank of China and China Development Bank, with total credit facilities of RMB44.0 billion and available credit facilities of RMB16.2 billion as of 30 September 2023. The Company also has good track record of fund-raising activities in debt capital market. For example, in 2023, the Company raised debt of RMB7.1 billion via 15 tranches of onshore bonds, with coupon rates from 2.55% to 5.4%. In addition, YETD's exposure to non-standard financing products decreased and accounted for around 6% of the total debt as of 30 September 2023.

### **High contingent liabilities risk from external debt guarantee**

YETD has large contingent risk exposure as the Company has a large number of external guarantees that may increase its repayment obligations. As of 30 September 2023, the Company had outstanding external guarantees of RMB10.5 billion, accounting for 38.3% of its net assets. All of the counterparties of external guarantees are local SOEs such as YESH, and its subsidiary Yangzhou Green Industry Investment and Development Holding (Group) Co., Ltd. The practice of mutual guarantees among local SOEs is common in Yangzhou ETDZ. In case a credit event occurs, the Company may face large contingent liability risks and cross-default risks.

### **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**

YETD's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important role in primary land development and infrastructure construction in Yangzhou ETDZ, thereby mitigating any differences in an expected loss that could result from structural subordination.

### **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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**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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656