

## Credit Opinion

25 June 2024

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

### Analyst Contacts

Kelly Liang +852-2860 7127

Credit Analyst

[kelly\\_liang@ccxap.com](mailto:kelly_liang@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

## Nanjing Yangzi State-owned Assets Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>+ to Nanjing Yangzi State-owned Assets Investment Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>+ long-term credit rating of Nanjing Yangzi State-owned Assets Investment Group Co., Ltd. (“YZSI” or the “Company”) reflects Nanjing Jiangbei New District (“JND”) Government’s (1) very strong capacity to provide support, and (2) extremely high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of the JND Government’s capacity to provide support reflects JND’s vital role as the sole national-level new area in Jiangsu Province and good comprehensive strengths. Its gross regional production (“GRP”) ranked 8<sup>th</sup> among 19 national-level new areas and its fiscal profile is strong.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) full ownership by the JND Management Committee with the largest asset scale in JND; (2) strategic importance in the economic and social development of JND; (3) solid track record of receiving government support in terms of financial subsidies and capital injections; and (4) strong access to low-cost and stable funding.

However, the rating is constrained by the Company’s (1) medium exposure to and investment in commercial activities; and (2) high debt burden arising from large debt-funded investments in JND.

The stable outlook on YZSI’s rating reflects our expectation that JND Government’s capacity to provide support will be stable, and the Company’s characteristics such as its essential role in the development of JND will remain unchanged over the next 12 to 18 months.

## Rating Drivers

- Strategic importance position as the largest government-related platform in JND
- Good project reserves in line with the economic and social development of JND
- Solid track record of receiving government support
- Strong access to low-cost and stable funding
- Medium exposure to and investment in commercial activities
- High debt burden arising from large debt-funded investments in JND

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased importance, significant reduction in commercial activities, and improved debt management.

### 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 provide support, such as reduced strategic significance, deteriorated access to fundings, or significant increase in contingent risks.

## Key Indicators

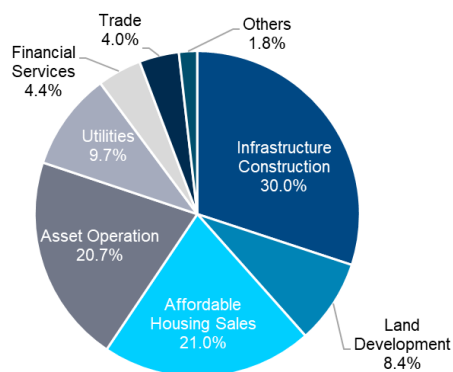
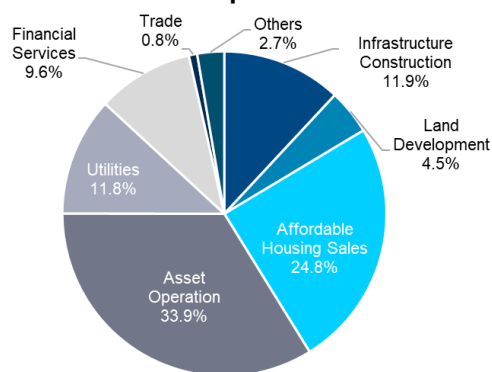
	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	304.4	330.2	361.9	372.7
Total Equity (RMB billion)	92.7	99.8	109.2	111.9
Total Revenue (RMB billion)	10.3	10.2	11.1	2.0
Total Debt/Total Capital (%)	71.5	73.0	73.6	74.2

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

Source: Company data, CCXAP research

## Corporate Profile

Founded in 2014, YZSI is the most important construction, investment, operation and asset management entity in JND, the sole national-level new area in Jiangsu Province. It undertakes infrastructure construction, affordable housing construction and public utility services in the region and is also the major entity undertaking large-scale projects under the guidance of the Nanjing Municipal Government in JND. Meanwhile, YZSI is engaged in diversified commercial activities with a focus on the investment and operation of industrial development, such as commercial property leasing, financial services, engineering consulting, and trade businesses. As of 31 March 2024, YZSI is wholly owned by the Management Committee of JND and ultimately controlled by the Nanjing Municipal People's Government.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company data, CCXAP research

**Exhibit 3. Shareholding chart as of 31 March 2024**

Source: Company data, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe that the JND Government has a very strong capacity to provide support, given its vital role as the sole national-level new area in Jiangsu Province and good comprehensive strengths. Its GRP ranked 8<sup>th</sup> among 19 national-level new areas and its fiscal profile is strong.

Jiangsu Province is one of China's most advanced and prosperous provinces. Many globally renowned companies in various industries including textiles, chemicals, and electrical equipment are based here. Jiangsu Province is the second largest province in China by 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 for the same period was RMB150,487, ranking first among all provinces in China.

Nanjing City is a sub-provincial city as the capital of Jiangsu Province. It is an important central city and one of the largest cities in the Yangtze River Delta Region, with a solid economic and industrial foundation. Nanjing City's stable economic growth is underpinned by its excellent transport location, rich scientific and educational resources and continuously optimized industrial layout. In addition to developing and upgrading its four pillar industries, electronic information, automotive, petrochemicals and steel industries, the Nanjing Municipal Government actively promotes emerging and future industries including intelligent manufacturing equipment, integrated circuits, biomedicine, new materials and aerospace industries. In 2023, Nanjing City achieved a GRP of RMB1.7 trillion, a YoY increase of 4.6%. Nanjing City's fiscal profile is characterized by good fiscal sufficiency

and a strong revenue-generating ability. In 2023, its general budgetary revenue increase by 4.0% to RMB162.0 billion. During the past three years, tax revenue represented more than 85% of the general budgetary revenue, and the average self-sufficiency rate (general budgetary revenue/general budgetary expenditure) was over 80%. As at end-2023, the Nanjing Municipal Government's outstanding direct debt amounted to RMB307.0 billion, accounting for 17.6% of its GRP.

#### Exhibit 4. Key economic and fiscal indicators of Nanjing City

	2021FY	2022FY	2023FY
GRP (RMB billion)	1,635.5	1,690.8	1,742.1
GRP Growth (%)	7.5	2.1	4.6
General Budgetary Revenue (RMB billion)	173.0	155.8	162.0
General Budgetary Expenditure (RMB billion)	181.8	182.9	183.9
Local Government Debt (RMB billion)	289.0	298.8	307.0

Source: Nanjing Municipal Statistics Bureau, CCXAP research

Located north of the Yangtze River in Nanjing City, JND is the sole national-level new area in Jiangsu Province approved by China's State Council in 2015 and is also the location of China (Jiangsu) Pilot Free Trade Zone Nanjing Area. The approved planning area of JND is 788 square kilometers, covering two harbor areas and three national industrial zones, Xiba and Qiba harbor areas of Nanjing Port, Nanjing High-tech Industrial Development Zone, Nanjing Jiangbei New Material Science and Technology Industrial Park (former known as Nanjing Chemical Industrial Park) and Nanjing Cross-Strait Science and Technology Industrial Park. At the same time, in order to accelerate the development and construction of the area, JND is classified into a direct-governing area with a total of 386.3 square kilometers, a co-construction area and a co-ordination area, with different governments leading the major development tasks. With the backing of strong policy support and clear development strategies, JND has formed advantageous industries represented by "intelligent manufacturing, life and health, new materials, and high-end transportation equipment".

The development prospects of JND are good due to its high political and economic status, but the area is still in the development and construction phase, and economic growth is highly pulled by investment. In 2023, JND achieved a GRP of RMB269.9 billion, ranking 8<sup>th</sup> among 19 national-level new areas. At the same time, the JND Government's general budgetary revenue amounted to RMB16.0 billion, showing an increase compared with 2022 mainly due to the reduction in the scale of tax rebates but a decrease compared with 2021 mainly due to decline in the economic performance of some petrochemical and steel enterprises and decline in the property market. JND's fiscal profile is characterized by high fiscal sufficiency and a strong revenue-generating ability. Its self-balance ratio averaged 116.7% and tax revenue accounted for 87.5% of the total general budgetary revenue over the past three years. As of the end of 2023, the JND Government's outstanding debt was RMB33.5 billion, accounting for 12.4% of its GRP.

#### Exhibit 5. Key economic and fiscal indicators of JND

	2021FY	2022FY	2023FY
GRP (RMB billion)	256.2	262.8	269.9
GRP Growth (%)	14.3	1.8	2.7
General Budgetary Revenue (RMB billion)	21.5	14.5	16.0
General Budgetary Expenditure (RMB billion)	14.3	15.0	15.5
Local Government Debt (RMB billion)	32.3	34.0	33.5

Source: JND Management Committee, Nanjing Municipal Statistics Bureau, CCXAP research

## Government's Willingness to Provide Support

### Strategic importance position as the largest government-related platform in JND

YZSI is the most important entity for construction, investment, operation and asset management in JND, undertaking the tasks of investment in major projects and construction of carriers for industrial transformation and upgrading in JND, under the government of Nanjing Municipal Government and JND Government. YZSI's success is highly in line with the success of developing JND into a successful national-level new area. The Company has developed into a large state-owned enterprise ("SOE") in terms of assets in JND and Nanjing City. As of 31 March 2024, its total assets and net assets amounted to RMB372.7 billion and RMB111.9 billion, ranking the top among the local SOEs. At the same time, its debt scale is high which consists of borrowing from domestic banks and capital markets therefore the effect of the default of the Company would pose large reputational risks to the local government. Nanjing Jiangbei New Area Construction Investment Group Co. Ltd. ("JBCI") is another investment and construction platform to develop JND, particularly in the Nanjing Jiangbei New Material Science and Technology Industrial Park.

### Good project reserves in line with the economic and social development of JND

YZSI's urban development role mainly encompasses affordable housing construction and infrastructure construction, and it also provides public utility services in JND, which are essential for the city's social and economic development and important to achieve the government's long-term goals for JND. The Company has completed several major projects and has sufficient projects in hand under construction. In addition, YZSI serves as the sole platform for borrowing shantytown redevelopment loans from China Development Bank, and on-lending the funds to local government financing vehicles ("LGFVs") in other districts in Nanjing City.

YZSI undertakes infrastructure construction mainly through its subsidiaries, Nanjing Jiangbei New Area Industrial Investment Group Co., Ltd. ("JBII") and Nanjing Jiangbei New Area Public Utilities Holding Group Co., Ltd. ("JBPU"). Specifically, JBII is mainly responsible for the Nanjing High-tech Industrial Development Zone; JBPU is mainly responsible for water connection projects in JND and infrastructure construction in the urban functional zone of Nanjing Chemical Industrial Park. Under the agency construction model, the local government settles with the Company on a cost-plus basis, and the plus is typically agent management fees ranging from 15% to 40%. As of 31 March 2024, JBPU had 6 key projects under construction with a total investment of RMB4.0 billion and an outstanding investment of RMB586.6 million. Apart from that, authorized by the JND Management Committee, YZSI also undertakes the primary land development business in the area through JBII, which has been an indispensable segment for the investment attraction and construction of the region. Similarly, the Company enters into agreements with the local government based on the construction cost and a 20% to 30% markup. As of 31 March 2024, no land development projects were under development or planning.

YZSI is responsible for the initial financing, construction, and sales of affordable housing in JND. YZSI sells the housing to the relocated households at the prices set by the local government, and it would receive subsidies from the government if there is a loss. YZSI had sufficient project reserves in the affordable housing construction segment. As of 31 March 2024, it had 12 key projects under construction and 2 projects under planning, with outstanding investments of RMB11.1 billion and RMB2.5 billion, respectively.

Furthermore, YZSI provides public utility services, including water supply and heat supply in JND, which possess quasi-public attributes. YZSI is mainly responsible for the production and supply of tap water and raw water in Nanjing Chemical Industrial Park, the entire Liuhe District and parts of Pukou District, as well as the construction of water connection pipelines in these areas. Covering the entire Chemical Industrial Park, the Company mainly provides heat products to settled enterprises, hotels, and schools. As of 31 March 2024, the

Company had 2 major thermal energy projects under construction, with a total investment amount of RMB1.6 billion.

### **Medium exposure to and investment in commercial activities**

YZSI's major commercial activities are mainly asset development and operation within JND. Most of the Company's commercial activities are still conducted under government guidance with an aim to support the development of industries and attract talent to JND. Based on our assessment, the Company's commercial exposure is medium at around 25%-30% of its total assets.

YZSI develops all the residential, commercial and industrial projects within JND, which are for sales and lease purposes. In addition, the Company also manages and operates many landmark venues and special function carriers in JND including the Yangtze Boat Hotel, Yangtze River International Conference Centre and Civic Centre. From 2021 to 2023, the income from asset operations increased to RMB2.3 billion from RMB1.9 billion, accounting for 20.7% of total revenue. It is mainly driven by the increase in property leasing income as well as services business including hotel operation and training, due to the continuous development of the region and the increase in investment properties. The Company's future investments in this sector are large along with the pace of regional development, which may increase its pressure on capital expenditure and operation capability. However, considering the good development prospect of JND, we expect these commercial activities to continue providing stable income and profit supplement to the Company.

YZSI's financial services business mainly includes commercial factoring, financial leasing and fund management services, which accounted for around 4.4% of total revenue. The customers of commercial factoring, and financial leasing are mainly SOEs, and private-owned enterprises that are related to YZSI's development projects. As of 31 March 2024, the exposure to the commercial factoring and financial leasing business was small with zero nonperforming ratios. The Company also carries out fund investment including mother funds and direct investment in equity and debt funds. As of 31 March 2024, the Company has invested in 52 funds, through subsidiaries, with a total scale of RMB160.0 billion and covering diversified industries. The riskiness of the fund investment business is manageable as they are made under the guidance of the local government to support the development of the region.

### **High debt burden arising from large debt-funded investments in JND**

The liquidity of YZSI's balance sheet is moderate which consists of receivables from the local government and public-services assets such as metro lines and high-speed train station within JND. YZSI's inventories were mainly construction costs of infrastructure construction, affordable housing construction and land development, accounting for 37.5% of the total assets as of 31 March 2024.

YZSI demonstrated fast debt growth and reached very high leverage measured by the total capitalization ratio. From 2021 to 2024Q1, the Company's total debt (including perpetual instruments) increased to RMB261.7 billion from RMB198.3 billion, mainly due to large investments in policy-driven projects and commercial activities; and its total capitalization ratio increased to 74.2% from 71.5%. The refinance needs could be partially mitigated by its significant unrestricted cash and its moderate cash to short-term debt ratio of 0.5x as of 31 March 2024. We expect YZSI's debt burden will remain relatively high in the next 12-18 months, as the Company has large investments in debt-funded investments in JND.

### **Strong access to low-cost and stable funding**

YZSI's good access to capital and reasonable debt structure help mitigate its refinance risks. The Company has diversified funding channels and we expect the Company to maintain its good access to those funding given its status as the dominant SOE in JND. YZSI's good access to long-term financings thus forms a reasonable debt structure. As of 31 March 2024, its short-term debt accounted for around 22.0% of the total debt.

Bank loans are the primary funding sources of the Company, which accounted for 57.6% of the total debt as of 31 March 2024. As a relatively stable source of funding, bank loans help to ensure the Company's interest repayments and debt-continuation. YZSI has established good long-term relationships with banks including policy banks and state-owned joint-stock banks, such as China Development Bank and Postal Savings Bank of China. As of 31 March 2024, the Company had total credit facilities of RMB430.2 billion, with the undrawn portion being RMB217.2 billion. The Company is also an active issuer in the debt capital market and has issued different financial products in the capital markets such as SCPs, commercial papers, MTNs, private placement notes, and offshore bonds. YZSI's financing costs are relatively low, for example, it issued several 5-year corporate bonds with coupon rates ranging from 2.69% to 3.13% in the first quarter of 2024. As of 31 March 2024, the bond issuances accounted for around 28.8% of total debt. Additionally, YZSI also has several presences in the offshore capital market. For instance, it issued a 3-year USD bond to raise USD300.0 million with a coupon rate of 5.95% in 2022. The Company's exposure to non-standard financing products is manageable, which accounted for around 13.5% of the total debt as of 31 March 2024. As the most essential construction and investment entity in JND, the Company is expected to benefit from the good financing environment of JND and Nanjing City.

### **Solid track record of receiving government support**

YZSI has a solid track record of receiving various forms of government support such as financial subsidies, special funds, and asset injections. The JND Government had increased the Company's capital base by direct cash injections or asset injections. From 2021 to 2024Q1, the Company's capital reserves increased to RMB43.5 billion from RMB30.6 billion. In addition, the Company received financial subsidies of RMB797.2 million for carrying out policy support activities over the past three years. In order to support the ongoing development of JND, the local government also provided special funds and loans to YZSI on key construction projects such as shanty renovation and sewage treatment.

We believe that, considering the important position of YZSI and its close relationship with the local government, the local government will provide strong support to the Company in times of need over the next 12 to 18 months.

## **ESG Considerations**

YZSI faces environmental risks because it has undertaken construction business. 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.

YZSI bears social risks as it implements public policy initiatives by building public infrastructure in JND. 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.

YZSI's governance considerations are also material as the Company is subject to oversight by the JND 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 \(July 2022\)](#).



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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