

## Credit Opinion

16 January 2025

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

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## Jiangsu Yanxi New City Investment and Development Co., Ltd.

### Surveillance credit rating report

**CCXAP affirms Jiangsu Yanxi New City Investment and Development Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

### Summary

The BBB<sub>g</sub>- long-term credit rating of Jiangsu Yanxi New City Investment and Development Co., Ltd. ("YXNC" or the "Company") reflects Yandu District Government's strong capacity to provide support, and the local government's very 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 that Yandu District's good economic and fiscal strengths that ranked upper middle among all districts and counties in Yancheng City for years.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) essential role in the development of Xiaomagou Life Group Project in Yandu District; (2) sufficient project reserves along with the development of Xiaomagou Life Group Project; and (3) good track of receiving government support.

However, the rating is constrained by the Company's (1) high debt leverage and moderate asset liquidity; and (2) moderate access to financing channels with limited financial flexibility.

The stable outlook on YXNC's rating reflects our expectation that Yandu District Government's capacity to provide support will remain stable, and the Company will maintain its important position in Yandu District over the next 12-18 months.

## Rating Drivers

- Important role in the development of Xiaomagou Life Group Project with sufficient project reserves
- Low exposure to commercial activities
- Good track record of receiving government support
- High debt leverage due to the increasing debt burden
- Moderate access to funding channels with limited financial flexibility

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local 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 improved policy importance or diversified financing channels.

### 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 materially increased exposure to risky commercial activities or a deterioration in its financing ability.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	14.7	16.5	19.6	19.8
Total Equity (RMB billion)	6.7	6.8	7.1	7.2
Total Revenue (RMB million)	721.9	763.2	843.4	649.9
Total Debt/Total Capital (%)	32.6	45.6	57.1	59.2

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

Source: Company data, CCXAP research

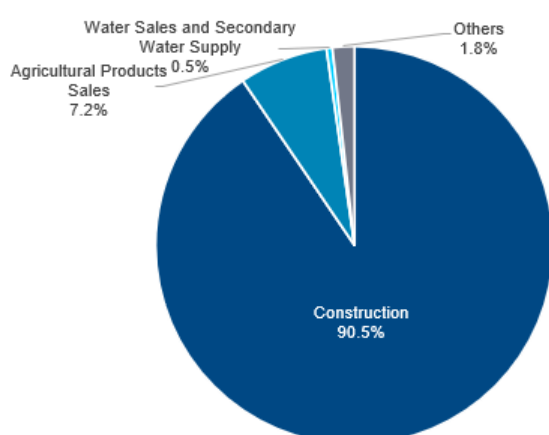
## Corporate Profile

Established in 2007, YXNC, formerly known as Yancheng Yuda Water Conservancy Construction Service Co., Ltd., is one of the essential local infrastructure investment and financing companies ("LIIFCs") in Yandu District, Yancheng City, mainly responsible for the construction and development of Panhuang Street, Yandu District. It is the key entity for the construction and development of Xiaomagou Group in Panhuang Street, one of six key urban construction projects in Yancheng City, that mainly undertakes infrastructure construction, land consolidation and resettlement housing construction. The Company also has developed commercial activities such as water sales, secondary water supply, agricultural products sales, property management and rental.

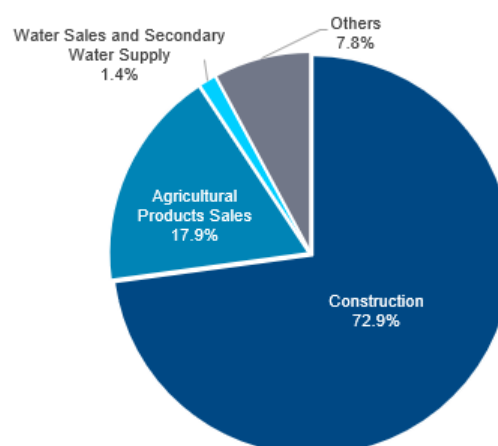
As of 30 September 2024, the State-owned Assets Supervision and Administration Office of Yandu District Government, Yancheng City ("Yandu SASAO") was the ultimate controller of the Company, holding 100% stakes of the Company through Yancheng Yandu State-owned Assets Holding Group Co., Ltd. ("YDAH").

**Exhibit 1. Shareholding chart as of 30 September 2024**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Gross profit structure in 2023****Rating Considerations****Government's Capacity to Provide Support**

We believe that the Yandu District Government has a strong capacity to provide support, given its economic and fiscal strength has improved over years of development, ranking upper middle level among all districts and counties in Yancheng City.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, Jiangsu Province's GRP amounted to RMB12.8 trillion, growing by 5.8% year-over-year ("YoY"). The GRP per capita was RMB150,487 for the same period, which was the highest one among all provinces in China. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and

core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, Yancheng City achieved a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9th among 13 municipals in Jiangsu Province; and in the first nine months of 2024, the GRP of Yancheng City amounted to RMB553.2 billion, with a YoY growth rate of 5.4%. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, the Yancheng Municipal Government reported a general budgetary revenue of RMB48.3 billion, of which tax income accounted for around 70.7%. As the decline in the VAT credit refund in 2023, the proportion of tax revenue rebounded. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government's outstanding debt increased to RMB165.5 billion, accounting for around 22.4% of GRP.

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

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	111.8	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Yancheng Municipal Government, CCXAP research

Located in the southwest of Yancheng City, Yandu District is one of the main urban areas of Yancheng City with a total area of 1,016.2 square kilometers. There are a national Taiwan Farmers Pioneer Park, a provincial-level holiday resort and a national high-tech industrial development zone under the jurisdiction of Yandu District. Yandu District focuses on three leading industries, which are electronic information, high-end equipment and new energy industry, and also develops the modern services industry. Technology innovation and industrial transformation and upgrading drive the economic strength of Yandu District to continue increasing.

From 2021 to 2023, its GRP has increased from RMB68.3 billion to RMB74.3 billion, ranking third among all districts and counties in Yancheng City for years. In the first three quarters of 2024, its GRP amounted to RMB53.4 billion with a YoY increase of 5.2%. In 2023, Yandu District Government reported that the general budgetary revenue increased to RMB4.3 billion, increased by 1.2% YoY. It also has good fiscal stability with tax revenue accounting for an average of over 75.0% of general budgetary revenue for the past three years. However, Yandu District Government's fiscal self-sufficiency ability remained moderate with an average fiscal balance ratio of 51.3% over the past three years. It reflects a relatively high reliance on fiscal support from higher-level governments and revenue from government funds to balance its fiscal budget. At the end of 2023, the local government's outstanding debt was RMB8.7 billion, accounting for 11.8% of its GRP.

#### Exhibit 5. Key economic and fiscal indicators of Yandu District

	2021FY	2022FY	2023FY
GRP (RMB billion)	68.3	71.5	74.3
GRP Growth (%)	7.7	2.6	5.0
General Budgetary Revenue (RMB billion)	4.3	4.3	4.3
General Budgetary Expenditure (RMB billion)	7.9	9.1	8.3
Local Government Debt (RMB billion)	8.5	8.9	8.7

Source: Yandu District Government, CCXAP research

## Government's Willingness to Provide Support

### Clear and important position in Yandu District

There are three major LIIFCs directly owned by Yandu District Government and each of these companies has a clear functional position under the local government's planning. YDAH, YXNC's parent, is an important entity for infrastructure construction and operation of state-owned assets in Yandu District, including the investment and construction of Yancheng western area, Yandu sub-center and provincial-level industrial parks, foreign investment, financing guarantees as well as operation and management of state-owned assets and equity authorized by the local government. Yancheng Urbanization Construction and Investment Group Co., Ltd. mainly undertakes the investment and construction of key urbanization projects in Yandu District while Yancheng Shengzhou Investment Holding Group Co., Ltd. is responsible for the infrastructure construction in Yandu Street.

YXNC mainly undertakes the development task in Panhuang Street, Yandu District. It is the main entity responsible for the Xiaomagou Life Group Project located in Panhuang Street. Xiaomagou Life Group Project is one of the "Six City Group Projects" under the Yancheng Municipal Government's planning for urban development. With a total planned area of around 16 square kilometers, Xiaomagou Life Group Project is an important part of the large urban area of Yancheng City, aiming to become an ecological and livable city and focusing on developing modern services, scientific and technological innovation, health care, sports, leisure industries. At present, there are several landmarks have been completed including Yanlong Sports Park and Xiaomagou Landscape Green Corridor. The success of Xiaomagou Life Group Project will benefit social living as well as the economic development of Yandu District and Yancheng City.

### Important role in Xiaomagou Life Group Project with sufficient project reserves

YXNC is mainly engaged in infrastructure construction and land consolidation in Yandu District through the agent construction model. For the Xiaomagou Life Group Project, according to the *"Notice on the Adjustment Plan for the Investment and Construction Management Mechanism of Xiaomagou Life Group"* (《关于小马沟生活组团投资建设管理机制调整方案的通知》) issued in November 2021, Yandu District Government is responsible for the construction and management of the Xiaomagou Life Group Project while Yancheng Municipal Finance arranges the funds for land demolition, land development and infrastructure construction within the Xiaomagou Group, and Yancheng Municipal Land Reserves Center collects and reserves the land within the Xiaomagou Group. All agent construction projects within the Xiaomagou Group are included in the annual investment plan of the Yancheng Municipal Government. The funds and financial expenses invested in the early stage shall be paid to the Company within three years after the final audit.

Under the agent construction model, YXNC signs the agent construction contract with the entrusting party (mainly the state-owned enterprises in Yandu District), raises the funds itself and charges payment equal to the investment cost plus a certain markup. As the main developer for Xiaomagou Life Group Project, as of 30 September 2024, the Company has completed key agent infrastructure construction projects, including Yanlong Sport Park and Xiaomagou Landscape Green Corridor; and has completed key land consolidation projects with a total investment of RMB4.2 billion. However, the repayment and settlement of the completed projects is relatively slow. As of the end of September 2024, the Company's key agent infrastructure projects under construction included an agricultural industrial park and roads with a total planned investment of RMB2.8 billion and an outstanding amount of RMB2.0 billion. As of 30 September 2024, the Company has a number of land consolidation projects under construction with a total investment of around RMB2.7 billion and an uninvested amount of around RMB219.0 million.

Additionally, the Company is responsible for the development and sales of resettlement housing within the scope of the Xiaomagou Life Group Project. The Company invests in the construction of resettlement housing with self-raised funds and sells them to resettlement households after completion. As of the end of September 2024, the Company's resettlement housing project under construction was the resettlement housing on Dongjin Road named Baoxin Garden with an invested amount of around RMB1.4 billion, which was at the stage of completion and delivery. In addition, the Company purchases commercial housing and sells to the resettlement households to fulfil the need for demolition and resettlement. As of the end of September 2024, the book value of purchased resettlement housing amounted to around RMB581.5 million.

#### Exhibit 6. Key projects under construction as of 30 September 2024

Project type	No. of projects	Budgeted amount (RMB billion)	Invested amount (RMB billion)	Outstanding amount (RMB billion)
<b>Project under construction</b>				
Infrastructure construction	2	2.8	0.8	2.0
Land consolidation	25	2.7	2.5	0.2
Resettlement housing	1	1.6	1.4	0.2
<b>Total</b>	<b>28</b>	<b>7.1</b>	<b>4.7</b>	<b>2.4</b>

Source: Company information, CCXAP Research

Overall, the Company's project reserves are sufficient, which has positive implications for the Company in maintaining its importance in construction within Yandu District.

#### Low exposure to commercial activities

YXNC is also engaged in commercial activities such as water sales, secondary water supply, agricultural products sales, self-operated projects, property management and rental services. Based on our assessment, the Company had low exposure to commercial activities, which accounted for less than 15% of its total assets. The contribution of these activities to revenue was limited but supplemented to profit with high gross profit margins.

Carried out by its subsidiary, the Company's water business mainly includes water sales and secondary water supply to residents in Panhuang Street, which remained profitable in the past three years. The revenue from the sale of agricultural products that mainly involve strawberries increased steadily in recent years, which rose to RMB61.0 million in 2023, accounting for 7.2% of the total revenue, from RMB43.0 million in 2021. YXNC's rental assets mainly involve self-owned buildings including Golden Air Wealth Building and Zhaoquan Business Center. In 2019, the Company entered a purchase contract with Yancheng Fuli Kechuang Development Co., Ltd. ("Fuli Kechuang") for five commercial buildings that will be used for leasing. As of 30 September 2024, three of the five properties with a contracted amount of RMB722.0 million have been delivered and RMB622.0 million have been paid. However, as Fuli Kechuang has been involved in several litigation cases since 2022, the delivery of the remaining properties was delayed and the remaining properties were constructed under government supervision. The Company also has property management business, whose business scope is mainly its own investment property assets and public construction projects in Yandu District.

YXNC has undertaken self-operated projects that will rely on self-operation to balance the initial investment, which exposes higher operation risk than public activities. As of 30 September 2024, the Company had an industrial park project under construction, an agricultural market, and the renovation of the talent apartments



project under planning, with a total investment of RMB125.0 million and an invested amount of RMB1.0 million. These projects are expected to generate income through leasing.

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

YXNC has a good track record in receiving government support in terms of asset injections and financial subsidies. From 2021 to 2024Q3, the Company has received government subsidies totaling RMB352.0 million. In 2020, the local government transferred state-owned equity such as Magou Village and Town Construction Comprehensive Development Co., Ltd. into the Company to increase its capital reserve by RMB44.3 million. In addition, the Company had a track record of obtaining the repayments for the agent construction business. From 2023 to 2024Q3, the total amount of repayments was around RMB1.1 billion. It is expected that the Company will continue to receive government project repayments considering its large agent projects under audit and settlement. As the Company has signed agency agreements with related parties, Yancheng Municipal Finance would allocate the funds to the Company within three years after the audit, but there is a certain time lag. We believe that given YXNC's important position in Yandu District, the local government will continue to provide support to the Company in times of need over the next 12 to 18 months.

### **High debt leverage due to the increasing debt burden**

YXNC's debt level increased rapidly over the past three years to meet the funding gap from operating and investment activities. The payback of construction projects is greatly affected by the fiscal arrangement of the local government. At the same time, the demand for land acquisition and asset acquisition enlarged the funding gap. As of 30 September 2024, the Company's total debt grew to RMB10.4 billion from RMB5.7 billion in 2022. Its capitalization ratio, calculated by total debt to total capital, also showed an increasing trend, rising to 59.2% from 45.6% during the same period. Although the growth rate of total debt is high, the ongoing increase in the total debt is mainly driven by construction projects, benefiting local development. The Company also has a certain short-term debt burden. As of 30 September 2024, the short-term debt accounted for 40.3% of total debt and its cash to short-term debt ratio was 0.7x.

YXNC faces certain capital expenditure pressure for the relatively large outstanding investment amount of construction projects. As of 30 September 2024, the Company was required to invest more than RMB2.6 billion in the construction of infrastructure construction, land consolidation as well as self-operated projects. Considering the Company's ongoing investment needs and lagged payments from the local government, we expect that the Company will rely on external financings to meet its expenditures and the total debt level will continue to increase.

### **Moderate access to funding channels with limited financial flexibility**

YXNC has moderate access to funding and relies highly on indirect financing and secured debt, with a limited track record in the domestic debt market. As of 30 September 2024, the Company's bank loans accounted for more than 62.6% of the total debt and direct financing accounted for around 10.1%. It has moderate exposure to non-standard financing products which are mainly financial leasing with relatively high costs at around 8%. As of 30 September 2024, the Company's non-standard financing increased to RMB2.4 billion, accounting for around 23.5% of the total debt. In addition, its relatively weak asset liquidity will limit its financial flexibility. As of 30 September 2024, its account receivables, other receivables and inventories accounted for a relatively high proportion, totaling around 80% of total assets. The Company's inventories were mainly the development cost of its land consolidation and affordable housing construction business; the other accounts receivables were mainly related to the state-owned enterprises in Yandu District. As of 30 September 2024, the Company's total

restricted assets amount was RMB3.5 billion, accounting for 17.7% of total assets mostly due to borrowings. At the same time, the Company has a large scale of restricted cash reserves with a ratio of 72.4%, further reducing its financial flexibility.

Nevertheless, the Company's good relationship with large domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk. It maintains long-term relationships with large domestic banks, such as the Agricultural Bank of China and Bank of Jiangsu. As of 30 September 2024, the Company had total bank facilities of RMB6.9 billion, with the available portion being RMB354.9 million. The Company has diversified the financing channels by issuing different financial products in recent years. In June 2023, the Company issued a tranche of Asset-Backed Security with the underlying assets of the East Jin Road Housing Project. The Company also has access to offshore debt capital markets. In September 2024, the Company issued a three-year offshore bond with a total amount of RMB500.0 million.

### **Certain exposure to contingent liability risk**

YXNC has certain exposure to contingent liability risk from its external guarantees. As of 30 September 2024, the total amount of the Company's external guarantee was RMB847.6 million, accounting for 11.8% of its net assets. All of the external guarantees are provided to local state-owned enterprises in Yandu District. Due to the concentration of the guaranteed enterprises, the Company may face certain contingent liability risks when a default event occurs in Yandu District, which could negatively impact its credit quality.

## **ESG Considerations**

YXNC 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.

YXNC bears social risks as it implements public policy initiatives by building public infrastructure in Yandu District. 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.

YXNC's governance considerations are also material as the Company is subject to oversight by the Yandu District 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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