

## Credit Opinion

4 March 2025

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

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

### Surveillance credit rating report

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

### Summary

The A<sub>g</sub>- long-term credit rating of Yangzhou Economic and Technological Development Zone Development (Group) Co., Ltd ("YETD" or the "Company") 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 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 Economic and Technological Development Zone ("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 guarantees

## 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 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 and weakened access to funding.

## Key Indicators

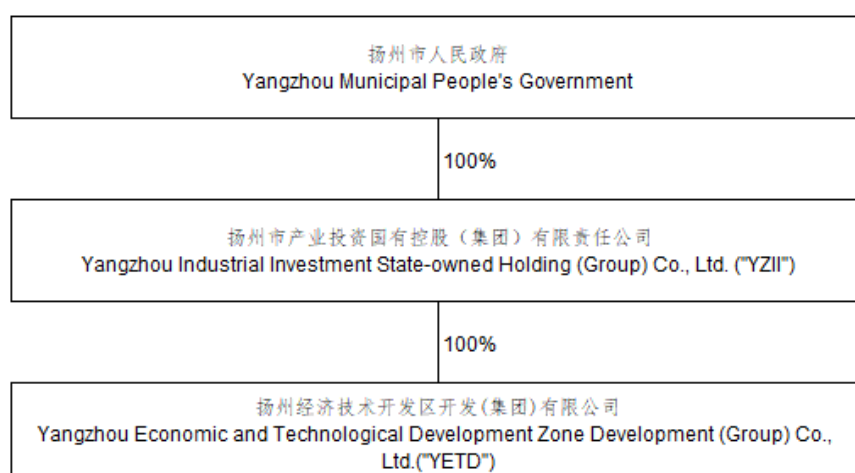
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	66.5	75.6	94.3	94.5
Total Equity (RMB billion)	24.8	27.4	29.4	30.2
Total Revenue (RMB billion)	2.2	2.4	2.8	2.1
Total Debt/Total Capital (%)	60.4	59.2	63.7	65.5

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

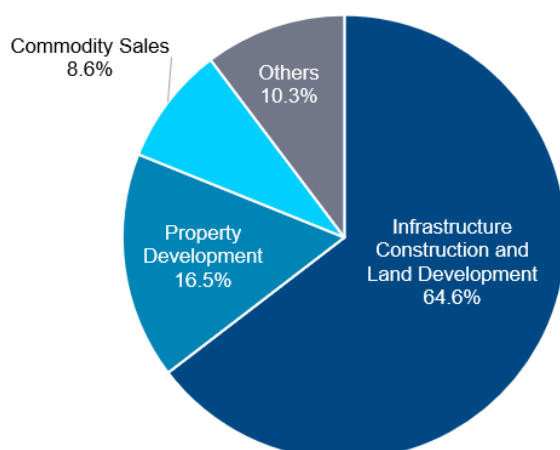
Source: Company data, CCXAP research

## Corporate Profile

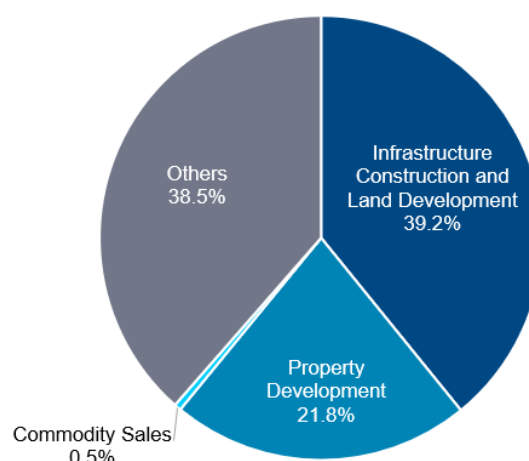
Established in 1992, YETD is one of the essential local infrastructure investment and financing companies ("LIIFCs") in Yangzhou City, particularly the Yangzhou ETDZ. The Company has a dominant position in primary land development and urban infrastructure construction in the region. Meanwhile, YETD is engaged in various commercial 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 2024, the Company was directly and wholly owned by YZII, and Yangzhou Municipal People's Government was still the ultimate controller.

**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 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 2024, its total GRP amounted to RMB13.7 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 RMB781.0 billion in 2024 and ranked at medium level in all prefectural-level cities among Jiangsu Province, with a YoY growth higher than that of Jiangsu Province. In 2024, Yangzhou Municipal Government's general budgetary revenue increased to RMB36.1 billion from RMB32.5 billion in 2022. 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 76.8%. However, Yangzhou Municipal Government's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) was relatively low, averaging on 48.3% over the past three years. At the end of 2024, Yangzhou's Municipal Government's debt balance was RMB143.0 billion, accounting for 18.3% of GRP.

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

	2022FY	2023FY	2024FY
GRP (RMB billion)	710.5	742.3	781.0
GRP Growth (%)	4.3	6.0	6.0
General Budgetary Revenue (RMB billion)	32.5	34.8	36.1
General Budgetary Expenditure (RMB billion)	69.9	71.1	72.9
Local Government Debt (RMB billion)	110.5	121.7	143.0

Source: Yangzhou Municipal Government, CCXAP research

Established in 1992, Yangzhou ETDZ is the sole national-level economic and development zone in Yangzhou City. 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, 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. 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 2024, Yangzhou ETDZ entered the list of the top 100 economic and technological development zones in China and ranked 70<sup>th</sup>, 14 places higher than the previous year. In 2024, Yangzhou ETDZ's GRP increased to RMB78.5 billion, with a high YoY increase of 6.8%. Meanwhile, its general budgetary in 2024 increased to RMB2.9 billion, and the fiscal self-balance ratio remained high of 121.5%. 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 5. Key economic and fiscal indicators of Yangzhou ETDZ

	2022FY	2023FY	2024FY
GRP (RMB billion)	73.0	74.6	78.5
GRP Growth (%)	8.0	7.0	6.8
General Budgetary Revenue (RMB billion)	2.5	2.8	2.9
General Budgetary Expenditure (RMB billion)	1.9	2.2	2.4
Local Government Debt (RMB billion)	4.7	5.2	7.7

Source: Yangzhou ETDZ Management Committee, Company information, CCXAP research

## **Government's Willingness to Provide Support**

### **Strong strategic position in primary land development and infrastructure construction in Yangzhou ETDZ**

YETD is the sole entity responsible for the primary land development in Yangzhou ETDZ, along with large scale of regional municipal 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. 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 Management Committee of Yangzhou ETDZ. YETD also undertakes the construction of related municipal infrastructures in Yangzhou ETDZ, mainly including roads, bridges, pipelines, and resettlement housings. For land development and municipal infrastructure projects, the Management Committee of Yangzhou ETDZ settles development payments with the Company on a quarterly or annual basis according to the actual construction costs and 12% markup after audit. Specifically, for the resettlement housings, the Management Committee shall repurchase in the form of development cost plus markup after completing.

Since its establishment, YETD has undertaken and completed a series of primary land development and municipal infrastructure construction projects including resettlement housings, river improvement facilities, and schools in Yangzhou ETDZ, with a total investment amount of more than RMB11.0 billion. As of 30 September 2024, YETD had 8 land development projects and 4 municipal infrastructure construction projects under construction, with a total outstanding investment amount of RMB2.9 billion. Meanwhile, the Company had sufficient project reserves to maintain the business sustainability. As of 30 September 2024, the Company had 3 land development projects and 3 municipal infrastructure construction projects under planning, with a total estimated investment amount of RMB772.8 million and RMB631.0 million, respectively.

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

Apart from the construction tasks in Yangzhou ETDZ, YETD is engaged in diversified commercial activities, including property development, commodity sales and leasing business. We consider the Company's exposure to commercial activities 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 Management Committee of Yangzhou ETDZ, mainly to enhance competitiveness in promoting investment in Yangzhou ETDZ. As of 30 September 2024, the Company had completed 7 property development projects with a total investment amount of RMB3.2 billion, and the received sales payment was RMB2.4 billion. Part of the projects were in the process of sale or leasing, representing certain destocking pressure. Meanwhile, the Company had 6 property projects under construction with an outstanding investment amount of RMB1.9 billion, and 1 project under planning with an outstanding investment amount of RMB1.4 billion. Considering the substantial large project and land reserves, and the significant investment scale, the Company may face capital expenditure and fund balancing pressure under the downturn of property market.

YETD also constructs standard factories for enterprises settled in Yangzhou ETDZ and achieves leasing revenue. As of 31 March 2024, the Company had 5 self-operated projects under construction, with a total outstanding investment amount of around RMB2.6 billion, including standardized factory buildings and warehouses. The majority of the completed standard factories have been leased and have been gradually generating revenue since 2023. With the completion of factories, the Company has seen an increase in leasing revenue, which was RMB198.8 million and RMB111.7 million in 2023 and 2024Q3 respectively. However, we expect that the large initial investment and long payback period of self-operated projects will bring financial pressure on the Company.

YETD conducted its commodity sales business through its subsidiary, mainly purchasing construction materials and agricultural products for the companies settled in Yangzhou ETDZ and earning a sales spread. During 2023 and the first three quarters of 2024, the Company's commodity sales revenue was RMB241.5 million and RMB243.6 million respectively, which accounted for around 10% of the total revenue. The gross profit margin 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%, which could bring higher operational risks to the Company.

### **Good track record of receiving governmental supports**

YETD has received ongoing support from the local government in the form of operating subsidies, interest grants, capital injections, and high-quality asset transfers. From 2023 to 2024Q3, YETD received sustained subsidies from the government, with a total amount of RMB322.6 million. To relieve the Company's debt pressure, in 2022 and 2023, the local government provided interest grants to YETD with RMB800.0 million per year. Meanwhile, in 2023, the Yangzhou Municipal People's Government made a monetary capital injection of around RMB1.8 billion to the Company, increasing its capital reserve and enhancing the capital strength. As the major constructor and developer in Yangzhou ETDZ, YETD also continued to receive payments from completed construction projects from the local government, totaling of RMB155.9 million in 2023.

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 substantial capital expenditure pressure. As of 30 September 2024, the Company had 23 projects under construction, with the outstanding investment amount of more than RMB4.8 billion, and 7 projects under planning with a total investment amount of RMB2.8 billion. The projects include primary land development, infrastructure construction, property development, and standard industrial factories projects. The Company mainly funded these projects through external financing over the past years, resulting in its relatively high debt leverage. The Company's total debt increased from RMB39.8 billion at end-2022 to RMB55.9 billion at end-2024Q3, and its capitalization ratio, as measured by total debt to total capital, also increased from 59.2% to 65.5% during the same period. In terms of debt structure, YETD has a moderate short-term debt burden, with the short-term debt accounting for 28.3% of its total debt as of 30 September 2024. At the same time, the Company's cash to short-term debt ratio was 0.1x, indicating that its cash balance was insufficient to cover its short-term debt. 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 debt investments, other receivables and inventories accounted for a relatively large proportion of its total assets, totaling around 65.4% of its total assets as of 30 September 2024, which constrained the Company's liquidity profile. Specifically, debt investments mainly included the Company's loans to SOEs in Yangzhou City, which are subject to uncertainty of recovery and certain occupancy of working capital. 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 2024, bank loans were the Company's main funding source and accounted for 60.5% of the total debt. Meanwhile, the Company has maintained good relationship with large domestic banks such as Industrial and Commercial Bank of China and China Development Bank, with total credit facilities of RMB49.9 billion and available credit facilities of RMB15.8 billion as of 30 September 2024. The Company also has good track record of fund-raising activities in debt capital market. For example, in 2024, the Company raised debt of RMB7.2 billion via 14 tranches of onshore bond products such as MTNs and corporate bonds, with coupon rates from 2.23% to 2.87%. In addition, YETD's exposure to non-standard financing products decreased and accounted for around 3.7% of the total debt as of 30 September 2024.

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

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 2024, the Company had outstanding external guarantees of RMB13.6 billion, accounting for 44.9% of its net assets. All the counterparties of external guarantees are local SOEs such as Yangzhou Economic and Technological Development Zone State-owned Holding (Group) Co., Ltd. ("YESH"), and YESH's 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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