

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>+ to Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd., with stable outlook**

Hong Kong, 28 March 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>+ long-term credit rating to Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd. (“YETD” or the “Company”), with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of YETD is underpinned by the Company’s (1) key role in primary land development and infrastructure construction in Yangzhou Economic and Technological Development Zone (“Yangzhou ETDZ”); and (2) good access to funding.

However, the rating is constrained by the Company’s (1) large capital expenditure pressure and high debt leverage; and (2) high contingent risk that results from external debt guarantees and money lending.

The rating also incorporates our expectation that YETD is likely to receive support from the Yangzhou Municipal Government when needed, given the Company’s (1) important position in the regional infrastructure construction of Yangzhou ETDZ; (2) direct ownership and ultimate control by the local government; (3) good track record of receiving government support.

### **Corporate Profile**

Founded in 1992, YETD, formerly known as Yangzhou Economic and Technological Development Zone Development Corporation, is the largest state-owned enterprise in Yangzhou ETDZ. The Company is mainly engaged in various business sectors, including primary land development, infrastructure construction, real estate, and others such as commodity sales, property leasing, and property management. As of 30 June 2021, the Company was directly and wholly owned by the Yangzhou Municipal Government, with a registered capital of RMB19.6 billion.

### **Rating Rationale**

#### **Credit Strengths**

**Good track record of receiving governmental support.** 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 2018 to 2020, YETD received a total of RMB1.1 billion in financial subsidies and RMB1.9 billion in interest grants. After years of capital injections by the Yangzhou Municipal Government, the Company’s registered capital has increased from the original RMB20.0 million to RMB19.6 billion. In addition to financial support, the local government has continuously transferred high-quality equity over the years to enhance the Company’s asset strength.

**Key role in primary land development and infrastructure construction in Yangzhou ETDZ.**

YETD is the largest construction and development entity designated to undertake land development projects in Yangzhou ETDZ, including primary land development and municipal infrastructure construction. From 2018 to 2020, the Company's land development revenue was over RMB1.7 billion each year. In 2021H1, the Company's revenue in land development segment was RMB758.0 million, accounting for 85.9% of its total revenue.

**Good access to funding.** The Company has good access to funding, such as approved line of credit from domestic banks and good track record of fund-raising activities in capital markets. For example, the Company raised debt of RMB5.6 billion via 11 tranches of onshore bonds in 2021, with coupon rates from 2.79% to 4.9% in 2021, and raised USD300 million through the offshore market in 2019.

**Credit Challenges**

**Large capital expenditure pressure and high debt leverage.** As of 30 June 2021, the Company had 42 construction projects under construction or planning, with an uninvested amount of RMB15.7 billion. 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 RMB20.1 billion in 2018 to RMB34.4 billion at mid-2021. As of 30 June 2021, the Company's capitalization ratio, as measured by total debt to total capital, was 59.1%.

**High level of contingent risk.** YETD has large contingent risk exposures in terms of external guarantees and loans to local state-owned enterprises in Yangzhou City. As of 30 June 2021, the Company's third-party lending amounted to RMB10.9 billion, accounting for about 17% of total assets; the Company had outstanding external guarantees of RMB6.9 billion, accounting for 27.9% of its net assets.

**Relatively weak liquidity position.** As of 30 June 2021, the Company's short-term debt amounted to RMB14.5 billion, accounting for 42.0% of total debt. It held cash and cash equivalents of RMB6.7 billion, which was insufficient to cover its short-term debt. We believe that the liquidity risk of the Company could be partly mitigated by its good access to funding.

**Rating Outlook**

The stable outlook on YETD's rating reflects our expectation that the Company will maintain its strategic role in Yangzhou ETDZ, and will continue to receive strong government support.

**What could upgrade the rating?**

The rating could be upgraded if (1) the economic and fiscal performance of Yangzhou City and Yangzhou ETDZ materially improves; (2) YETD demonstrates a stronger role in Yangzhou City, with increased likelihood of government support; and (3) the Company's stand-alone credit profile improves significantly, such as improvement in asset quality and reduction in debt leverage.

**What could downgrade the rating?**



The rating could be downgraded if (1) the economic and fiscal performance of Yangzhou City and Yangzhou ETDZ deteriorates; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deterioration in financing ability and business sustainability.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

### **Regulatory Disclosures**

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