CCXAP upgrades Jiangsu Yungang Investment Development Co., Ltd.'s long-term credit rating to BBB_g-, with stable outlook.

Hong Kong, 10 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Jiangsu Yungang Investment Development Co., Ltd. ("YGID" or the "Company") to BBB_g- from BB_g+, with stable outlook. The rating upgrade reflects our expectation of stronger support from the local government to the Company after the change of its shareholding, given its good business prospects along with the development of Lianyun District.

The BBB_g- long-term credit rating of YGID reflects Lianyungang Municipal Government's strong capacity to provide support and its 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 Lianyungang City's gross regional production ("GRP") of over RMB400 billion, with good industrial development and port resources. In addition, Lianyun District is a county-level district in Lianyungang City with good economic growth and fiscal metrics.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) ultimate ownership by the Lianyungang Municipal Government after the change of shareholding; (2) strong policy role in the industrial development of Lianyun District, especially the Lianyun Economic and Development Zone ("Lianyun EDZ"); and (3) track record of receiving government support. However, the rating is constrained by the Company's (1) medium commercial activities exposure; (2) moderate access to funding with limited financing flexibility; and (3) medium contingent liability risk.

Corporate Profile

Established in 2009, YGID is the primary local infrastructure investment and financing company ("LIIFC") focusing on industrial investment in the Lianyun District, Lianyungang City. YGID undertakes the role of local infrastructure construction, industrial supporting projects and comprehensive services in the Lianyun EDZ, a provincial-level EDZ in the Lianyun District. After years of development, the Company has developed diversified business segments, including infrastructure construction, service businesses such as sewage treatment and inland port operation, photovoltaic (PV) power generation, property leasing, and trading. During the period from September to October 2023, Lianyun District Government transferred its shareholding of some important state-owned enterprises to Jiangsu Haizhou Bay Holding Group Co., Ltd. ("Haizhou Bay Holding"), which includes YGID. At the same time, the ultimate controller of Haizhou Bay Holding changed from Lianyun District Government to Lianyungang Municipal Government.

Rating Rationale

Credit Strengths

Strong policy role in the industrial development of Lianyun EDZ. In 2023, the local government positioned Haizhou Bay Holding as the entity to consolidate the main LIIFCs in

Lianyun District, including Jiangsu Haizhou Bay Development Group Co., Ltd.("HZDG") and YGID. YGID is the key industrial investment platform that undertakes the functions of infrastructure development, industrial supporting project construction and providing comprehensive services in the Lianyun EDZ and the SCO Park, which are the key industrial parks of the Lianyun District. Its businesses will increase along with the development of the SCO Park and Lianyun EDZ after the consolidation, including the construction of supporting facilities and provision of services.

Track record of receiving government support. YGID has a track record of receiving government support in various forms such as capital injection, financial subsidies, proceeds of project management and asset injections. Besides, the Company also receives government support in the form of project allocation and assistance in the application of special bond funds. Given the Company's strong public policy role and expanding public-related activities in the Lianyun EDZ and the SCO Park, we expect the Company will continue to receive government support over the next 12 to 18 months.

Credit Challenges

Medium exposure to commercial activities. YGID has medium exposure to commercial business, which has increased along with the rising local industrial investments. The Company is engaged in commercial activities including trading, services, PV power generation and property leasing, which generate additional income sources. The risk nature of such activities is generally higher than traditional infrastructure construction projects and direct government financial support will be more difficult under stricter regulatory supervision on the increase in government's implicit debt.

Moderate access to funding. YGID has moderate access to funding constrained by its small operating scale. It relies highly on indirect financing, particularly asset-pledge loans. It has limited access to the domestic debt market. The Company has relatively weak balance-sheet liquidity and requires refinancing for its operations. Nevertheless, YGID's good relationship with domestic banks and stand-by liquidity cushion can partially alleviate the liquidity risk.

Moderate contingent liabilities. YGID has medium contingent liability risk relative to its net assets. As of 30 June 2023, the Company has provided external guarantees of RMB2.9 billion, equivalent to 61.9% of its net assets. Most of these external guarantees were provided to other local LIIFCs or state-owned enterprises. Large external guarantee exposure may increase financial risk on YGID caused by the potential credit risk of local state-owned enterprises and the change in economic condition.

Rating Outlook

The stable outlook on YGID's rating reflects our expectation that the local government's capacity to provide support will be stable; and the Company's characteristics, such as its primary role in the development of the Lianyun District and Lianyun EDZ, which is expected to remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as an increase in the importance of its policy role or reduced exposure to commercial activities.

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 support, such as an increase in risk exposure to commercial activities, weakened government support, or deteriorated debt management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

Regulatory Disclosures

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