

CCXAP upgrades Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd's long-term credit rating to A_g-, with stable outlook.

Hong Kong, 11 April, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Yangzhou Economic and Technological Development Zone Development (Group) Co. Ltd (“YETD” or the “Company”) to A_g- from BBB_g+, reflecting the improving comprehensive strength of Yangzhou City and the Company's significant role in the regional development of Yangzhou Economic and Technological Development Zone (“Yangzhou ETDZ”). At the same time, CCXAP has upgraded its senior unsecured debt rating to A_g-.

The A_g- long-term credit rating of YETD 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 steadily 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 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.

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 occupies a dominant position in primary land development and urban infrastructure construction in the region. Meanwhile, YETD is also engaged in various commercial business 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 2023, the Company was directly and wholly owned by YZII, and Yangzhou Municipal People's Government was still the ultimate controller.

Rating Rationale

Credit Strengths

Strong strategic position in primary land development and infrastructure construction in Yangzhou ETDZ. As one of the essential LIIFCs in Yangzhou ETDZ, YETD is the sole entity

responsible for the primary land development in Yangzhou ETDZ, along with large scale of regional 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.

Good track record of receiving governmental supports. 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. 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.

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. The Company has maintained a good relationship with large domestic banks such as Industrial and Commercial Bank of China and China Development Bank. The Company also has good track record of fund-raising activities in debt capital market.

Credit Challenges

Medium exposure to commercial activities. Apart from public activities, YETD is also engaged in diversified commercial businesses including property development, commodity sales and leasing business. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% to 30% of its total assets.

Fast-growing debt from development projects. As a major investment and financing entity in Yangzhou ETDZ, YETD has a large amount of projects in the pipeline, causing large capital expenditure pressure. The Company mainly funded these projects through external financing over the past years, resulting in its high debt leverage.

High contingent liabilities risk from external debt guarantee. YETD has large contingent risk exposure as the Company has a large number of external guarantees that may increase its repayment obligations. All of the counterparties of external guarantees are local SOEs. In case a credit event occurs, the Company may face large contingent liability risks and cross-default risks.

Rating Outlook

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.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's ability to provide support strengthens; and (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 or weakened access to funding.

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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