

CCXAP upgrades Jiangsu Yangjing Petrochemical Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 31 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Jiangsu Yangjing Petrochemical Group Co., Ltd. (“Yangjing” or the “Company”) to BBB_g+ from BBB_g-, with stable outlook.

The rating upgrade reflects the improved comprehensive strength of Lianyungang City and the enhanced regional significance of the Company in Xuwei New District. The long-term credit rating of Yangjing reflects (1) Lianyungang 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 Lianyungang Municipal Government’s capacity to provide support reflects Lianyungang City’s favorable economic growth underpinned by its industrial development and port resources. It is one of the top 100 prefectural cities in China. Xuwei New District is one of seven national petrochemical industry bases with the highest economic growth rate in Lianyungang City.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) increased importance along with the fast development of Xuwei New District; (2) essential role in the infrastructure construction of the Petrochemical Industrial Base; and (3) track record of receiving government support. However, the rating is constrained by the Company’s (1) medium business risk to commercial activities such as self-operated construction in energy facilities; and (2) fast-growing debt driven by the increasing development projects.

Corporate Profile

Established in 2014, Yangjing is one of the key development and construction entities in Xuwei New District, Lianyungang City, especially in the construction, development and operation management of Lianyungang Petrochemical Industrial Base and Strategic Emerging Industrial Park. Yangjing has a diversified business scope that covers infrastructure construction, industrial project construction, energy supply, leasing and material sales.

The Lianyungang Municipal Government increased its direct holdings from 51.12% at end-2022 to 68.58% at end-2023. Meanwhile, Lianyungang Xuwei Technology Entrepreneurship Investment Co., Ltd., a company wholly owned by the Management Committee of the National East West Regional Cooperation Demonstration Zone (Xuwei New District, Lianyungang), acquired 31.42% of the Company’s shares from Jiangsu Fang Yang Group Co., Ltd. and Jiangsu Xianghe Agricultural Development Co., Ltd. As of 31 December 2023, Lianyungang Municipal Government remained the ultimate controller of Yangjing.

Rating Rationale

Credit Strengths

Essential role in infrastructure construction in Petrochemical Industrial Base. Yangjing has an essential role in the development, construction, and operation of the Lianyungang Petrochemical Industrial Base and the Strategic Emerging Industrial Park in Xuwei New District. In addition, Yangjing supported enterprises moving into the park by undertaking industrial project construction for them, including soft foundation treatment work such as earthwork backfilling, vacuum preloading, and pile foundation construction. Overall, we expect Yangjing to maintain its dominant position in undertaking infrastructure construction in the Petrochemical Industrial Base and the Strategic Emerging Industrial Park given its large project reserves.

Track record of receiving government support. In recognition of the strategic importance of Yangjing's businesses to the industrial development of Xuwei New District, the Company has received comprehensive support from the local government, in terms of capital injections, project repayments, and operating subsidies. Considering its essential role in the Petrochemical Industrial Base and ongoing large investment in infrastructure construction, we expect the Company to receive ongoing government support in the future.

Credit Challenges

Medium commercial activities risk. Yangjing contributed significantly to the petrochemical industrial development in Lianyungang City by offering vital services such as supply of energy and materials, and operation of supporting facilities. Based on our assessment, although commercial business assets accounted for a large portion of total assets, the Company had medium business risk given some of the Company's commercial activities are policy-driven and align with the local government's plan.

Fast-growing debt arising from development projects. Yangjing's total debt maintains an increasing trend due to its continued investment in its infrastructure construction and self-operated construction projects. The Company's total debt increased from RMB11.1 billion at end-2022 to RMB14.2 billion at end-2023, while the total capitalization ratio (total debt to total capital) decreased from 57.9% to 55.8% over the same period mainly due to the increase in equity. 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.

Rating Outlook

The stable outlook on Yangjing'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 Xuwei New District, especially in Petrochemical Industrial Base over the next 12-18 months.

What could upgrade the rating?



The rating could be upgraded if (1) the Lianyungang Municipal 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 material reduction in exposure to high-risk commercial activities, or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the Lianyungang Municipal 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 policy significance, significantly increased exposure to risky commercial activities, 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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