

## **CCXAP upgrades Jiangsu Fang Yang Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, 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 Fang Yang Group Co., Ltd. (“Fang Yang” or the “Company”) to BBB<sub>g</sub>+ from BBB<sub>g</sub>, with stable outlook.

The rating upgrade reflects the improved comprehensive strength of Lianyungang City, increased importance of the Company in Xuwei New District, as well as the solid track record of support from the local government. The long-term credit rating of Fang Yang reflects (1) the Lianyungang Municipal Government's very strong capacity to provide support; and (2) the local government's very 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) full ownership by the Lianyungang Municipal Government as the core entity in the construction and development of Xuwei New District; (2) good track record of receiving government support; and (3) diversified funding channels. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) high debt leverage driven by large investment needs; and (3) moderate asset liquidity.

### **Corporate Profile**

Established in 2009, Fang Yang is one of the key entities engaging in the development and operation of Xuwei New District, Lianyungang City, including constructing, operating, and managing infrastructure and ancillary facilities in Xuwei New District. Fang Yang has a diversified business scope mainly classified as infrastructure construction, port logistics, public utility services and industrial park supporting services. In 2024, Lianyungang Municipal Government transferred all stakes of Fang Yang to Jiangsu Fang Yang Holding Co., Ltd. (“Fang Yang Holding”) free of charge. As of 31 March 2024, the Company's direct shareholder was officially changed to Fang Yang Holding but its ultimate controller, Lianyungang Municipal Government, remained unchanged.

### **Rating Rationale**

#### **Credit Strengths**

**Positioned as the core entity in the construction and development of Xuwei New District mandated by Lianyungang Municipal Government.** Fang Yang is one of the key investment and operation entities and the second largest one by total assets under the control of

Lianyungang Municipal Government. Fang Yang has been mandated by the Lianyungang Municipal Government as the core entity to implement the central government's and Jiangsu Provincial Government's plans to develop Xuwei New District. The Company had completed several important projects along with the development of Xuwei New District, which were essential to commercial attractiveness and the transformation and upgrade of the industrial structure in the region.

**Key role in infrastructure construction and public utility services in Xuwei New District.**

Fang Yang is the core entity undertaking infrastructure construction and providing public utility services in Xuwei New District. We expected that Fang Yang's position in Lianyungang City to remain stable considering its sufficient projects on hand. As Xuwei New District plays an important role in the development of Lianyungang City and therefore the effect of the default of Fang Yang with large assets in Xuwei New District including lands, public utilities and ancillary facilities would be unacceptable for Lianyungang Municipal Government.

**Good track record of receiving government support.** In recognition of the strategic importance of Fang Yang's businesses to Xuwei New District, the Company has received comprehensive support from the government, in terms of preferential policies, capital injections, allocation of government special bond funds, project repayments, and operating subsidies. Overall, we expect Fang Yang to receive ongoing government support in the next 12-18 months given its strategic role in the region and the foreseeable of the Xuwei New District.

**Diversified financing channels.** Fang Yang has access to diversified financing channels including onshore and offshore capital markets, bank borrowing and non-standard financing. The Company maintains good relationships with large domestic banks such as policy banks and large state-owned commercial banks. Besides, the Company has been present actively in the onshore and offshore capital markets over the past two years.

**Credit Challenges**

**Medium exposure to commercial activities.** Apart from infrastructure construction and public utility services, Fang Yang also engages in other commercial activities including port logistics and industrial park supporting services. Despite there being a large investment in such commercial activities, these activities are associated with Fang Yang's core responsibilities to support the development of Xuwei New District, and the Company had medium exposure to them.

**High debt leverage driven by large investment needs.** Fang Yang had a high financing leverage and its total debt kept increasing over the past three years. As of 31 December 2023, the Company's total debt (including perpetual bonds) increased to RMB65.7 billion from RMB63.3 billion in 2022. Fang Yang has certain pressure on capital expenditure considering its large investment needs.

**Moderate asset liquidity.** Fang Yang's asset liquidity is considered moderate and some assets are restricted, undermining the Company's financial flexibility. As of 31 December 2023, the restricted assets amounted to RMB19.1 billion, accounting for around 15.7% of total assets,

most of which were land pledged for loans. In addition, the prolonged payment period from the Management Committee of Xuwei New District on the agency construction projects formed a large scale of receivables for Fang Yang.

### **Rating Outlook**

The stable outlook on Fang Yang's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its important role in the development of Xuwei New District 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 increased strategic importance in Lianyungang City 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 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**

CCXAP's Rating Symbols and Definitions are available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/6/](http://www.ccxap.com/en/rating_services/category/6/)

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:  
[http://www.ccxap.com/en/rating\\_services/category/9/](http://www.ccxap.com/en/rating_services/category/9/)

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.



Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at [www.ccxap.com](http://www.ccxap.com) (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Kelly Liang

*Credit Analyst*

+852-2860 7127

[kelly\\_liang@ccxap.com](mailto:kelly_liang@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656