

## **CCXAP upgrades Yancheng Oriental Investment & Development Group Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 28 June 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Yancheng Oriental Investment & Development Group Co. Ltd. ("YOID" or the "Company") to BBB<sub>g</sub>+ from BBB<sub>g</sub>, with stable outlook. At the same time, CCXAP has upgraded YOID's senior unsecured debt rating to BBB<sub>g</sub>+

The upgrade reflects the stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth. The long-term credit rating of YOID reflects the Yancheng Municipal Government's very strong capacity to provide support; and the local government's high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of the Yancheng Municipal Government's capacity to support reflects Yancheng City's growing economic and fiscal strengths, with good industrial development. Yancheng Economic and Technological Development Zone ("ETDZ") is a national ETDZ in Yancheng City that mainly develops automobile, electronic information, and new energy equipment industries.

The rating also reflects the local government's willingness to support, which is based on the Company's (1) full ownership and ultimate control by the Yancheng Municipal Government; (2) strategic role in Yancheng City, particularly in the Yancheng ETDZ; and (3) good track record of receiving government support. However, the rating is constrained by the Company's (1) increased exposure to commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) large external guarantee associated with local state-owned enterprises ("SOE").

### **Corporate Profile**

Established in 2003, YOID is one of the major LIIFCs for the Yancheng Municipal Government and is directly and wholly owned by the Yancheng Municipal Government. YOID is mainly responsible for infrastructure construction, and sales and construction of resettlement houses in the Yancheng ETDZ. The Company is also engaged in leasing and property management, equity investment, trading, and financial services businesses such as finance leasing and guarantee loans. It reported total assets of RMB83.4 billion as of 31 March 2024.

### **Rating Rationale**

#### **Credit Strengths**

**Strategic role in Yancheng City, particularly in the Yancheng ETDZ.** YOID is one of the key LIIFCs in Yancheng City and the largest LIIFC in the Yancheng ETDZ in terms of total assets. The Company is responsible for the development and construction of 70 square kilometers in the main urban area of the Zone. YOID is important to the economic and social development of the Yancheng ETDZ and Yancheng City. Given its strategic role, we believe the government support is very likely when needed.

**Undertaking important public activities in the Yancheng ETDZ.** For Infrastructure construction projects, YOID has successfully delivered a series of large-scale municipal and urban infrastructure projects over the past few years, including roads, schools, greening projects, and other public facilities in the Yancheng ETDZ. It also engages in local resettlement housing construction projects, which are sold to relocated households at regulated prices.

**Good track record of receiving government support.** YOID has received ongoing support from the Yancheng Municipal Government including asset, capital injection and financial subsidies. Since its establishment, the Company has received capital injections from the local government, including cash injection, and land and property transfer. From 2021 to 2023, the Company received government subsidies with a total value of RMB479 million.

### Credit Challenges

**Increased exposure to commercial activities.** YOID also diversified into other commercial activities such as leasing and property management, equity and fund investment, and trading business. The Company has medium exposure to commercial activities, based on our estimation. Most of its commercial activities are self-sustaining while have a certain degree of market uncertainty and market competition.

**High debt leverage and moderate asset liquidity.** YOID has high debt growth owing to its debt-driven business expansion over the past years. As of 31 March 2024, the Company's total debt (including perpetual debt) increased to RMB54.3 billion from RMB42.5 billion as of the end of 2022. Besides, YOID's asset liquidity was moderate. As of 31 March 2024, the Company pledged a number of assets for loans, including cash, inventories, and investment properties, accounting for 23.8% of total assets.

**Large external guarantee associated with local SOEs.** The Company's credit profile is undermined by its large number of external guarantees. As of 31 March 2024, after excluding the exposure to its guarantee business, the Company still had an external guarantee of RMB19.1 billion, accounting for around 75.6% of its net assets. The guaranteed units are primarily SOEs in Yancheng City. The related contingent risk exposure is still one of the key credit concerns to YOID's credit profile.

### Rating Outlook

The stable outlook on YOID's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important role in the economic and social development of Yancheng ETDZ.

### What could upgrade the rating?

The rating could be upgraded if (1) the Yancheng Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increased policy importance, improved debt management and reduced exposure to external guarantees.

### **What could downgrade the rating?**

The rating could be downgraded if (1) the Yancheng Municipal 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 reduced regional significance, weakened financing ability or material deteriorated contingent risks.

### **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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