

## **CCXAP upgrades Yancheng High-tech Zone Investment 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 High-tech Zone Investment Group Co., Ltd. (“YHZI” or the “Company”) to BBB<sub>g</sub>+ from BBB<sub>g</sub>,

The upgrade reflects a stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth. The long-term credit rating of YHZI reflects (1) Yancheng Municipal Government’s very strong capacity to provide support; and (2) the local government’s high willingness to support based on our assessment of the Company’s characteristics. Our assessment of Yancheng Municipal Government’s capacity to support reflects Yancheng City’s ongoing economic and fiscal growth, with good industrial development. Yancheng High-tech Industrial Development Zone (“Yancheng HIDZ”) is a national high-tech industrial development zone in Yancheng City that mainly develops intelligent information technology, high-end equipment and new energy 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 the public activities of Yancheng City, particularly in the Yancheng HIDZ; and (3) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increased debt-driven commercial activities; (2) high debt leverage and moderate asset liquidity; and (3) large exposure to external guarantees.

### **Corporate Profile**

Established in 2009, YHZI is one of the major local infrastructure investment and financing companies (“LIIFCs”) for the Yancheng Municipal Government. YHZI is primarily engaged in infrastructure construction, primary land development, property leasing and management businesses and financial investment in Yancheng HIDZ. In April 2024, the Company’s equity was transferred from Yancheng Municipal Government to Yancheng High-tech Industry Holding Group Co., Ltd. (“YHIH”), which is wholly-owned by Yancheng Municipal Government. Despite the change in shareholding structure, Yancheng Municipal Government remained the ultimate controller of the Company.

### **Rating Rationale**

#### **Credit Strengths**

#### **Strategic role in the public activities of Yancheng City, particularly in the Yancheng HIDZ.**

YHZI is the third largest LIIFC by total assets in Yancheng City and the largest LIIFC in Yancheng HIDZ by total assets. It has a dominant business position as it is entrusted by the government to develop the Yancheng HIDZ. It has strong strategic functions in local public activities and assisting industrial development.

**Good track record of receiving government support.** YHZI has a good track record of receiving government support in various forms such as capital injection, operating subsidies, and government payment for construction projects. In addition, the Company is expected to receive ongoing government payments for its public policy activities as relevant repurchase agreements were signed with the government. Given YHZI's important position and contribution to regional economic development, we believe that the Company will receive strong government support in times of need.

### **Credit Challenges**

**Increased debt-driven commercial activities.** In addition to its core business in infrastructure construction and primary land development, YHZI also diversified into other commercial activities such as property leasing and management, trading as well as fund investment. Some commercial activities are subject to market conditions and counterparty risks.

**High debt leverage and moderate asset liquidity.** YHZI shows a rising debt burden owing to its expansion in the construction of public-policy projects and property leasing projects over the past few years. The total capitalization ratio, as measured by total debt to total capital, remained at a high level of 66.3% as of 31 March 2024. Besides, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, which weaken the asset liquidity.

**Large exposure to external guarantees.** The Company's credit profile is undermined by a large number of external guarantees. As of 31 March 2024, the total amount of external guarantees (including the exposure to its guarantee business) was RMB17.1 billion. The related contingent risk exposure is still a key credit concern to YHZI's credit profile. The majority of external guarantees from the guarantee business were provided to private-owned enterprises within the Yancheng HIDZ, which accounted for 3.7% of its total amount of external guarantees.

### **Rating Outlook**

The stable outlook on YHZI'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 Yancheng HIDZ.

#### **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 strategic significance, improved debt management or lower risk exposure to commercial activities.

#### **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 weakened debt management or a material reduction in government support.

### **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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