

Credit Opinion

31 May 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

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Jiangsu Fang Yang Group Co., Ltd.

Surveillance credit rating report

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

Summary

CCXAP has upgraded the long-term credit rating of Jiangsu Fang Yang Group Co., Ltd. ("Fang Yang" or the "Company") to BBB_g+

 from BBB_g, reflecting 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 BBB_g+

 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.

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.

Rating Drivers

- Positioned as the core entity in the construction and development of Xuwei New District mandated by Lianyungang Municipal Government
- Key role in infrastructure construction and public utility services in Xuwei New District
- Medium exposure to commercial activities
- High debt leverage and moderate asset liquidity
- Diversified funding channels
- Good track record of receiving government support

Rating Sensitivities

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.

Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB billion)	96.1	104.4	110.2
Total Equity (RMB billion)	32.4	33.2	35.4
Total Revenue (RMB billion)	11.9	16.2	17.7
Total Debt/Total Capital (%)	63.7	65.6	65.0

All ratios and figures are calculated using CCXAP's adjustments.

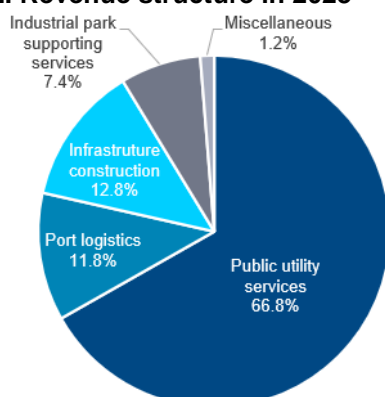
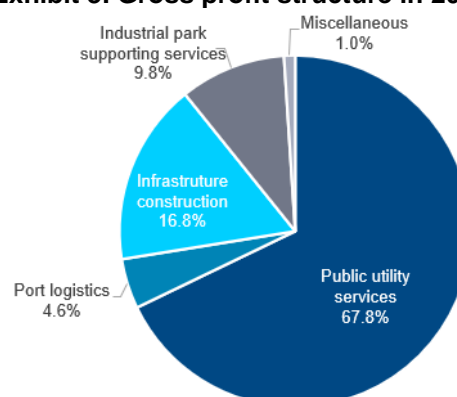
Source: Company information, CCXAP research

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. Xuwei New District is the pioneer region of the National East-Central-West Regional Cooperation Demonstration Region approved by China's State Council in 2011, and one of the seven major petrochemical industry bases in China. 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.

Exhibit 1. Shareholding chart as of 31 March 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023**Exhibit 3. Gross profit structure in 2023**

Source: Company information, CCXAP research

Rating Considerations**Government's Capacity to Provide Support**

We believe that the Lianyungang Municipal Government has very strong capacity to provide support to the Company, given its GRP of over RMB400 billion with rapid growth rate, ranking one of the Top 100 prefecture-level cities in China. It also has good industrial development and port resources. However, Lianyungang Municipal Government's fiscal metrics are moderate.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by GRP, after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP for the same period was RMB150,487, ranking first among all provinces in China.

Lianyungang City is one of the first 14 Chinese coastal cities opening to the outside world and has one of the major ports of China — the Lianyungang Port. With geographic advantages, it has developed port industries such as

petrochemicals, ferrous metallurgy and mechanical equipment manufacturing. Lianyungang City also promotes emerging industries such as biomedical, new materials, new energy and high-end equipment industry. Rapid industrial growth supports Lianyungang City's economy to maintain growth. In 2023, Lianyungang City's GRP increased by 10.2% to RMB436.4 billion, where the growth rate ranked top among all prefectural cities in Jiangsu Province. Compared to last year, the general budgetary revenue increased to RMB25.6 billion from RMB21.3 billion with tax revenue rising to RMB19.6 billion from RMB12.7 billion. Tax contribution recovered to 76.5% in 2023 so the 3-year average fiscal stability (tax/general budget revenue) increased to 71.9%, indicating a strong revenue-generating ability. However, the fiscal sufficiency of Lianyungang Municipal Government was still relatively weak. The fiscal balance ratios (General Budgetary Revenue/ General Budgetary Expenditure) were less than 50% over the past three years, indicating high reliance on support from high-tier governments. In addition, the governmental fund revenue is an important supplement to the financial resources of the Lianyungang Municipal Government, which highly depends on the performance of land sales market. The local government's direct debt kept increasing and reached around RMB73.3 billion as of the end of 2023, accounting for about 16.8% of GRP.

Exhibit 4. Key economic and fiscal indicators of Lianyungang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	372.8	400.5	436.4
GRP Growth (%)	8.8	2.4	10.2
General Budgetary Revenue (RMB billion)	27.5	21.3	25.6
General Budgetary Expenditure (RMB billion)	53.4	53.6	57.5
Local Government Debt (RMB billion)	65.8	68.0	73.3

Source: Statistics Bureau of Lianyungang City, CCXAP research

Xuwei New District is a functional zone under the jurisdiction of Lianyungang City with a total planned area of 467 square kilometers, located in the southeast of Lianyungang City. It is the pilot area of the National East-Central-West Regional Cooperation Demonstration Region approved by the State Council of China in 2011. It mainly develops leading industries such as petrochemicals, high-end equipment manufacturing, port logistics trade processing, and high-performance new materials. With its clear strategic position in the industrial development of Lianyungang City, Xuwei New District has received good support from high-tier governments including policy advantages and financial support. Lianyungang Petrochemical Base is one of the key functional zones in Xuwei New District and one of the seven major petrochemical industry bases in China, approved by the National Development and Reform Commission in 2013. As of the end of 2023, in Lianyungang Petrochemical Base, there were a total of 23 petrochemical projects in operation, and formed three industrial clusters, including Shenghong Petrochemical, Sinochem Lianyungang Circular Economy Industrial Park and Satellite Petrochemical. In 2023, Xuwei New District ranked 14th among China's top 30 Chemical Industrial Parks.

Xuwei New District's economic strength improved rapidly in recent years and the area plays an important role in Lianyungang City. In 2023, Xuwei New District's GRP increased by 97.7% to RMB35.5 billion and industrial output value reached RMB181.2 billion, mainly due to the implementation of Shenghong Refining and Chemical Integration Project with a total investment of RMB66.7 billion. The GRP of Xuwei New District accounted for 8.1% of Lianyungang's GRP. Meanwhile, its general budgetary revenue significantly increased to RMB902.3 million from a negative RMB3.2 billion in 2022, even though including the effect of tax rebate policy. The tax revenue of Xuwei New District is expected to grow as more production capacity becomes full operation and the effect of tax rebates is reduced.

Government's Willingness to Provide Support

Positioned as the core entity in the construction and development of Xuwei New District mandated by Lianyungang Municipal Government

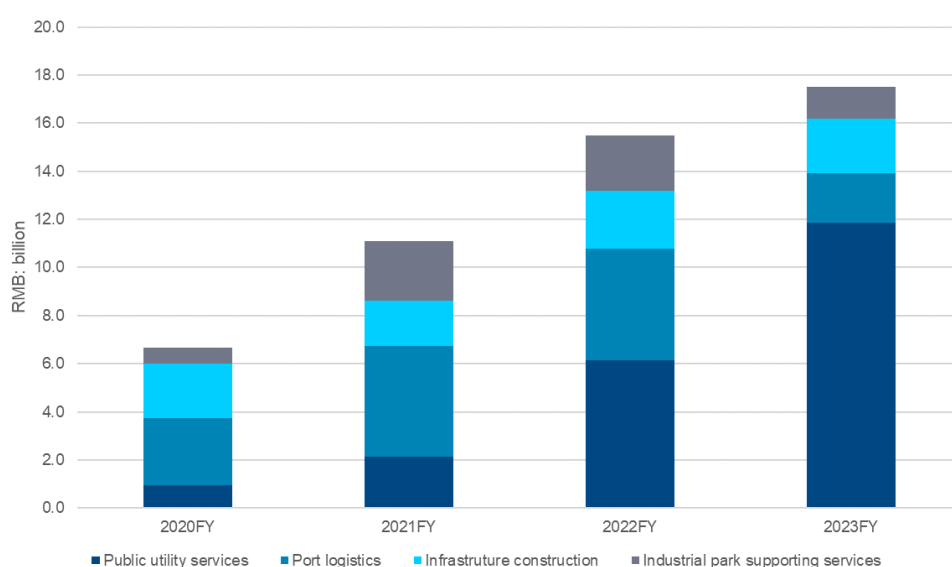
Fang Yang is one of the key investment and operation entities and the second largest one by total assets under the control of Lianyungang Municipal Government. As of 31 December 2023, its total assets and net assets increased by 5.5% and 12.9% to RMB110.2 billion and RMB37.5 billion, respectively. Fang 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, including infrastructure construction, land primary development, soft ground treatment, affordable housing and supporting facilities, which were essential to commercial attractiveness and the transformation and upgrade of the industrial structure in the region. Jiangsu Yangjing Petrochemical Group Co., Ltd., another investment and operation entity established in 2014 to develop Xuwei New District, is mainly engaged in the construction and development of Lianyungang Petrochemical Industrial Base and Strategic Emerging Industrial Park.

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

Fang Yang is the core entity undertaking infrastructure construction in Xuwei New District, including constructing municipal roads, tunnels, transportation hubs, bridges, parks, environmental improvement works, and public utilities such as schools and hospitals. The Company conducts infrastructure construction mainly under an agency construction model. The Company is responsible for financing the projects and receives payments based on the actual construction costs plus a markup upon completion. As of 31 December 2023, the Company had around 15 key agency projects under construction, with a total investment of RMB8.1 billion and an outstanding amount of around RMB634 million, which would improve the function of Xuwei New District and Xuwei Port. The sustainability of the infrastructure construction business is supported by its strong position and sufficient projects on hand.

Fang Yang provides public utility services including sales of raw water, sewage treatment and sales of steam and electricity mainly for enterprises settled in Xuwei New District. The Company owned related assets including water plants and substations, and related franchises. In 2023, the revenue from public utility services was RMB11.8 billion, nearly doubled from the previous years as demand for steam and electricity increased, of which sales of steam and electricity contributed to 49.1% and 43.7%, respectively. The public utility services business is highly correlated to the economic development of Xuwei New District. In addition, out of the purpose of attracting investments by enterprises, the Company's intention to increase prices and earn a larger profit is less likely. The Company will further invest in the public utility business in order to better complement the future development and to increase the commercial attractiveness of Xuwei New District. For example, there was around RMB853 million uninvested for the sewage treatment and water supply projects. The future investment in public utilities is large which may increase the pressure on capital expenditure of the Company.

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.

Exhibit 5. Revenue of main business segments from 2020FY to 2023FY

Source: Company information, CCXAP research

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.

Fang Yang's port logistics business mainly involves the trading of chemicals, stone, coal, ore, concrete and other commodities as well as warehouse logistics. The Company believes the development of the port logistics business helps stabilize the supply of raw materials to the companies settled in Xuwei New District and lower the costs of these materials through centralized purchase and warehouse logistics. The concentration risk of the port logistics business is high yet the profit margin is thin. In 2023, the port logistics business decreased by 55.2% as the revenue from commodity sales decreased, but gross profit improved. The sustainability and stability of businesses highly rely on the development of the local chemical companies in the industrial parks. The Company provides an account period of around 3 months to downstream clients which also generates the issue of cash occupation.

Fang Yang's industrial park supporting services sector includes leasing, property management, land return, advertisement and exhibition, catering service and sales of commercial housing. As the development of Xuwei New District is at its early stage, the return on investment in this sector is sensitive to the economic development of the region and the changes in population. The proportion of land return business in this sector remains high, which has non-recurring nature with high fluctuation. The development and sales of commercial housing are also subject to the conditions of the local real estate market with high fluctuation. As of 31 December 2023, the sales of three completed commercial housing projects with a total investment of around RMB1.3 billion were RMB910 million. Meanwhile, there was no commercial housing project under construction.

High debt leverage and moderate asset liquidity

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. Its capitalization ratio, as measured by total debt to total capital, slightly decreased from 65.6% to 65.0% mainly due to government support and growth of retained profit. The increase in borrowing was mainly for debt refinancing as well as projects including public utility, port construction and industrial supporting service. Overall, we believe that the Company has relatively good debt management considering its manageable debt structure and ability to control overall financing costs. The Company's debt mainly consisted of long-term debt over 3-year tenors and the Company can benefit from declining interest rates due to its established presence in the capital market.

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. The actual arrangement of repayments depends on the development of Xuwei New District and the fiscal arrangement of the local government.

Fang Yang has certain pressure on capital expenditure considering its large investment needs. As of 31 December 2023, the uninvested amount in major projects under construction was around RMB12.6 billion, which were mainly self-operated projects. In addition, there were refinancing needs for its short-term debt as the short-term debt accounted for 33.7% of total debt and the cash to short-term debt ratio was around 0.4x. We expected the Company to rely on external financing to meet its capital expenditure and debt repayment and that the debt leverage will remain at a relatively high level in the next 12 to 18 months.

Diversified financing channels

Fang Yang has access to diversified financing channels including onshore and offshore capital markets, bank borrowing and non-standard financing, which could partially release the pressure on debt repayment and capital expenditure. Bank borrowing is still the major financing sources which accounts for the majority of total debt. The Company maintains good relationships with large domestic banks such as policy banks and large state-owned commercial banks. As of 31 December 2023, the Company has obtained total credit facilities of around RMB92.5 billion, with an unutilized amount of around RMB33.0 billion.

The Company has been present actively in the onshore and offshore capital markets over the past two years. For example, from 2023 to April 2024, it issued three tranches of MTN to raise RMB1.55 billion. In February 2024, it issued an offshore bond to raise USD150 million. The Company also tapped into non-standard financing channels such as financial leasing. The exposure to non-standard financing was minimal with a portion of the total debt less than 5% as of 31 December 2023. However, similar to other Local Government Financing Vehicles ("LGFV"), Fang Yang's funding access may be influenced by China's tightening supervision on the bond issuance and debt growth of LGFVs since 2023.

Overall, we expect Fang Yang to maintain access to multiple funding channels as underpinned by its core position in Xuwei New District and the favorable development prospects of the district. The government also implemented policies to encourage financial institutions to settle in, which is believed to gradually improve the financing and business environment of Xuwei New District.

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.

Fang Yang has benefited from a number of preferential policies released by the central government, Jiangsu Provincial Government and Lianyungang Municipal Government given its strategic role in the development of Xuwei New District. For example, the Jiangsu Provincial Government released *“the Opinion Regarding the Implementation of the Comprehensive Development Plan for the National East-Central-West Regional Cooperation Demonstration Region”* in May 2012, which provided convenience and fee deduction in the use of land.

Fang Yang also has a good track record of receiving government payments. In 2023, the Company received RMB1.3 billion in cash from the local government as capital injections. The Company continuously received operating subsidies from the local government over the past three years with a total amount of around RMB186.8 million. In addition, it received debt swap funds and government special bond funds of around RMB741 million and RMB308 million in 2022 and the first quarter of 2023, respectively. With the fiscal strength of the Management Committee of Xuwei New District improved, the Company is expected to receive payments from the Management Committee of Xuwei New District for its settled agency construction projects. As of 31 December 2023, the receivables from the Management Committee of Xuwei New District amounted to RMB22.9 billion, accounting for 20.8% of its total assets.

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.

ESG Considerations

Fang Yang faces environmental risks because it has undertaken infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase. There are a number of measures implemented for environmental and safety protection in Xuwei New District such as the Biological Management and Control Platform to monitor the air quality and State-level Emergency Rescue Base to quickly handle emergency situations.

Fang Yang bears social risks as it implements public policy initiatives by building public infrastructure in Xuwei New District. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

Fang Yang's governance considerations are also material as the Company is subject to oversight by the Lianyungang Municipal Government and must meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Appendix

Exhibit 6. Peer Comparison

	Jiangsu Fang Yang Group Co., Ltd.	Jiangsu Yangjing Petrochemical Group Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g +
Shareholder	Jiangsu Fang Yang Holding Group Co., Ltd. (100%)	Lianyungang Municipal Government (68.58%) and Lianyungang Xuwei Technology Entrepreneurship Investment Co., Ltd. (31.42%)
Positioning	Core entity in the construction and development of Xuwei New District	Key role in construction, development and operation management of Lianyungang Petrochemical Industrial Base in Xuwei New District
Total Asset (RMB billion)	110.2	30.0
Total Equity (RMB billion)	35.4	11.3
Total Revenue (RMB billion)	17.7	7.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

Exhibit 7. Layout of key projects in Xuwei New District



Source: CCXAP research

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