

## Credit Opinion

28 June 2024

### Ratings

Senior Unsecured Debt Rating	BBB <sub>g</sub> +
Long-Term Credit Rating	BBB <sub>g</sub> +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Yancheng Oriental Investment & Development Group Co., Ltd.

### Surveillance credit rating report

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

#### Summary

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>, reflecting the stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth.

The BBB<sub>g</sub>+ long-term credit rating of YOID reflects (1) the Yancheng 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 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”).

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.

## Rating Drivers

- Key role in Yancheng City, particularly in Yancheng ETDZ
- Undertaking important infrastructure construction and public utility services in Yancheng ETDZ
- Good track record of receiving government support
- Increased exposure to commercial activities
- High debt leverage and moderate asset liquidity
- Large external guarantee associated with local SOEs

## Rating Sensitivities

### 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.

## Key Indicators

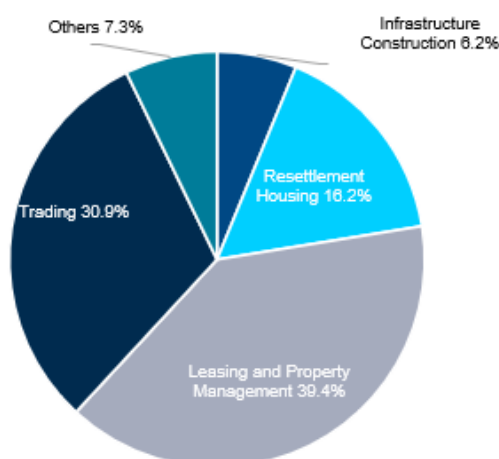
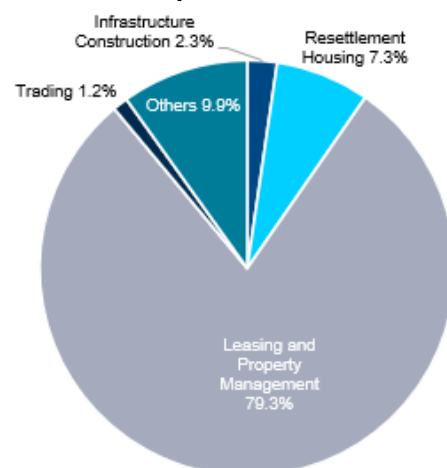
	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	60.0	67.2	78.7	83.4
Total Equity (RMB billion)	22.2	24.7	25.4	25.3
Total Revenue (RMB billion)	2.2	2.5	2.9	0.6
Total Debt/Total Capital (%)	64.4	63.6	66.9	69.2

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2003, YOID is one of the major local infrastructure investment and financing companies ("LIIFC") 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. As a national development zone, Yancheng ETDZ occupies an important position in Jiangsu Province with its industrial base of the Internet plus advanced manufacturing. 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.

**Exhibit 1. Revenue structure in 2023****Exhibit 2. Gross profit structure in 2023**

Source: Company data, CCXAP research

## Rating Considerations

### Government's Capacity to Provide Support

We believe the Yancheng Municipal Government has very strong capacity to provide support given its good economic fundamentals and fiscal strengths. Yancheng ETDZ is a national ETDZ in Yancheng City that mainly develops automotive, crystalline silicon photovoltaic and electronic information industries.

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 gross regional product ("GRP") amounted to RMB12.8 trillion, growing by 5.8% year-over-year ("YoY"). The GRP per capita was RMB150,487 for the same period, which was the highest one among all provinces in China.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, Yancheng City achieved a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9<sup>th</sup> among 13 municipals in Jiangsu Province. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, the Yancheng Municipal Government reported a general budgetary revenue of RMB48.3 billion, of which tax income accounted for around 70.7%. As the decline in the VAT credit refund in 2023, the proportion of tax revenue rebounded. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government's outstanding debt increased to RMB165.5 billion, accounting for around 22.4% of GRP.

**Exhibit 3. Key economic and fiscal indicators of Yancheng City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	111.8	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Statistics Bureau of Yancheng City, CCXAP research

Formed in 1992, Yancheng ETDZ was upgraded to the national level in 2010 and also approved as Yancheng Comprehensive Bonded Zone in 2012, which is the core area of China-Korea Yancheng Industrial Park. After years of dedicated development, the industrial layout of the Yancheng ETDZ has matured into a structure dominated by automotive, crystalline silicon photovoltaic and power battery industries. In 2023, there were 60 newly signed projects with an investment exceeding RMB100 million settled in Yancheng ETDZ, including Tongwei Photovoltaic Manufacturing Base II and Exencell 18GWh Energy Storage Battery project, and 37 projects with an investment exceeding RMB100 million starting construction, including the Faurecia High-strength Slide Second Factory Project and China FAW Yancheng Production Base. In 2023, the Yancheng ETDZ achieved a GDP of RMB38.5 billion, an 8.7% increase YoY; and the real-time invoicing revenue of enterprises above the designated size exceeded RMB120 billion, a 50.0% increase YoY. Along with the economic development, the fiscal strength of the Yancheng ETDZ also demonstrated a notable increase in 2023.

**Government's Willingness to Provide Support****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. There are a number of LIIFCs in Yancheng City while it has only two major platforms in Yancheng ETDZ, including YOID and Jiangsu Century New City Investment Holding Group Company ("Century New City"). They both are responsible for the infrastructure construction and resettlement houses. The Company is responsible for the development and construction of 70 square kilometers in the main urban area of the Yancheng ETDZ, while Century New City is responsible for the development of about 10 square kilometers in the Hedong area. As the major infrastructure construction company in Yancheng ETDZ, YOID is entrusted by the local government to solely undertake the construction of public infrastructure and social welfare facilities of 70 square kilometers in the main urban area of the Yancheng ETDZ. YOID is important to the economic and social development of the Yancheng ETDZ and Yancheng City. Given its strategic role, we believe that support from the local government 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 is also engaged in local resettlement housing construction projects sold to relocated households.

The Company's public projects are important to the development of Yancheng City and the Yancheng ETDZ, and most of the infrastructure construction projects, including the upgrade of the transportation network and utility facilities will benefit the local citizens. As of 31 March 2024, the Company had 17 infrastructure projects

under construction and 8 projects under planning, with an expected total investment amount of around RMB330.9 million and around RMB173 million, respectively. These projects mainly include the construction of roads, water pipes, electric networks, and other public facilities.

The Company's resettlement housing business is overseen by the Management Committee of Yancheng ETDZ. In order to safeguard the profitability of the Company's business, the sales price (expected profit of approximately 8% of the cost) is ultimately approved by the Management Committee of Yancheng ETDZ, following which a repurchase agreement is signed between the Company and the Finance Bureau of the Yancheng ETDZ. At the end of 2023, the Company had 2 resettlement housing projects under construction, with a total investment of RMB3.3 billion and an outstanding investment of RMB1.6 billion.

### **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. In addition, from 2021 to 2023, the Company received government subsidies with a total value of RMB479 million; and the Company received infrastructure project payment of RMB770 million. However, the project payments are volatile because they have a close linkage with the government's fiscal position and local land market. Despite the track record of ongoing project payments from the government over the past three years, there are relatively large receivables due from the local government. The Company still relies more on external financing to meet its occasional funding gaps.

### **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 an increased exposure to commercial activities, based on our assessment. Most of its commercial activities are self-sustaining while having a certain degree of market uncertainty and market competition.

YOID possesses good-quality leasing assets generating considerable income and sound gross profit. In 2023, the Company's property leasing and management generated revenue of RMB1.1 billion, representing 39.4% of its total revenue. This was accompanied by a sizable gross margin of 86.1%, representing an 8.0% improvement compared to 2022. YOID conducts property leasing with a total leasable area of approximately 2.3 million square meters ("sqm") including standard factories, office buildings, industrial parks and an exhibition center. As of 31 March 2024, the investment properties accounted for around 25.8% of the total assets. The majority of the properties were rented out below market prices driven by the policy of attracting investments from enterprises, and the Company can receive government subsidies from the Management Committee of Yancheng ETDZ. As of 31 March 2024, the Company had 6 self-operating projects under construction with an outstanding investment of RMB1.5 billion, most of them for future rental.

Moreover, the Company has a large scale of external equity investment, including listed company equity, non-listed company equity, venture capital funds and equity investment funds, and mainly invested in automobiles, new energy equipment, and electronic information which is highly in line with the industrial development of Yancheng ETDZ. As of end-2023, the Company's long-term equity investments and other non-current financial assets totaled RMB10.5 billion accounting for 13.4% of its total assets. In 2023, the Company achieved investment income of RMB597.2 million, accounting for 59.2% of operating profit. The equity investment and funds exit mainly through IPO, secondary market, or shareholder buyback. However, the returns of these

investments are subject to the operation risk and financial performance of the investees. In addition, the returns of listed companies are subject to the price volatility of the stock market.

The Company's trading business generated a considerable amount of income but a relatively narrow gross profit margin. The products mainly include commodities, mineral products, non-ferrous metals, chemical raw materials, fuel oil, and building materials. The Company adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. The customer and supplier concentration risks were high as the procurements from the top 5 suppliers accounted for more than 80% of its total procurement in 2023, and the Company only had 3 customers which were private-owned enterprises.

### High debt leverage and moderate asset liquidity

YOID had 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. At the same time, the total capitalization ratio, measured by total debt to total capital, remained at a high level of 69.2%. The increase in the capitalization ratio reflects the company's need for external financing, mainly bank loans and bonds, to meet the continuous growth of the business over the last few years. At the same time, the Company bore a relatively high short-term debt burden with the short-term debt accounting for 38.2% of the total debt and the cash to short-term debt ratio was low at 0.4x. The Company plans to invest around RMB3.5 billion in local infrastructure construction, resettlement housing and property leasing projects. Considering the time lag in government payments, the outstanding investment in these projects may rely on external financing, we expect the Company's debt level will continue to increase in the next 12 to 18 months.

### Exhibit 4. Key public projects under construction and planning as of 31 March 2024

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB million)	amount (RMB million)	amount (RMB million)
<b>Projects Under Construction</b>				
Infrastructure Construction	17	331	132	199
Resettlement Housing	2	3,300	1,655	1,645
Rental and Operation Property	6	3,527	2,040	1,487
<b>Project Under Planning</b>				
Infrastructure Construction	8	173	-	173
<b>Total</b>	<b>33</b>	<b>7,331</b>	<b>3,827</b>	<b>3,504</b>

Source: Company information, CCXAP research

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, with a total restricted amount of RMB19.9 billion, accounting for 23.8% of total assets. On top of that, the Company's receivables accounts were relatively high, accounting for around 39.5% of total assets. The targets of account receivables are mainly the Finance Bureau of Yancheng ETDZ, government units and local SOEs, with longer recovery periods and lower liquidity. However, the Company's rental property as well as equity and fund holding accounted for around 25.8% and 12.6% of its total assets, respectively, which generated recurring income.

## Diversified funding sources

YOID's large investment needs could be supported by its diversified financing channels. The Company has an active presence in the onshore and offshore debt capital markets and maintains good relationships with large domestic banks. As of 31 March 2024, it had total credit facilities of approximately RMB59.0 billion from banks with an unused portion of RMB29.4 billion, mainly from large state-owned banks and joint-stock commercial banks. YOID also has access to both onshore and offshore debt capital markets and has a track record of issuing different financial products in the onshore bond market such as SCPs, MTNs and PPNs. In 2023, the Company issued 4 tranches of onshore bonds, raising RMB2.7 billion. Furthermore, as of 31 May 2024, the Company's offshore bond portfolio was approximately USD394 million, illustrating its proficiency in accessing offshore financing. However, the Company had moderate exposure to nonstandard financing, accounting for around 21% of total debt as of 31 March 2024, which may exert a higher pressure on debt repayment.

## Large external guarantee associated with local SOEs

YOID's credit profile is undermined by its large number of external guarantees. As of 31 March 2024, the total amount of external guarantees (including the exposure to its guarantee business) was RMB19.2 billion. 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. As for the guarantee provided to private-owned enterprises, RMB 240 million was guaranteed to Human Horizons (Jiangsu) Technology Co., Ltd. ("Human Horizons"). On 18 February 2024, Human Horizons announced the suspension of production of HiPhi Auto. In March 2024, Human Horizons Holding (Shanghai) Co., Ltd., the controlling stakeholder of Human Horizons, and its chairmen were restricted from high consumption. The poor operating performance of Human Horizons could increase the contingent liability risks for YOID.

The Company's guarantee business is conducted by its subsidiaries to private-owned enterprises within the Yancheng ETDZ, such as automobile and construction companies. As of 31 March 2024, the Company had provided guarantees to eight enterprises with a cumulative guarantee balance of RMB82.7 million. This represents a decrease of RMB1.6 million as compared with that of the year-end of 2023. Furthermore, the amount of RMB54.1 million in lieu of repayment has been fully recovered.

## ESG Considerations

YOID bears environmental risks because it undertakes infrastructure construction and resettlement housing projects in Yancheng ETDZ. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects and close supervision during the construction.

YOID is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Yancheng ETDZ. Demographic changes, public awareness and social priorities shape the government's development strategy and targets on YOID, and it will affect the government's propensity to support the Company.

YOID's governance considerations are also material as it is subject to oversight and reporting requirements to the local government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Structural Consideration

YOID's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important strategic position in the development of Yancheng ETDZ, thereby mitigating any differences in an expected loss that could result from structural subordination.

## 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 5. Peer Comparison

	<b>Yancheng Oriental Investment &amp; Development Group Company Limited</b>	<b>Yancheng High-tech Zone Investment Group Company Limited</b>	<b>Yancheng City Assets Investment Group Company Limited</b>
Long-Term Credit Rating	BBB <sub>g</sub> +	BBB <sub>g</sub> +	A <sub>g</sub> -
Shareholder	Yancheng Municipal Government (100%)	Yancheng High-tech Industry Holding Group Co., Ltd. (100%)	Yancheng Municipal Government (100%)
Positioning	The largest Infrastructure investment and financing platforms in the Yancheng ETDZ	The largest platform of Infrastructure construction and investment in the Yancheng Hi-tech Zone	One of the largest Infrastructure construction and asset management platforms in Yancheng City
Total Assets (RMB billion)	78.7	96.0	138.1
Total Equity (RMB billion)	25.4	30.7	43.0
Total Revenue (RMB billion)	2.9	3.2	7.3

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

Source: Company information, CCXAP research



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