

Credit Opinion

28 June 2024

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

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Yancheng High-tech Zone Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP upgrades Yancheng High-tech Zone Investment Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Summary

CCXAP has upgraded the long-term credit rating of Yancheng High-tech Zone Investment Group Co., Ltd. ("YHZI" or the "Company") to BBB_g+, from BBB_g, reflecting stronger capacity to provide support from Yancheng Municipal Government with ongoing economic growth.

The BBB_g 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.

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.

Rating Drivers

- Dominant business position in the Yancheng HIDZ
- Significant role in local public activities
- Increased exposure to commercial activities
- High debt leverage and moderate asset liquidity
- Large external guarantees 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 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.

Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Assets (RMB billion)	79.1	85.3	96.0	97.9
Total Equity (RMB billion)	24.5	27.1	30.7	31.4
Total Revenue (RMB billion)	2.6	2.9	3.2	1.0
Total Debt/Total Capital (%)	67.8	67.0	66.6	66.3

All ratios and figures are calculated using CCXAP's adjustments.
Source: Company data, CCXAP research

Corporate Profile

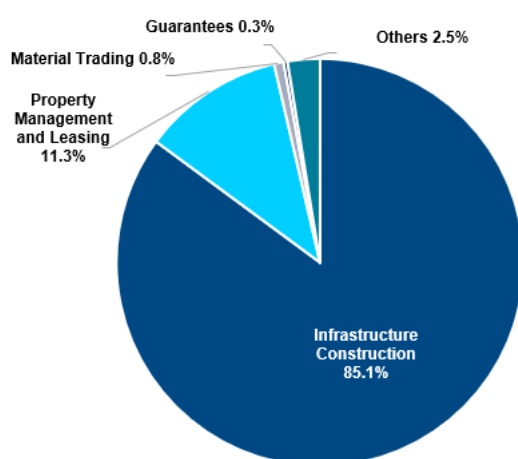
Established in 2009, YHZI is one of the major local infrastructure investment and financing companies ("LIIFCs") for the Yancheng Municipal Government. YHZI is primarily engaged in infrastructure construction, primary land development, property leasing and management businesses and financial investment 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.

Exhibit 1. Shareholding chart as of 30 April 2024



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, 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 moderate fiscal strengths. 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.

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 GRP per capita for the same period was RMB150,487, ranking first 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 9th 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, owing to the scale-down of VAT credit refund, the general budgetary revenue rose to RMB48.3 billion from RMB45.3 billion in 2022, while tax revenue increased to RMB34.1 billion from RMB29.7 billion. The three-year average fiscal stability (tax revenue/general budget revenue) recovered to 70.5% in 2023. However, the fiscal sufficiency of Yancheng Municipal Government remained moderate, as reflected by its 3-year average fiscal balance ratio (general budgetary revenue/general budgetary expenditure) of 41.2% for the period 2021 to 2023. 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

Established in 2006, the Yancheng HIDZ is one of the key industrial development zones in Jiangsu Province. It was approved to be the first provincial-level high-tech industrial development zone in Yancheng City in November 2012 and was upgraded to the national level in February 2015 with the approval of the State Council of China. Yancheng HIDZ plays a particularly important role in industrial upgrades of Yancheng City and focuses on the development of three pillar industries, including intelligent information technology, high-end equipment and new energy industries. Over 450 enterprises, including Dongjiu Heavy Industry Co., Ltd. and Dongshan Precision Manufacturing Co., Ltd., have settled in the Yancheng HIDZ. The development of the Yancheng HIDZ provides support for the long-term sustainable development of the Company. In 2023, Yancheng HIDZ's GRP increased to RMB59.4 billion from RMB57.4 billion in 2022.

Government's Willingness to Provide Support

Dominant business position 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. The Company has undertaken the majority of local infrastructure construction and primary land development projects within the Yancheng HIDZ. Directed by the local government, YHZI has also participated in policy-driven commercial activities such as local property leasing, equity investments and financial services, targeting to attract foreign and domestic investments. Given YHZI's dominant strategic positioning, we believe the cost of substitution for the government is high thereby YHZI is unlikely to be easily replaced by other companies in the foreseeable future. Although the Company's equity was transferred from Yancheng Municipal Government to YHIH, we expect that the Company's position as the key LIIFC in Yancheng HIDZ remains unchanged, and the local government's management over YHZI also remains unchanged.

Significant role in local public activities

YHZI's primary public activities include local infrastructure construction and primary land development projects. As of 31 March 2024, the Company has completed several infrastructure construction projects, such as roads, schools, pipelines, greening, flood control facilities, and industrial parks, with a total investment of around RMB20.3 billion. These projects are essential to the economic and social development of the Yancheng HIDZ and also benefit local employment. YHZI's primary land development projects are mandated by the Management Committee of Yancheng HIDZ. It has completed a large number of land consolidation projects of approximately 8,451 mu and has totally invested RMB3.5 billion as of 31 March 2024, including some shantytown renovation projects that help improve the city's image and local land development.

YHZI has large-scale public project reserves, mainly the construction of infrastructure projects in Yancheng HIDZ. As of 31 March 2024, it had 4 key infrastructure construction projects under construction, such as staff apartments and entrepreneurial district renovation and upgrading, with an outstanding investment amount of RMB739.0 million. The Company also had 3 key infrastructure construction projects under planning with a total planned investment of RMB220 million. In terms of primary land development, the Company had 2 key projects under consolidation and 1 project under planning, with a total uninvested amount of RMB1.1 billion. The sufficient project reserves indicated strong sustainability of the Company's public-policy businesses but exerted certain capital expenditure pressure.

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. From 2021 to 2023, the Company received a total of RMB484.0 million in financial subsidies to support its operation. 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.

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. As of 31 March 2024, the Company has received RMB9.5 billion as project repayments from the government. However, these payments have a close linkage with the government's fiscal position and local land market, which would be volatile. 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 needs to rely more on external financing to meet its occasional funding gaps.

Increased exposure to 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. The proportion of commercial activities assets represent 30% to 40% of the Company's total assets, according to our estimation. However, some commercial activities are subject to market conditions and counterparty risks.

YHZI has a large-scale investment property portfolio including non-standard factories, industrial parks and office buildings. As of 31 March 2024, the Company's main rental properties had an approximate total leasable area of 2.0 million square meters ("sqm"), which was expected to keep increasing given the large investment in investment properties. The Company's self-operated construction and leasing business mainly facilitates the investment attraction of Yancheng HIDZ. The Company had several key self-operating construction projects

under construction, with a total investment amount of RMB5.6 billion and an uninvested amount of RMB1.3 billion. For non-standard factories, the Company usually signs a lease agreement with the lessee before project commencement, promising a lease period for a certain time (normally 6-8 years). The lessee will eventually acquire the factory at the end of the contract period. A large portion of the non-standard factory projects may reduce the operating risk of the property leasing business to a certain extent. In addition, in 2023, the overall occupancy rates were high, with over 90% for all properties.

Moreover, the Company has developed equity and industrial fund investment businesses, mainly investing in manufacturing businesses and local industrial corporates to promote the development of local industries. The equity investment and funds exit mainly through IPO, secondary market, or shareholder buyback. In 2023, the Company achieved investment income of RMB10.3 million. The returns of the fund investments are subject to the changes in the regional environment, industrial conditions, and financial performance of the investees. The returns of listed companies are also subject to the price volatility of the stock market.

YHZI also conducts a small-scale material trading business, mainly including steel, coal, metallic material and electronic devices. Such business is highly affected by macroeconomic conditions and exposed to certain credit risks. With the turn down of material trading business, the revenue generated from this segment in 2023 mainly came from running down the inventories.

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. As of 31 March 2024, the Company's total debt increased to RMB61.9 billion from RMB54.9 billion at end-2022. 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. The Company's short-term repayment pressure has been reduced yet is still high, with the short-term debt ratio declining from 41.0% as of end-March 2023 to 32.1% as of end-March 2024. At the same time, the cash to short-term debt ratio was maintained at 0.4x. Considering the large capital expenditure needs for its extensive construction projects in the pipeline, we expect the Company may rely on external financing and its debt leverage to remain at a high level over the next 12 to 18 months.

Besides, YHZI's asset liquidity was moderate which may undermine the Company's financing flexibility. 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 RMB17.5 billion, accounting for 17.8% of total assets. On top of that, as of 31 March 2024, the Company's total assets mainly consist of inventories, other receivables, and receivables, accounting for 61.9% of the total assets. The Company's inventories mainly include costs of land consolidation and infrastructure constructions, which are considered low liquidity.

Diversified funding channels

YHZI's good refinancing ability could partially support and mitigate its large investment needs and short-term debt pressure. The Company has good access to various sources of funding, including bank loans, onshore and offshore bond financing as well as non-standard financing. As of 31 March 2024, the Company had total credit facilities of RMB38.7 billion with an unutilized portion of RMB10.6 billion, mainly from joint-stock commercial banks and urban commercial banks. The Company has also diversified its financing channel to both onshore and offshore debt capital markets, and has issued various types of bond products, including SCPs, MTNs, PPNs, and USD bonds. From January to May 2024, the Company issued three tranches of 3-year MTN raising RMB2.0 billion with coupon rates ranging from 2.6% to 3.02%. Moreover, the Company had moderate

exposure to nonstandard financing. The exposure to nonstandard financing was around 20% as of 31 March 2024, down from 38% at the end of 2022.

Large external guarantees associated with local SOEs

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. After excluding the exposure to its guarantee business, the Company still had an external guarantee of RMB16.5 billion, all of which were provided to state-owned companies in Yancheng City, accounting for around 52.6% of its net assets. 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. As of 31 March 2024, the Company had 16 unsettled compensatory guarantees with a total amount of principal to be recovered of RMB58.1 million, all of which have provided counter-guarantee measures.

ESG Considerations

YHZI is exposed to environmental risks because it has undertaken the majority of local infrastructure construction projects and public services. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close monitoring during the construction phase.

YHZI bears social risks as it plays a crucial role in the social welfare of the residents in the Yancheng HIDZ. YHZI is the key LIIFC in the Yancheng HIDZ and undertakes different development businesses that affect local public welfare and employment. 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.

YHZI's governance considerations are also material as the Company is subject to oversight and reporting requirements to the Yancheng Municipal Government and has to 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 4. Peer Comparison

	Yancheng High-tech Zone Investment Group Company Limited	Yancheng Oriental Investment & Development Group Company Limited	Yancheng City Assets Investment Group Company Limited
Long-Term Credit Rating	BBB _g +	BBB _g +	A _g -
Shareholder	YHIH (100%)	Yancheng Municipal Government (100%)	Yancheng Municipal Government (100%)
Positioning	The largest platform of Infrastructure construction and investment in the Yancheng HIDZ	The largest Infrastructure investment and financing platforms in the Yancheng Economic and Technological Development Zone	One of the largest Infrastructure construction and asset management platforms in Yancheng City
Total Assets (RMB billion)	96.0	78.7	138.1
Total Equity (RMB billion)	30.7	25.4	43.0
Total Revenue (RMB billion)	3.2	2.9	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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