

Credit Opinion

31 July 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
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 affirms Yancheng Oriental Investment & Development Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

CCXAP has affirmed the long-term credit rating of Yancheng Oriental Investment & Development Group Co. Ltd. ("YOID" or the "Company") at BBB_g. YOID's rating reflects the Yancheng Municipal Government's very strong capacity to provide support and high willingness to 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 by the Yancheng Municipal Government; (2) strategic role in Yancheng City, particularly in the ETDZ; and (3) solid track record of receiving ongoing government payments.

However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) increasing debt level and moderate asset liquidity; and (3) high contingent liability risk associated with its large external guarantee.

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

- Strategic role in Yancheng City, particularly in Yancheng ETDZ
- Undertaking important public activities in Yancheng ETDZ
- Solid track record of receiving ongoing government payments
- Increasing debt level and moderate asset liquidity
- Diversified funding sources
- High contingent liability risk associated with large external guarantee

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 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 or material increase in the exposure to commercial activities.

Key Indicators

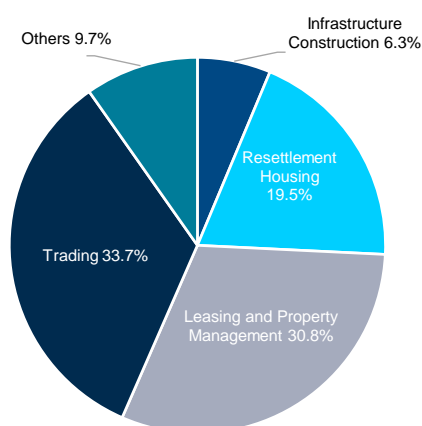
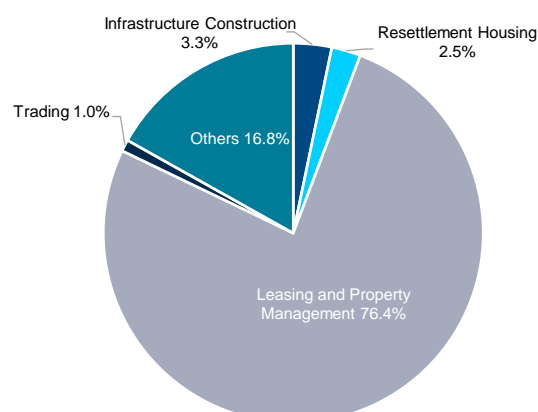
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	55.4	60.0	67.2
Total Equity (RMB billion)	20.4	20.3	23.4
Total Revenue (RMB billion)	2.1	2.2	2.5
Total Debt/Total Capital (%)	61.3	64.4	63.6

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

Source: CCXAP research

Corporate Profile

Established in 2003, YOID is one of the major LIIFCs for the Yancheng Municipal Government. It 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 RMB67.2 billion as of 31 December 2022.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

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 fiscal strengths.

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 2022, its total gross regional product ("GRP") amounted to RMB12.3 trillion, growing by 2.8% year-over-year ("YoY"). The GRP per capital was RMB144,390 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. Its pillar industries include auto parts, machinery, textiles, and chemical industry. Yancheng City is undergoing an economic transition and is developing emerging industries such as high-tech electronic manufacturing, big data, new energy, and intelligent manufacturing, which help support sustainable economic growth in the long run. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8th among 13 municipals in Jiangsu Province. On the back of steady economic growth and optimized upgrading of the industrial structure, the general budgetary revenue increased year by year. In 2022, the Yancheng Municipal Government reported a general budgetary revenue of RMB45.3 billion, of which taxes income accounted for around 65.6%. If excluding the impact of tax rebates, the general budgetary revenue increased by 8.1%. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) was at a moderate level of 40.5%. As of the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion, accounting for about 21.7% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Yancheng City

	2020FY	2021FY	2022FY
GRP (RMB billion)	595.3	661.7	708.0
GRP Growth (%)	3.5	7.7	4.6
General Budgetary Revenue (RMB billion)	40.0	45.1	45.3
General Budgetary Expenditure (RMB billion)	97.4	105.3	111.8
Local Government Debt (RMB billion)	137.0	147.3	153.5

Source: Statistics Bureau of Yancheng City, CCXAP research

Formed in 1992, the Yancheng ETDZ was approved as a provincial development zone by Jiangsu Provincial Government in 1993. It was upgraded to 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. In recent years, the Yancheng ETDZ has focused on the three leading industries, namely automobile, electronic information, and new energy equipment industries. In 2022, there were 70 new signed projects with investment exceeding RMB100 million settled in Yancheng ETDZ including Tongwei Photovoltaic Manufacturing Base and Shuangjing large size silicon wafer project, and 44 projects with investments exceeding RMB100 million starting construction including the SK Power Battery Phase II project.

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 Zone, 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 the Zone, 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 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. As of end-2022, it has completed a number of infrastructure and resettlement housing construction projects, including upgrade and greening work of roads and sewage pipeline construction.

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 upgrade of transportation network and utility facilitates will benefit the local citizens. As of 31 December 2022, the Company had 13 infrastructure projects under construction and 6 projects under planning, with expected total investment amount of around RMB310 million and around RMB42 million, respectively. These projects mainly include the construction of roads, water pipe, electric network, and other public facilities. In addition, the Company has 2 resettlement housing projects,

with a total investment of RMB3.3 billion and an outstanding amount of RMB2.1 billion. We believe that the Company will continue to maintain its important position on public projects while its scale of public project reserves may reduce with moderating local infrastructure construction demand.

Solid track record of receiving ongoing government payments

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. The Company's capital has increased from RMB150 million to RMB9.5 billion as of 31 March 2023, after several times of capital injections from the local government. From 2020 to 2022, the Company received government subsidies with a total value of RMB640 million. In addition, the Company has received infrastructure projects payment of RMB678 million from 2020 to 2022. 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.

Medium 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.

YOID possesses good-quality leasing assets which generated considerable amount of income and sound gross profit. YOID conducts property leasing and management with a total leasable area of approximately 1.9 million square meters ("sqm") including standard factories, office buildings, industrial parks and exhibition center, accounting for around 18% of the Company's total assets. The majority of the properties were rented out below market prices driven by policy of attracting investments from enterprises, and the Company can receive government subsidies from the Management Committee of Yancheng ETDZ. As of end-2022, the Company had 5 projects under construction, with a total investment of RMB9.4 billion and an outstanding amount of RMB6.8 billion.

Moreover, the Company had key equity and fund investments of RMB10.5 billion as of 31 December 2022 which accounted for 15.7% of its total assets. Fund investments represented 59.8% and most of them are managed by professional investment teams experienced in risk management. Direct equity investment accounted for 40.2% and mostly invested in new energy, automobile, and raw material companies. The equity investment and funds exit mainly through IPO, secondary market, or shareholder buyback. The returns of these investments are subject to the operation risk and financial performance of the investees and the returns of listed companies are subject to the price volatility of stock market.

The Company's trading business generated considerable amount of income but relatively narrow gross profit margin. The products mainly include 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 70% of its total procurement in 2022, and the Company only had two customers which are private-owned enterprises.

Increasing debt level and moderate asset liquidity

YOID has high debt growth owing to its debt-driven business expansion over the past years. As of end-2022, the Company's total debt (including perpetual bonds) increased to RMB39.5 billion from RMB35.0 billion as of end-2021. The capitalization ratio, measured by total debt to total capital, remained at a high level of 63.6% as of end-2022. At the same time, the Company bore a relatively high short-term debt burden with the short-term debt accounting for 36.5% of the total debt, and the cash to short-term debt ratio was low at 0.3x. The Company plans to invest around RMB9.6 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 December 2022

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB million)	(RMB million)	(RMB million)
Projects Under Construction				
Infrastructure Construction	13	310	208	103
Resettlement Housing	2	3,300	1,188	2,112
Rental Property	5	9,350	2,540	6,810
Project Under Planning				
Infrastructure Construction	6	42	-	42
Sewage Plant	1	522	-	522
Total	27	13,524	3,936	9,589

Source: Company information, CCXAP research

Besides, YOID's asset liquidity was moderate. As of end-2022, the Company's pledged a number of assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB14.3 billion, accounting for 58.1% of net assets. On top of that, as of end-2022, the Company's inventories, receivables accounts, and investment properties accounted for around 71% of the total assets, which are considered low liquidity. In addition, the Company's rental property and equity and fund holding accounted for around 18% and 15.7% 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 presence in onshore and offshore debt capital market and maintains good relationship with large domestic banks. As of 31 March 2023, it had total credit facilities of approximately RMB46.4 billion with an unused portion of RMB20.8 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 2022, the Company had issued 21 tranches of onshore bonds, raising RMB10.7 billion. Furthermore, the Company issued 1 offshore bond raising USD394 million in 2022. However, the Company had moderate exposure to nonstandard financing, accounting for around 16% of total debt as of end-2022, which may exert a higher pressure on debt repayment.

High contingent risk associated with large external guarantee

The Company's credit profile is undermined by its large number of external guarantees. As of end-2022, the total amount of external guarantee (including the exposure to its guarantee business) was RMB15.9 billion. After excluding the exposure to its guarantee business, the Company still had an external guarantee of RMB15.8 billion, all of which were provided to state-owned companies in Yancheng City, accounting for around 64% of its net assets. The majority of external guarantees from the guarantee business were provided to private-owned enterprises within the Yancheng ETDZ, such as automobile and construction companies, which accounted for 0.8% of its total amount of external guarantee. As of end-2022, the Company had unsettled compensatory guarantees with a total amount to be recovered of RMB36 million, all of which have provided counter-guarantee measures. The related contingent risk exposure is still one of the key credit concerns to YOID's credit profile.

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 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 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

	Yancheng Oriental Investment & Development Group Company Limited	Yancheng High-tech Zone Investment Group Company Limited	Yancheng City Assets Investment Group Company Limited
Long-Term Credit Rating	BBB _g	BBB _g	BBB _g +
Shareholder	Yancheng Municipal Government	Yancheng Municipal Government	Yancheng Municipal Government
Positioning	The largest Infrastructure investment and financing platforms in the Yancheng ETDZ	The sole 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 Asset (RMB billion)	67.2	85.3	119.1
Total Equity (RMB billion)	24.7	27.1	38.0
Total Revenue (RMB billion)	2.5	2.9	6.6

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2022.

Source: Company Information, CCXAP research

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