



## Credit Opinion

21 November 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

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## Yancheng Haixing Holding Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub>- to Yancheng Haixing Holding Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Yancheng Haixing Holding Group Co., Ltd. ("Haixing Holding" or the "Company") 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 Yellow Sea New Area ("Yancheng YSNA") is an important modern industrial base in Yancheng City that mainly develops integrated energy, advanced steel, new materials, medical science, marine biology and advanced logistics.

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) important role in urban development and operation in Yancheng City, particularly in Yancheng YSNA; and (3) good track record of receiving government support.

However, the rating is constrained by the Company's (1) high risk exposure to commercial activities; (2) high investment needs that drives growing debt amount; and (3) moderate asset liquidity.

The stable outlook on Haixing Holding'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 YSNA.

## Rating Drivers

- Important role in urban development and operation in Yancheng City, particularly in Yancheng YSNA
- Good track record of receiving government support
- High risk exposure to commercial activities
- High investment needs and moderate asset liquidity

## 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, decreased risk exposure to commercial activities and enhanced financing ability.

### 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

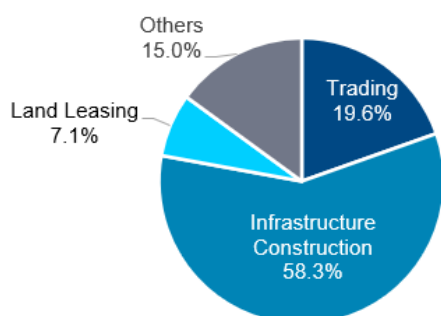
	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	63.0	68.4	71.7	74.7
Total Equity (RMB billion)	39.0	39.6	41.4	40.7
Total Revenue (RMB billion)	4.4	5.0	4.5	2.6
Total Debt/Total Capital (%)	33.1	37.3	36.9	39.4

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

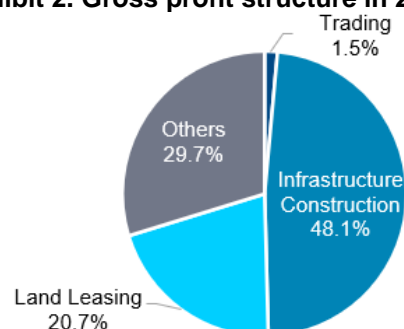
Source: Company data, CCXAP research

## Corporate Profile

Established in 2012, Haixing Holding is one of the major local infrastructure investment and financing companies ("LIIFC") in Yancheng City and is directly and wholly owned by the Yancheng Municipal Government. In 2024, the Yancheng Municipal Government transferred 100% of the shares of Yancheng Haixing Group Co., Ltd. ("Haixing Group") to the Company, and Haixing Holding became the first-class municipal-level enterprise under the Yancheng Municipal Government. Haixing Holding is mainly responsible for resource integration and utilization in the coastal region of Yancheng City, including infrastructure construction in Yancheng YSNA, as well as harbor-city investment and development and industrial investment. As a harbor development zone, Yancheng YSNA occupies an important position in the development of northern Yancheng City with its industrial base of the integrated energy, advanced steel, new materials and medical science.

**Exhibit 1. Revenue structure in 2023**

Source: Company data, CCXAP research

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

## 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 as well as sustainable industrial development.

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. In the first half of 2024, Jiangsu Province realized a GRP of RMB6.3 trillion, up 5.8% YoY.

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; and in the first nine months of 2024, the GRP of Yancheng City amounted to RMB553.2 billion, with a YoY growth rate of 5.4%. 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

Yancheng YSNA is a coastal industrial base that Yancheng City is currently prioritizing as a key economic development area. Yancheng YSNA is strategically located on the northeast coast of Yancheng City, with convenient access to two port areas in Xiangshui County and Binhai County, as well as the economic hinterland of Jiangsu Province. The planned land area of Yancheng YSNA is 616 square kilometers, with an additional 3,800 square kilometers of sea area and a coastline spanning approximately 92 kilometers. After years of dedicated development, the industrial layout of the Yancheng YSNA has matured into a structure dominated by advanced metal materials, new pharmaceuticals and new materials, stainless steel and recycled paper industries. In recent years, a number of state-owned and large private enterprises have established a presence in Yancheng YSNA, including State Power Investment, CNOOC, Shanghai Electric, Sinochem International, and Jiangsu Delong Nickel Industry Co., Ltd ("Delong Nickel"). In 2023, Yancheng YSNA achieved invoicing revenue of enterprises above the designated size of RMB176.6 billion and completed industrial investment of RMB16.8 billion, which includes the CNOOC Green Energy Port Phase I, the Shanghai Electric Wind Power Equipment Manufacturing Project and Kaijin Lithium-ion Battery Anode Material Project.

**Government's Willingness to Provide Support****Important role in urban development and operation in Yancheng City, particularly in Yancheng YSNA**

Haixing Holding is one of the key LIIFCs in Yancheng City, particularly renowned for its role as the primary developer and operator of infrastructure construction and industrial investment in Yancheng YSNA. There are a number of LIIFCs in Yancheng City while two major enterprises are responsible for the development of Yancheng YSNA, including Haixing Holding and Jiangsu Yancheng Port Holdings Group Co., Ltd. ("Yancheng Port"). Each of them has a clear and strong position under the government's planning. The Company is mainly responsible for the development and construction of 616 square kilometers in the main industrialized area of the Yancheng YSNA, while Yancheng Port is responsible for the operation of the four ports in Yancheng City. As the major urban development and operation entity in Yancheng YSNA, the Company is important to local economic and social development. Given its strategic role, we believe that support from the local government is very likely when needed.

**Undertaking infrastructure construction and resettlement housing in Yancheng YSNA**

As one of the major platforms for regional investment and development, Haixing Holding is engaged in the infrastructure construction and resettlement housing projects in the Yancheng YSNA. The Company has relatively good stability and sustainability of its project construction business under the local government's planning and development.

Haixing Holding undertakes infrastructure construction in Yancheng City, particularly in the port areas, urban areas and industrial park areas of Yancheng YSNA. Under the entrusted construction model, prior to the commencement, the Company is required to pay a construction deposit (approximately 10% of the total planned

investment for the project) to entrusted parties such as Yancheng Binhai Port Industrial Park Management Office and Jiangsu Yanfu Port Group Co., Ltd. This deposit is refunded in line with the project construction schedule, typically within one to two years after project completion. The Company contracts the project to specific construction parties through bidding and remunerates them according to the progress and actual input costs of the project. At the end of each quarter, in accordance with the volume of completed works, the entrusted parties will make payments to the Company based on the total cost plus a few percentage markups after examining the projects. The Company has successfully delivered a series of large-scale industrial park infrastructure construction projects over the past few years, with a total investment of around RMB5.5 billion and a total repayment of RMB6.9 billion. As of 30 June 2024, the Company had 4 infrastructure projects under construction and 2 projects under planning, with an expected total investment amount of around RMB12.1 billion and around RMB2.9 billion, respectively. These projects mainly include the construction of roads, sewage treatment, greening projects, and other public facilities.

The Company's real estate projects are comprised of national-level shantytown renovation, amenity center, and housing projects for the resettlement of disaster-affected households. The Company aims to achieve the financial balance through rental income and property sales. As of 30 June 2024, the Company had 3 completed resettlement housing projects with a total investment of RMB2.2 billion and there were no projects under planning. The remote location of the resettlement housing projects has resulted in a slow sales and resettlement process for completed projects, which may have an impact on the Company's future capital balance.

### **High risk exposure to commercial activities**

Haixing Holding also diversified into other commercial activities such as land leasing, industrial parks development, self-operated projects, trading business and equity investment. Based on our assessment, the Company's risk exposure to such commercial activities is high which accounted for more than 30% of total assets. Most of its commercial activities are self-sustaining while having a certain degree of market uncertainty and operational risk.

Haixing Holding has a large-scale leasing properties portfolio mainly including land, saltpans and industrial parks. The Company operates land leasing assets by consolidating them into fishponds for rent, generating stable income and sound gross profit. The Company conducts land leasing with a total leasable land area of approximately 190,600 acres, of which 82.9% of the land has been leased out, generating revenue of RMB325 million in 2023. The majority of the land were rented out to private-owned enterprises and individuals with a high degree of concentration. The Company collects rents by referencing to market prices through lease agreements signed directly with farming enterprises. Typically, the lease agreements are signed annually and the full-year rent is collected within one month of the signing, with rental income being recognized on a monthly basis. As of 30 June 2024, the Company had 32,600 acres of land to be leased out.

Attentionally, the leasing of the Company's industrial park and standard factories has underperformed that extend its payback period and the outstanding investment of its industrial park and standard factories may bring certain financial pressure. As of 30 June 2024, the Company has completed industrial parks with an approximate total leasable area of 284,000 square meters ("sqm") and 231,400 sqm industrial parks has been leased to the Xiangshui Industrial Zone Management Committee for investment attraction purposes in 2023. However, the Company cannot receive rental income for the first three years as a rent-free period. In addition, at the same time, the Company had 4 standard factories and industrial park projects under construction, with a total investment amount of RMB4.2 billion and an uninvested amount of RMB389 million. It is anticipated that these standard factories and industrial parks will be completed by 2024, with a total area of 908,000 sqm available for

lease. The Company has entered into a comprehensive lease agreement with the Binhai County Government for three of these construction projects, which covers investment promotion and rental management over ten years. For another standard factory, its main construction has been completed but pending to be lease out. Overall, the leasing business of industrial parks and standard factories highly relies on local economic development which exposes the Company to higher operational risks.

Haixing Holding also has some self-operated projects that mainly include fishing and photovoltaic facilities, and water supply facilities, which are expected to achieve fund balancing through rental and water sales income. As of 30 June 2024, the Company had 8 self-operated projects under construction, with a total investment of RMB7.4 billion and an outstanding amount of RMB3.0 billion. Considering its current and future investment in self-operated construction projects, the Company may face a relatively high capital expenditure burden and bear the risk of operating uncertainties.

The Company's trading business products mainly include ferro-nickel and stainless steel, which are intended to facilitate the growth of the iron and steel industry in Yancheng YSNA. The Company's trading business is mainly conducted with Delong Nickel, a steel manufacturing company in the industrial park. In 2024, as Delong Nickel had overdue payments, the Company changed the business model by purchasing raw materials, ferronickel, from overseas suppliers and selling them to Jiangsu Xinghai Holding Group Co. Ltd. ("Xinghai Holding"), which is effectively controlled by the Finance Bureau of Xiangshui County. Xinghai Holding then resells to Delong Nickel and gradually settles the overdue payments with the Company. As of 30 June 2024, the net balance of account receivables amounted to RMB4.4 billion, of which RMB772.1 million was due by Delong Nickel and its related companies. The Company's subsequent collection of overdue payments is an important consideration to the Company's credit profile. Such business is highly affected by macroeconomic conditions and exposed to certain credit risks.

### **Good track record of receiving government support**

Haixing Holding has received ongoing support from the Yancheng Municipal Government including cash allocation, asset injection, capital injection and financial subsidies. In 2024, the local government inject contiguous industrial land with book value of around RMB2.1 billion and 49% of Yancheng Transportation Holding Group Co., Ltd., a large LIIFC in Yancheng City. In March 2024, the Company received a capital injection of RMB190 million from the Yancheng Finance Bureau. In addition, from 2021 to 2023, the Company received government subsidies of RMB191 million and infrastructure project payments of RMB6.9 billion. The Company is expected to receive continuous government payments from the infrastructure construction business. However, such payments may be subject to the fiscal arrangement and land market condition, resulting in many receivables from the government units on its balance sheet. We expect Haixing Holding to receive ongoing government support given its position as the main entity for infrastructure construction and harbor-city industrial investment in Yancheng YSNA.

### **High investment needs and moderate asset liquidity**

Haixing Holding's current projects under construction include infrastructure construction projects, self-operated projects, and standard factories and industrial parks development. These projects guarantee the long-term sustainability of the Company's business. However, the investment cycle for commercial activities is lengthy, and cash collection for infrastructure construction is delayed. Considering the outstanding investment of approximately RMB14.3 billion in these projects, the Company will rely on external financing to bridge the funding gap, which may result in an increased debt burden.



**Exhibit 4. Key projects under construction and planning as of 30 June 2024**

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB billion)	(RMB billion)	(RMB billion)
<b>Projects Under Construction</b>				
Infrastructure Construction	4	12.1	4.1	8.0
Self-operated Projects	8	7.4	4.4	3.0
Standard Factories and Industrial Parks	4	4.2	3.8	0.4
<b>Project Under Planning</b>				
Infrastructure Construction	2	2.9	-	2.9
<b>Total</b>	<b>18</b>	<b>26.6</b>	<b>12.3</b>	<b>14.3</b>

Source: Company information, CCXAP research

In recent years, Haixing Holding's debt level has continued to grow. As of 30 June 2024, the Company's total debt increased to RMB26.5 billion from RMB19.3 billion as of the end of 2021. At the same time, the total capitalization ratio, measured by total debt to total capital, increased to 39.4% from 33.1% in 2021. The Company relied on external financing, mainly bank loans and bonds, to funding its business expansion over the last few years. Also, the Company had a moderate short-term debt burden with the short-term debt accounting for 23.0% of its total debt and the cash to short-term debt ratio was 0.6x. Given its high investment needs, we expect that the Company will face high capital expenditure pressure and its debt level will continue to increase over the next 12 to 18 months.

Besides, Haixing Holding's asset liquidity was moderate as it includes a significant allocation to receivables, investment properties and long-term equity investments with limited profitability. The Company's receivables are of a certain scale, mainly from project settlement with local SOEs and government units, which accounted for 20.0% of its total assets and formed a drain on the Company's fund. On top of that, the Company's investment properties were relatively high, accounting for around 38.6% of its total assets. The investment properties represent land use rights booked at fair value, partially leased as fishponds with moderate liquidity. The changes in the Company's fair value of land assets have a significant impact on its profitability which would be considered negative if highly fluctuated. In addition, the Company's long-term equity investments accounted for around 8.3% of its total assets, the majority of which comprise cross-shareholdings in regional SOEs with low liquidity.

#### **Access to diversified financing channels**

Haixing Holding's large investment needs could be supported by its diversified financing channels including banks, debt capital market and nonstandard financing. The Company maintains good relationships with various large domestic commercial banks such as Bank of Shanghai Co., Ltd. and Bank of Jiangsu Co., Ltd. As of 30 September 2024, it obtained total bank credit facilities of RMB18.9 billion with an available portion of RMB4.3 billion. The Company also has a track record of issuing different kinds of bond products such as PPNs, MTNs and corporate bonds. During the first three quarters of 2024, it issued four tranches of MTN and two tranches of corporate bonds, raising RMB3.0 billion in total. In addition, the Company had moderate exposure to non-standard at 12.7% of its total debt.

#### **Certain external guarantee associated with local SOEs**

Haixing Holding has provided guarantees to local SOEs which may increase its contingent liability. As of 31 December 2023, the total amount of external guarantees was RMB4.1 billion, accounting for around 9.8% of its net assets. The guaranteed units are primarily local SOEs in Yancheng City and the guarantee provided to Delong Nickel has expired as of mid-2024. Therefore, we believe that the credit risk of these guarantees is manageable.

## ESG Considerations

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

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

Haixing Holding'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.

## 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 Haixing Holding Group Co., Ltd.	Yancheng City Assets Investment Group Company Limited
Long-Term Credit Rating	A <sub>g</sub> -	A <sub>g</sub> -
Shareholder	Yancheng Municipal Government (100%)	Yancheng Municipal Government (100%)
Positioning	The largest platform of coastal resource integration and infrastructure construction in Yancheng YSNA	The largest infrastructure construction and asset management platform in Yancheng City
Total Assets (RMB billion)	71.7	138.1
Total Equity (RMB billion)	35.4	43.0
Total Debt/Total Capital (%)	36.9	71.5

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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