

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Jiangsu Donghe Investment Group Co., Ltd., with stable outlook.**

Hong Kong, 19 December 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB<sub>g</sub>- long-term credit rating to Jiangsu Donghe Investment Group Co., Ltd. (“Donghe Group” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of Donghe Group reflects Rudong County Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Rudong County Government’s capacity to provide support reflects Rudong County’s good economic strength and industrial development, ranking 32<sup>nd</sup> among the Top 100 Economic Counties in China in 2021, with a moderate fiscal balance ratio.

The rating also reflects the local government’s willingness to provide support, which is based on the fact that Company (1) is fully and directly owned by the Rudong County Government; (2) plays key roles in local infrastructure construction and industrial development; and (3) receives solid government support in the form of subsidies, capital injections or asset injections. However, the rating is constrained by Company’s (1) moderate debt management and weak asset liquidity; and (2) high level of contingent liabilities which, nevertheless, are mostly related to local stated-owned enterprises.

### **Corporate Profile**

Established in 2014, Donghe Group is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Rudong County, Nantong City. The Company has a high policy position and is responsible for the operation of state-owned assets, local infrastructure construction and industrial development. The Company is also engaged in some commercial activities such as property development and leasing, financial services, and energy businesses. As of 30 June 2022, Donghe Group was wholly owned and controlled by the Rudong County State-owned Assets Supervision and Administration Commission (“Rudong SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Important position as the key LIIFC in Rudong County.** Donghe Group is designated as one of the key LIIFCs in Rudong County according to the local government’s plan. It is directly controlled and supervised by Rudong SASAC. Donghe Group is established primarily for the purpose to consolidate and manage local state-owned enterprises (“SOEs”) in Rudong County. As of 30 June 2022, the Company’s total assets had increased to RMB54.0 billion, making it one of the largest LIIFCs in terms of total assets in Rudong County.

**Key public roles in local infrastructure construction and industrial development.** Donghe Group’s business scope of infrastructure construction mainly includes development zones such as the Coastal EDZ and Yangkou Port EDZ, as well as towns such as Bencha Town and Hekou

Town. It is the sole entity undertaking the development work and is responsible for the domestic water supply in the Coastal EDZ. As of 30 June 2022, the Company had completed a number of infrastructure construction projects including public rental housing, road building and upgrade projects, and tidal flat reclamation projects, which benefited the urbanization and economic development in Rudong County. Donghe Group is committed to local industrial development and has expanded its business segments to tourism, energy, and agriculture, which are pillar industries in Rudong County. With the development of the local economy and industry, the Company is expected to benefit from a better operating environment and continue to play an important role in the development of the local industry.

**Solid government support through capital injections, asset injections or subsidies.** Rudong County Government has a good track record of supporting the Company mainly through project repayments, financial subsidies, asset injection and equity injection. The Company is expected to continuously receive project repayments given its projects under construction and government-related receivables. With the further consolidation of local SOEs, we believe that Donghe Group will continue to receive support from the Rudong government in the form of asset or equity injections.

#### Credit Challenges

**Increased exposure to commercial activities.** Donghe Group also has an increased exposure in commercial activities such as property development, property leasing, financial services, and energy businesses. We expect the Company's exposure to such commercial activities to increase because of fast business expansion.

**Moderate debt management and weak asset liquidity.** Donghe Group has moderate debt management, with total debt growing rapidly from RMB15.4 billion at end-2019 to RMB19.5 billion at mid-2022, because of the large investment in local infrastructure construction and industrial development. The Company's asset liquidity was weak with large amount of government-related receivables and construction costs. In addition, the large amount of restricted cash made it difficult to cover the short-term debt.

**Large exposure to contingent liabilities.** Donghe Group had significant external guarantee exposures related to local SOEs. As of 30 June 2022, the Company recorded an external guarantee amount of RMB13.5 billion, accounting for 65.2% of its total equity (excluding perpetual bonds). Among them, the Company's subsidiary, Rudong Shengtai Technology Financing Guarantee Co., Ltd., provided around RMB916.6 million to private enterprises, which are considered higher contingent liabilities risks. Since the remaining guarantees were provided to other SOEs in Rudong County, the credit risk of the Company and other local SOEs might climb if one of the guaranteed entities suffers from credit issues.

#### Rating Outlook

The stable outlook on Donghe Group's rating reflects our expectation that the Rudong County Government's capacity to support the Company will be stable, and that the Company's

characteristics, such as its key roles in local infrastructure construction and industrial development, are expected to remain stable over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) Rudong County Government's capacity to provide support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as material decrease in external guarantees or improved debt management.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) Rudong County Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as material increase in commercial business risk, or deteriorated debt management.

### **Rating Methodology**

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

### **Regulatory Disclosures**

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