

CCXAP affirms Dezhou Deda City Construction Investment Operation Co., Ltd.'s long-term credit rating of BBB_g+, with stable outlook.

Hong Kong, 2 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Dezhou Deda City Construction Investment Operation Co., Ltd.’s (“Deda” or the “Company”) long-term credit rating of BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of Deda reflects (1) Dezhou Municipal Government’s strong capacity to support, and (2) the local government’s extremely high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Dezhou Municipal Government’s capacity to support reflects its status as the 9th prefecture-level city ranked by gross regional production (“GRP”) in Shandong Province, with its improving economic and fiscal strength and moderate debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important strategic position in Dezhou City; (2) good access to diversified funding; and (3) good track record of receiving government payments. However, the rating is constrained by the Company’s (1) medium risk exposure to commercial activities; and (2) increasing debt burden and leverage.

Corporate Profile

Deda, formerly known as Dezhou Defa City Construction Investment Co., Ltd. (“Defa”), was founded in October 2006 by the Dezhou Finance Bureau. In July 2009, Defa merged with the former Dezhou Deda City Construction Investment Operation Co., Ltd., and changed its name to Deda. As of 31 March 2023, the State-owned Assets Supervision and Administration Commission of Dezhou Municipal Government (“Dezhou SASAC”), the ultimate controlling shareholder of the Company, directly held 50% of the Company’s shares and indirectly held 41.67% via Dezhou Caijin Investment Holding Group Co., Ltd. (“Caijin”) and Dezhou Tianqu Construction Development Group Co., Ltd. (“Tianqu”); while Shandong Provincial Department of Finance held the remaining 8.33% via Shandong Caixin Assets Operation Co., Ltd. (“Caixin”). Deda is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Dezhou City. It has an important strategic position in Dezhou City and is primarily engaged in city construction, primary land development, and provision of utility services.

Rating Rationale

Credit Strengths

Important strategic position in Dezhou City. There are 5 major municipal LIIFCs in Dezhou City. As one of the major state-owned capital investment operation entities in Dezhou City, Deda primarily engages in infrastructure construction, primary land development, and the provision of utility services, which are strategically important to the Dezhou Municipal Government. As such, the Company’s strategic importance to Dezhou City is unlikely to change in the foreseeable future.

Good access to diversified funding. Deda has good access to financing channels, including bank loans and domestic bonds. As of the end of March 2023, the Company has obtained a total of RMB41.3 billion of bank credit, and the unused bank credit was RMB13.8 billion. From 2022 to March 2023, the Company raised a total of RMB3.4 billion in the domestic market.

Good track record of receiving government payments. Since its establishment, Deda has a proven track record of receiving government support in the form of equity transfer, capital injection, debt swap and operating subsidies. For example, in 2022 and the first quarter of 2023, the Company received government subsidies of RMB20.6 million and RMB6.0 million, respectively. We believe that, given the important position of Deda and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

Credit Challenges

Medium risk exposure to commercial activities. Deda's commercial activities mainly involve property development, property leasing, trading and self-operated healthcare project construction. We estimated Deda's commercial exposure is medium.

Increasing debt burden and leverage. Deda's debt leverage has grown rapidly in 2022 mainly driven by the transfer of a large package of road and bridge sector. The Company's total debt increased from RMB10.5 billion at end-2021 to RMB23.1 billion at end-2023Q1. Accordingly, its total capitalization ratio rose from 30.7% to 46.1% during the same period. We expect the Company's debt burden to further increase in the next 12 to 18 months, given its high future financing demands such as toll highway projects.

Rating Outlook

The stable outlook on Deda's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important strategic position of infrastructure construction and public utility services in Dezhou City.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support, such as increased strategic significance, lower exposure to risky commercial activities, and improved debt management and asset quality.

What could downgrade the rating?

The rating could be downgraded if (1) the local 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 strategic significance, or increase in exposure to commercial activities.



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

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Kelly Liang

Credit Analyst

+852-2860 7127

george_wang@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656