

CCXAP affirms Dalian Deta Holding Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Hong Kong, 4 August 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Dalian Deta Holding Co., Ltd.’s (“Deta” or the “Company”) long-term credit rating at BBB_g+, with stable outlook.

The BBB_g+ long-term credit rating of Deta reflects (1) Jinpu New Area Government’s very strong capacity to support, and (2) the local government’s very high willingness to support, based on our assessment of the Company’s characteristics. Our assessment of Jinpu New Area Government’s capacity to support reflects Jinpu New Area’s status as the tenth state-level new area in China, with good economic strength and fiscal metrics, but constrained by its relatively weak debt profile.

The rating also reflects the local government’s willingness to provide support, which is based the Company’s (1) high strategic importance as a key utility service provider and infrastructure construction entity in Jinpu New Area; (2) good track record of receiving government payments; and (3) good access to funding. However, the Company’s rating is constrained by (1) medium exposure to commercial activities; (2) high debt growth with an increasing debt leverage; and (3) weakened liquidity profile.

Corporate Profile

Deta was established in 2004 by the Administrative Committee of Dalian Economic and Technological Development Zone (“Dalian ETDZ”). In 2016, Dalian ETDZ became one of the functional districts of the Jinpu New Area, and hence, the ownership of Deta was transferred to the Administrative Committee of Dalian Jinpu New Area. At the same time, the Company’s businesses expended to the entire area of Jinpu New Area. In 2020, the ownership of Deta was further transferred to Dalian Jinpu New Area Industry Holding Group Co., Ltd., (“JNIH”) which is wholly owned by Dalian Jinpu New Area State-owned Asset Management Bureau. As of 31 March 2023, Dalian Jinpu New Area Industry Holdings Group Co., Ltd. held 100% shares of Deta, and the Administrative Committee of Dalian Jinpu New Area was the Company’s ultimate controller.

Deta is the key local infrastructure investment and financing company (“LIIFC”) in Jinpu New Area, which is strategically important in providing utility services, such as gas, heating, water, and sewage treatment in the Area. The Company also engages in urban renewal, property development, leasing, city maintenance, and trading businesses.

Rating Rationale

Credit Strengths

High strategic importance as a key utility service provider and infrastructure construction entity in Jinpu New Area. Deta is a leading LIIFC in the local development of Jinpu New Area and plays a key role in the public welfare of the residents in Jinpu New Area

by providing integrate utility services in heat supply, gas and LNG supply, water supply, and sewage treatment. Also, the Company is responsible for the infrastructure construction through different construction models, supporting the continuous urban renewal. Overall, Deta's utility services have high stability and are unlikely to be replaced in the foreseeable future.

Good track record of receiving government payments. Deta has received ongoing cash payments from the local government in the form of capital injection and subsidies which improves its financial strength and business profile. Specifically, the Company continuously received increasing financial subsidies from the government with total amount of RMB883.0 million in 2022, as compared to that of RMB166.0 million in 2021. We expect that Deta will continue to receive support from the local government in times of need, given its strategic importance to the Jinpu New Area.

Good access to funding. Deta has good access to diversified funding and mainly in bank loans and bonds issuance, which partially mitigates its liquidity risk. Meanwhile, the Company had total bank facilities of RMB42.8 billion, with an unutilized portion of RMB24.0 billion. The Company also has access to financing from the debt capital markets, including onshore and offshore debt capital markets.

Credit Challenges

Medium exposure to commercial activities. Deta also engages in commercial activities, such as property development, property leasing, city maintenance, and trading businesses. As of 31 December 2022, the assets of commercial businesses accounted for less than 20% of total assets, and we considered the exposure to be medium. Most of these activities can generate supplementary income for the Company, but are subject to related industry volatility and financial risk.

High debt growth with an increasing debt leverage. With the expansion of its business and continued investment in construction projects, Deta maintained relatively fast debt growth. The Company's total debt increased from RMB15.2 billion at the end of 2021 to RMB19.1 billion as of 31 March 2023. The total capitalization ratio also increased from 42.7% to 47.1% over the same period. We expect Deta's debt leverage to moderately increase given the large capital expenditure requirements of its urban renewal projects.

Weakened liquidity profile. Deta showed a weakened liquidity profile along with its increase in debt burden. As of 31 March 2023, the Company held cash reserves of RMB3.8 billion, representing 0.7x of its short-term debt, compared with 0.9x at end-2021.

Rating Outlook

The stable outlook on Deta'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 provision of utility services in Jinpu New Area.

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 increase in its strategic significance and improve in debt management.

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 decrease in its strategic significance; decrease in government payments; or materially 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

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