

CCXAP assigns first time long-term credit rating of BBB_g- to Dongying Dongying District Municipal Holding Group Co., Ltd., with stable outlook.

Hong Kong, 11 October 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB_g- to Dongying Dongying District Municipal Holding Group Co., Ltd. (“DYMH” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of DYMH reflects the local government’s (1) relatively strong capacity to provide support; and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of the local government’s capacity to support reflects Dongying District’s increasing economic strength and moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in local infrastructure construction and public services; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt burden driven by the continuous investment in construction projects; (2) weak liquidity profile with limited bank standby facilities; and (3) medium contingent liabilities risk caused by mutual guarantee for local state-owned enterprises (“SOEs”).

Corporate Profile

Founded in 2018, DYMH is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Dongying District. The Company shoulders the major responsibility of carrying out local public activities, including infrastructure construction, heat supply, and municipal sanitation. It also engages in commercial activities such as leasing and engineering construction. As of 31 December 2022, DYMH was wholly owned and controlled by the State-owned Assets Management Service Center of Dongying District, Dongying City.

Rating Rationale

Credit Strengths

Important role in local infrastructure construction and public services. There are 3 major LIIFCs in Dongying District under the control of Dongying District Government. Each of them has a clear position under the government’s planning. Among them, DYMH is the key entity in infrastructure construction and provision of public services in Dongying District, such as heat supply, road construction and improvement, river management, and municipal sanitation.

Good track record of receiving government support. DYMH has a good track record of receiving support from Dongying District Government in terms of subsidies, capital injection, special funds, and equity transfer. In 2022, the local government allocated fiscal funds with RMB507 million to DYMH, which enhanced its capital strength. Given the Company’s important role in Dongying District, we believe that DYMH will continue to receive various kinds of support from the local government.

Credit Challenges

Increasing debt burden driven by the continuous investment in construction projects.

DYMH's total debt increased from RMB1.2 billion as of 31 December 2020 to RMB3.4 billion as of 31 December 2022 due to the continuous investment in construction projects in Dongying District. Meanwhile, DYMH's capitalization ratio increased from 18.4% to 37.7%. Due to the large uninvested amount of construction projects and maturing debt, we estimate the Company would continue to rely on external financing such as bank loans and its total debt would further increase over the next 12-18 months.

Weak liquidity profile with limited bank standby facilities.

DYMH's access to funding is fair. Bank loans accounts for the majority of the Company's total debt. The Company showed low standby liquidity. As of 30 June 2023, the Company had obtained total bank facilities of RMB3.5 billion, but the available bank facilities were limited. Moreover, the Company's bank loans were concentrated on regional banks, such as Dongying Bank. Loans from Dongying Bank accounted for around 31% of total debt, which may bring higher financing costs and uncertainties in future refinancing due to the concentration on regional banks.

Medium contingent liability risk caused by mutual guarantee for local SOEs.

DYMH bears moderate contingent risk resulting from large external guarantees. As of 31 December 2022, the Company's external guarantees amounted to RMB2.5 billion, accounting for 44% of its net assets, and were provided to SOEs. The practice of mutual guarantees among local SOEs is common phenomenon in Dongying District. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks. Considering the important role of state-owned enterprises in Dongying District, we expect that the local government would provide support when necessary.

Rating Outlook

The stable outlook on DYMH's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's characteristics such as its important role in the infrastructure construction and public services of Dongying District will remain unchanged over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Dongying District Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as improved financing ability.

What could downgrade the rating?

The rating could be downgraded if (1) the Dongying District 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, deteriorated financing ability, or decreased government payments.



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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