CCXAP affirms Dongying District Municipal Holding Group Co., Ltd.'s long-term credit rating at BBB$_g$-, with stable outlook.

Hong Kong, 14 September, 2026 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Dongying District Municipal Holding Group Co., Ltd. ("DYMH" or the "Company") at BBB$_g$-, with stable outlook.

The BBB$_g$- long-term credit rating of DYMH reflects the Dongying District Government's (1) strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company's characteristics. Our assessment of Dongying District Government's capacity to provide support reflects Dongying District's moderate economic strength and fiscal metrics.

The rating also reflects the local government's willingness to provide support, based on the Company's (1) important role in local infrastructure construction and public services; (2) good track record of receiving government support; and (3) diversified access to funding. However, the rating is constrained by the Company's (1) increasing exposure to commercial activities; (2) increasing debt burden and relatively weak asset liquidity; and (3) high contingent liabilities risk resulted from mutual guarantees for local state-owned enterprises ("SOEs").

Corporate Profile

Founded in 2018, DYMH is one of the key local infrastructure investment and financing companies 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 self-operated project construction and leasing. As of 31 December 2025, 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. DYMH is the key entity in infrastructure construction and provision of public services in Dongying District, mainly responsible for heat supply, renovation of old urban residential communities, road construction and improvement, river management, and municipal sanitation. As of 31 December 2025, there were 4 projects under construction, with a total investment of RMB976.0 million and an uninvested amount of RMB11.0 million. However, the settlement and collection on the Company's agency construction projects have been delayed, which could constrain asset liquidity. The Company is also the dominant regional heat supplier in Dongying's urban district, with 317 kilometers of pipelines serving around 212.4 thousand residential users and 10.3 thousand non-resident users as of end-2025. The Company's heating capacity and users have increased steadily in recent years, driving continuous revenue growth. DYMH is also in charge of the municipal sanitation business with municipal utility operating license.

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 2025, the Company received fiscal subsidies of RMB10.8 million, mainly supporting its heat supply business and municipal sanitation services. 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.

Diversified access to funding. DYMH has diversified funding channels. The Company established long-term borrowing relationship with policy banks and large domestic banks such as Industrial and Commercial Bank of China Limited and Agricultural Development Bank of China. Apart from bank financing, the Company also gained access into both onshore and offshore bond markets. As of end-2025, the Company had total bank credit facilities of RMB5.3 billion, of which approximately RMB588.0 million remained unused, indicating limited standby liquidity. Nevertheless, from June 2025 to March 2026, the Company successfully issued 4 tranches of domestic corporate bonds through guarantee, with coupon rates ranging from 2.4% to 2.6%. It also has relatively low exposure to non-standard financing, such as finance lease, which accounted for around 4.0% of its total debt.

Credit Challenges

Increasing exposure to commercial activities. Apart from the public policy activities, DYMH also engages in commercial activities such as leasing and self-operated projects development. Given that the proportion of commercial assets to total assets was less than 30%, we estimate the DYMH's exposure to commercial activities is moderate. The Company has 72,900 square meters of leasable properties, of which 47.6 thousand square meters were leased as of end-2025, generating modest rental income. The overall profitability of the leasing business has declined in recent years, mainly due to the transfer of rainwater and sewage pipeline assets. In addition, the Company has 3 major self-operated projects under construction in Dongying District, with total planned investment of RMB6.6 billion, of which RMB3.7 billion remained to be invested. These projects are primarily hospitals, heating pipelines, and cultural tourism facilities, the construction of which has increased the Company's risk exposure compared with the previous year.

Increasing debt burden and relatively weak asset liquidity. DYMH's total debt increased from RMB4.1 billion at the end of 2024 to RMB7.1 billion as of 31 December 2025, due to the continuous investment in self-operated construction projects in Dongying District. Meanwhile, DYMH's debt leverage ratio also went up over the same period, with total capitalization ratio (total debt/total capital) increased from 44.6% to 59.8%. Moreover, the Company's liquidity profile is relatively weak. As of 31 December 2025, inventories, other receivables, and fixed asset accounted for approximately 76.9% of total assets. The primary components of these receivables are balances with the regional SOEs and receivables due from government entities, which tie up a certain amount of the Company's capital. In addition, the Company's restricted assets amounted to RMB2.4 billion as of end-2025, accounting for 18.3% of its total assets.

High contingent liability risk. DYMH bears high contingent risk resulting from large external guarantees. As of 31 March 2026, the Company's external guarantees amounted to RMB7.1 billion, accounting for 150.0% of its net assets. The overall guarantee ratio stands at a high level. All the external guarantees were provided to SOEs. The practice of mutual guarantees among local SOEs is a common phenomenon in Dongying District. In case a credit event occurs, the Company may face significant contingent liability risks and cross-default risks. Considering the important role of SOEs 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 local 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 lower exposure to risky commercial activities or enhanced 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 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).

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