

Credit Opinion

24 November 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Dongtai State-owned Assets Operation Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Dongtai State-owned Assets Operation Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Dongtai State-owned Assets Operation Group Co., Ltd. (“DTAO” or the “Company”) reflects (1) Dongtai City Government’s strong capacity to provide support; and (2) the local government’s very high willingness to provide support, based on our assessment of the Company’s characteristics.

Our assessment of Dongtai City Government’s capacity to provide support reflects Dongtai City’s status as one of the CCID Top 100 Counties in China. Its economic and fiscal strength ranks top among all districts and counties in Yancheng City with good growth momentum.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as an important entity for project construction and operation of state-owned assets in Dongtai City; (2) important role in the development of Dongtai Coastal Economic Zone (“Dongtai CAZ”) with sufficient project reverses; and (3) good track record of receiving government support.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities; (2) moderate debt management and moderate asset liquidity; and (3) medium level of contingent risk.

The stable outlook on DTAO’s rating reflects our expectation that Dongtai City Government’s capacity to provide support will remain stable, and the Company will maintain its important position in Dongtai City over the next 12-18 months.

Rating Drivers

- Position as an important entity for project construction and operation of state-owned assets in Dongtai City
- Important role in the development of Dongtai CAZ with sufficient project reverse
- Medium exposure to commercial activities
- Good track record of receiving government support
- Moderate debt management and moderate asset liquidity
- Access to multiple funding channels
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Dongtai City Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved policy importance and reduction in exposure to commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Dongtai City Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced policy significance, significantly increased exposure to risky commercial activities or a deterioration in its financing ability.

Key Indicators

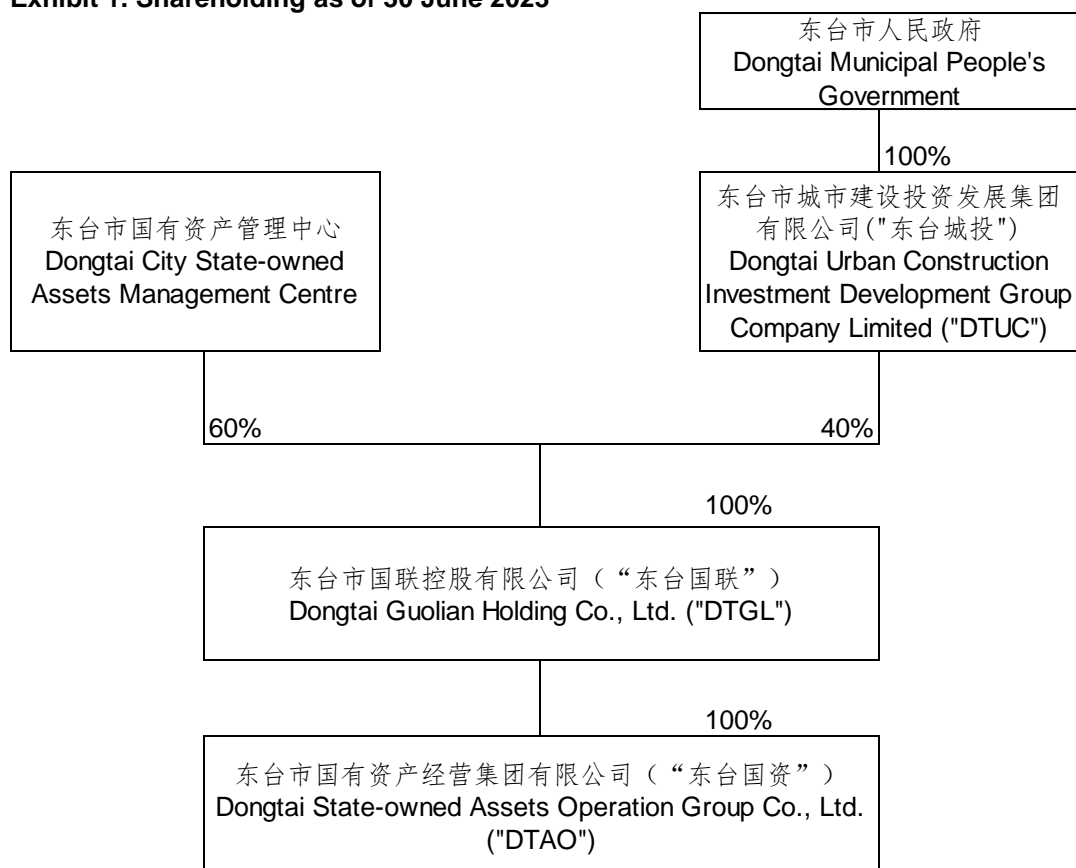
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	27.4	30.1	36.8	38.3
Total Equity (RMB billion)	18.7	18.9	22.5	22.5
Total Revenue (RMB billion)	1.0	1.2	1.1	0.7
Total Debt/Total Capital (%)	22.4	29.3	34.4	37.1

All ratios and figures are calculated using CCXAP's adjustments.

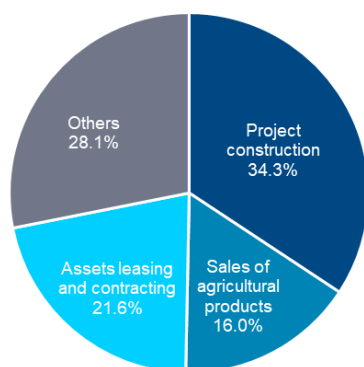
Source: Company information, CCXAP research

Corporate Profile

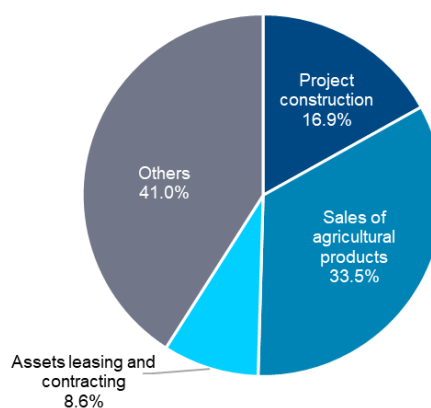
Founded in 2008, DTAO is an important local infrastructure investment and financing company ("LIIFC") in Dongtai City, which is responsible for project construction in Dongtai City especially in Dongtai CAZ and Huanghai National Forest Park. DTAO has a diversified business scope including sales of agricultural products, assets leasing and contracting and tourist area operations. As of 30 June 2023, the Company was indirectly held by the Dongtai City State-owned Assets Management Centre through Dongtai Guolian Holding Co., Ltd. ("DTGL").

Exhibit 1. Shareholding as of 30 June 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2022**Rating Considerations****Government's Capacity to Provide Support**

We believe that the Dongtai City Government has a strong capacity to provide support, given its status as one of the CCID Top 100 Counties in China. Its economic and fiscal strength rank top among all districts and counties in Yancheng City with good growth trend.

Jiangsu Province is one of the leading developed provinces in China. It is home to many of the world's leading electronic equipment, chemical, and textile enterprises, and is the second largest province in China by gross

regional product (“GRP”), after Guangdong Province. In 2022, Jiangsu Province's total GRP amounted to RMB12.3 trillion, a year-over-year (“YoY”) increase of 2.8%. The per capita GRP of the same period was RMB144,390, ranking first among all provinces in the country.

Yancheng City is a prefecture-level city in Jiangsu Province with a good economic base. Its main industries include auto parts, machinery, textiles and chemicals. Yancheng City is undergoing economic transition and developing emerging industries such as high-tech electronics manufacturing, big data, new energy and intelligent manufacturing, which will help support sustainable economic growth in the long term. In 2022, Yancheng City recorded a GRP of RMB708.0 billion, ranking 8th among 13 prefecture-level cities in Jiangsu Province. At the same time, Yancheng Municipal Government reported general budget revenue of RMB45.3 billion, of which tax revenue accounted for about 65.6%. However, its fiscal balance ratio (calculated as general budget revenue over general budget expenditure) was at a moderate level, with an average ratio of around 41.5% over the past three years. At the end of 2022, the local government's outstanding debt amounted to RMB153.5 billion, accounting for around 21.7% of GRP. Yancheng's GRP in the first half of 2023 was RMB341.3 billion, with a growth rate of 6.1% compared to the same period in 2022.

Exhibit 4. Key economic and fiscal indicators of Yancheng City

	2020FY	2021FY	2022FY
GRP (RMB billion)	595.3	661.7	708.0
GRP Growth (%)	3.5	7.7	4.6
General Budgetary Revenue (RMB billion)	40.0	45.1	45.3
General Budgetary Expenditure (RMB billion)	97.4	105.3	111.8
Local Government Debt (RMB billion)	137.0	147.3	153.5

Source: Yancheng Municipal Government, CCXAP research

Dongtai City is a county-level city under the administration of Yancheng City. Dongtai City has good economic strength with GRP of over RMB100 billion and fiscal strength, ranking the top among all districts and counties in Yancheng City. It was also one of the Top 100 counties in China released by CCID Consulting County Economic Research Center in 2022. The leading industries in Dongtai City include information technology, new energy, high-end equipment, new materials and healthcare. From 2020 to 2022, Dongtai City's economic strength improved steadily with GRP increasing from RMB89.3 billion to RMB105.1 billion. Affected by the COVID-19 pandemic and the government's tax rebate policy in 2022, Dongtai City Government's tax revenue decreased slightly to RMB4.4 billion from RMB4.7 billion in 2021. The fiscal balance ratio of Dongtai City government was considered to be at a moderate level, with an average ratio of 45.5% over the past three years. It reflects a relatively high reliance on fiscal support from higher-level governments and revenue from government-managed funds to balance its fiscal budget. Dongtai City Government's outstanding direct debt amounted to RMB17.8 billion at the end of 2022, accounting for about 17.0% of GRP. In the first half of 2023, Dongtai City's GRP increased by 7.4% to RMB55.8 billion compared to the same period in 2022.

Exhibit 5. Key economic and fiscal indicators of Dongtai City

	2020FY	2021FY	2022FY
GRP (RMB billion)	89.3	98.6	105.1
GRP Growth (%)	5.8	8.9	4.7
General Budgetary Revenue (RMB billion)	5.5	6.0	6.1
General Budgetary Expenditure (RMB billion)	11.8	12.8	14.0
Local Government Debt (RMB billion)	14.4	16.4	17.8

Source: Dongtai City Government, CCXAP research

Dongtai CAZ is located in the eastern coastal area of Dongtai City, Jiangsu Province. It focuses on the development of new energy, healthcare and eco-tourism industries, aiming to build a sub-center of Dongtai City. The Jiangsu Huanghai National Forest Park is one of the first batch of national forest recreation bases in Dongtai CAZ. It is the largest man-made ecological forest garden in East China, which bringing rich tourism resources to Dongtai CAZ.

Government's Willingness to Provide Support**Position as an important entity for project construction and operation of state-owned assets in Dongtai City**

There are four major LIIFCs in Dongtai City. Each of these companies has a clear position in the local government's planning. DTAO is positioned as an important entity for project construction and operation of state-owned assets in Dongtai City. In 2022, all the shares of DTAO and 60% of the shares of Dongtai Chengxing Investment Development Co., Ltd. were transferred to DTGL, which was ultimately controlled by Dongtai City State-owned Assets Management Centre. However, the position and ultimate ownership of the Company remained unchanged. The Company manages state-owned assets such as public housing, land and granaries. Given its important position and the state assets it manages, we believe the Company is unlikely to be replaced in the foreseeable future.

Important role in the development of Dongtai CAZ with sufficient project reserves

DTAO is one of the core LIIFCs in Dongtai City, responsible for major project construction tasks in Dongtai CAZ, including the construction of road networks, public facilities and water supply facilities. DTAO is mainly engaged in project construction in Dongtai City through the agent construction model. Under the agent construction model, the Company signs a construction agreement with the related parties before each project is developed, and the related parties pay the total cost plus a few percentage surcharges after examining the projects. As of 30 June 2023, the Company had a total of 29 projects under construction, including schools, roads and science and technology buildings, with a total investment of RMB5.8 billion and an outstanding amount of RMB3.3 billion. Meanwhile, the Company has 11 proposed projects with a total planned investment of RMB4.7 billion, including the planning of industrial parks, hospitals and other public service facilities. The Company has sufficient project reserves to support the good stability and sustainability of the project construction business.

Medium exposure to commercial activities

DTAO is also engaged in diversified commercial activities such as sales of agricultural products, asset leasing contracting, and tourist area operations. Based on our assessment of its assets, the Company had medium exposure to commercial activities, which accounted for less than 30% of its total assets.

The Company's trading agricultural products mainly include tree seedlings, silkworm eggs and grains, of which

grains are the primary product. The Company purchases grains from farmers and then resells them in the market. It also sells a small amount of its self-produced grains. However, it involves the market with full competition and the grain prices are regulated by the government resulting in low bargaining power and low profit. The performance of the business also fluctuates driven by the market conditions. For example, in 2022, its revenue from the sales of agricultural products decreased by 17.4% to RMB240.5 million mainly due to the significant decline in revenue from grain sales. The grain sales volume decreased to 72.2 thousand tons in 2022, and the revenue decreased by 18.7% to RMB222.0 million YoY.

DTAO's assets leasing and contracting business mainly involves leasing out self-owned buildings and contracting out the use rights of mudflat lands and fishponds to farmers. The lease is subject to annual renewal and is therefore sensitive to market conditions. The revenue from the housing rental and land contracting business increased significantly in 2022, by more than 30.0% YoY, which is mainly due to the allocation of 92 sea area use rights to the Company by the government in 2022.

The Company is engaged in the operation of Jiangsu Huanghai National Forest Park, a national forest park located in Dongtai CAZ. It realizes the revenue through ticket sales and operating income from facilities such as advertising space, parking lots and forest plots. In 2022, the Company achieved revenue of RMB92.3 million from the tourist sector. The return period of such business is long and the Company will plan to invest more in the future to improve and maintain the infrastructure, so that brings more uncertainties to the Company.

Good track record of receiving government support

DTAO has a good track record of receiving support from the local government in various forms such as capital injections, asset injections and government subsidies to support its operation. The Company has received stable government subsidies in recent years. From 2020 to the first half of 2023, the Company has received government subsidies totaling RMB1.1 billion. The government also injected assets into the Company to enhance its capital strength. In 2022, the government transferred 92 sea use rights and equity shares to DTAO with a total amount of RMB2.6 billion. In the same year, the Company also received a capital injection of RMB840.0 million in cash from DTGL. We expect that the Company will maintain its strategically important position in project construction in Dongtai City, and the local government will continue to support its development when necessary.

Moderate debt management and moderate asset liquidity

DTAO's debt burden increased fast mainly due to large investment in construction projects. As of 30 June 2023, DTAO's total debt grew to RMB12.7 billion, more than double the level of RMB5.4 billion in 2020. Benefiting from the support provided by the local government, the debt leverage, measured by the total capitalization ratio, was relatively low at 37.1% as of 30 June 2023, which is below most of the peers we rated. However, the Company has a certain short-term debt burden with the short-term debt accounting for 45.7% of total debt and the cash to short-term debt ratio of 0.6x as of the first half of 2023. Considering the ongoing investment of the Company, we expect that it still needs to rely on external financings to meet its capital expenditure needs.

DTAO's asset liquidity is considered moderate and some assets are pledged for borrowings, which decreases the Company's financial flexibility. As of 30 June 2023, the Company's total restricted assets amount was RMB4.9 billion, accounting for 21.8% of net assets mostly due to borrowings. Accounts receivable and other receivables accounted for a relatively high proportion, totaling over 26.2% of total assets over the same period. At the same time, the intangible assets accounted for 27.0% of total assets, which are mainly agricultural land, mudflat assets and sea use rights with low liquidity.

Access to multiple funding channels

DTAO has access to multiple funding sources including bank loans, domestic and offshore capital markets, and financial companies. The Company maintains long-term close relationships with different large domestic banks including large state-owned commercial banks and joint-stock commercial banks. As of 30 September 2023, the Company had total bank facilities of RMB11.0 billion, with the available portion being RMB3.8 billion. The Company also has issued different financial products in the onshore and offshore bond markets. In 2023, the Company issued a one-year private placement bond with a total amount of RMB420.0 million. In December 2022, the Company also issued a tranche of offshore RMB bonds to raise a total amount of RMB310.0 million. However, the Company had certain exposure to non-standard financing products, which accounted for less than 15% of total debt as of 30 June 2023. Such funding is mainly short-term and has higher costs, heightening the refinancing risks for the Company.

Medium level of contingent risk

DTAO's credit profile is constrained by its external guarantees, which could potentially increase its repayment obligations. As of June 30, 2023, the Company had external guarantees of RMB9.0 billion, accounting for around 40.1% of its net assets, which exposes the Company to substantial contingent liabilities. The guarantees are provided to other state-owned enterprises but no counter-guarantee measures were in place. In case a credit event occurs, the Company may face large-scale cross-effects risks, which could negatively impact its credit quality.

ESG Considerations

DTAO faces environmental risks because it has undertaken construction business. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

DTAO bears social risks as it implements public policy initiatives by building public infrastructure in Dongtai City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

DTAO's governance considerations are also material as the Company is subject to oversight by the Dongtai City Government and must meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural Consideration

DTAO's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important position in Dongtai City, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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