

## Credit Opinion

26 November 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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

### Surveillance credit rating report

**CCXAP affirms Dongtai State-owned Assets Operation Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

### Summary

The BBB<sub>g</sub> 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 and 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 the investment 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 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 the investment and operation of state-owned assets in Dongtai City
- Important role in project construction and public services in Dongtai CAZ
- Medium exposure to commercial activities
- Good track record of receiving government support
- Moderate debt management and asset liquidity
- 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 regional importance, improved debt management and reduced 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 regional significance, weakened financing ability or material deterioration in contingent risks.

## Key Indicators

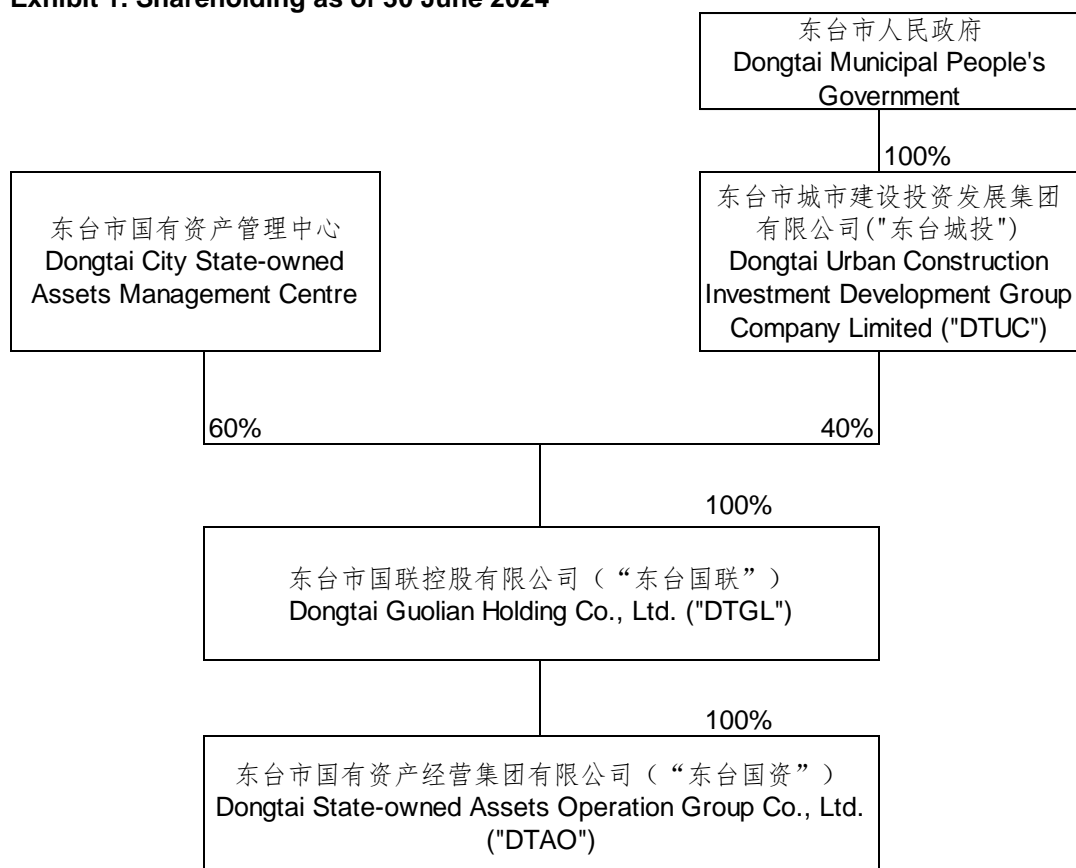
	2021FY	2022FY	2023FY	2024H1
Total Asset (RMB billion)	30.1	36.8	37.7	40.3
Total Equity (RMB billion)	18.9	22.5	22.2	22.4
Total Revenue (RMB billion)	1.2	1.1	1.4	0.5
Total Debt/Total Capital (%)	29.3	34.4	34.6	38.1

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

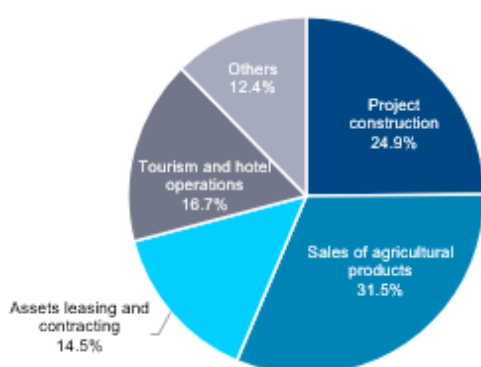
Source: Company information, CCXAP research

## Corporate Profile

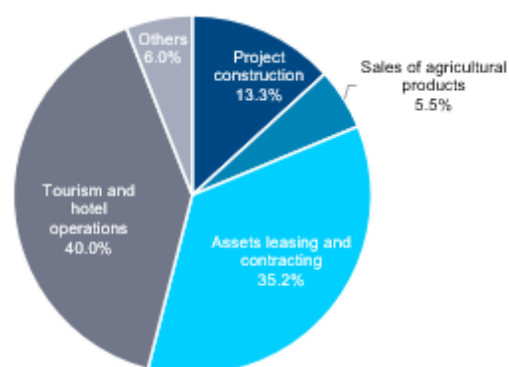
Founded in 2008, DTAO is an important local infrastructure investment and financing company ("LIIFC") in Dongtai City, which is responsible for the investment and operation of state-owned assets in Dongtai City, especially in Dongtai CAZ and Huanghai National Forest Park. DTAO has a diversified business scope including sales of agricultural products, assets leasing and contracting, tourism operations and hotel operations. As of 30 June 2024, the Company was indirectly held and ultimately controlled by the Dongtai City State-owned Assets Management Centre through Dongtai Guolian Holding Co., Ltd. ("DTGL").

**Exhibit 1. Shareholding as of 30 June 2024**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company information, CCXAP research

**Exhibit 3. Gross profit structure in 2023****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 ranks top among all districts and counties in Yancheng City with a good growth trend.

Jiangsu Province is one of the leading and well-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 2023, Jiangsu Province’s GRP amounted to RMB12.8 trillion, growing by 5.8% year-over-year (“YoY”). The GRP per capita was RMB150,487 for the same period, which was the highest one among all provinces in China. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY.

Yancheng City is a prefecture-level city in Jiangsu Province, with a good economic foundation. Based on its advantageous traditional industries including autos, textiles, steel, and chemical industries, Yancheng City is undergoing an economic transition and is developing emerging industries such as new energy vehicles and core components, new energy, new generation information technology, new materials, big health and digital economy and ocean economy industries, which help support sustainable economic growth in the long run. In 2023, Yancheng City achieved a GRP of RMB740.4 billion with a 5.9% YoY growth rate, ranking 9th among 13 municipals in Jiangsu Province; and in the first nine months of 2024, the GRP of Yancheng City amounted to RMB553.2 billion, with a YoY growth rate of 5.4%. The general budgetary revenue increased annually on the back of steady economic growth and optimized upgrading of the industrial structure. In 2023, the Yancheng Municipal Government reported a general budgetary revenue of RMB48.3 billion, of which tax income accounted for around 70.7%. As the decline in the VAT credit refund in 2023, the proportion of tax revenue rebounded. However, the fiscal balance ratio (calculated by general budgetary revenue over general budgetary expenditure) remained moderate, with a 3-year average ratio of 41.2%. As of the end of 2023, the local government’s outstanding debt increased to RMB165.5 billion, accounting for around 22.4% of GRP.

#### **Exhibit 4. Key economic and fiscal indicators of Yancheng City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	661.7	708.0	740.4
GRP Growth (%)	7.7	4.6	5.9
General Budgetary Revenue (RMB billion)	45.1	45.3	48.3
General Budgetary Expenditure (RMB billion)	105.3	111.8	122.8
Local Government Debt (RMB billion)	147.3	153.5	165.5

Source: Yancheng Municipal Government, CCXAP research

Dongtai City is a county-level city under the administration of Yancheng City. Dongtai City has good economic and fiscal strength with over RMB100 billion GRP which ranks the top among all districts and counties in Yancheng City. Dongtai City ranked 34<sup>th</sup> among the Top 100 counties in China released by CCID Consulting County Economic Research Center in 2024. The leading industries in Dongtai City include information technology, new energy, high-end equipment, new materials and healthcare. From 2021 to 2023, Dongtai City’s economic strength improved steadily with GRP increasing from RMB98.6 billion to RMB111.8 billion. In the first nine months of 2024, Dongtai City achieved a GRP of RMB89.8 billion with a 5.9% YoY growth rate. In 2023, Dongtai City reported that the general budgetary revenue increased to RMB6.5 billion from RMB6.1 billion in 2022. The fiscal balance ratio of the Dongtai City government was considered moderate with an average ratio of 44.6% over the past three years. It reflects a relatively high reliance on fiscal support from higher-level governments and revenue from government funds to balance its fiscal budget. Dongtai City Government’s outstanding direct debt increased to RMB19.6 billion at the end of 2023, accounting for about 17.5% of its GRP.

**Exhibit 5. Key economic and fiscal indicators of Dongtai City**

	2021FY	2022FY	2023FY
GRP (RMB billion)	98.6	105.1	111.8
GRP Growth (%)	8.9	4.7	7.0
General Budgetary Revenue (RMB billion)	6.0	6.1	6.5
General Budgetary Expenditure (RMB billion)	12.8	14.0	15.0
Local Government Debt (RMB billion)	16.4	17.8	19.6

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 the main entity for the investment and operation of state-owned assets in Dongtai City**

There are four major LIIFCs in Dongtai City. DTAO is positioned as the main entity for the investment and operation of state-owned assets in Dongtai City, especially in Dongtai CAZ. The other LIIFCs' main business scopes are the urban area of Dongtai City, Dongtai Economic Development Zone, Dongtai High-tech Industrial Development Zone, respectively. Each of these companies has a clear position in the local government's planning. 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 important 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 construction agreements with the related parties and the related parties will pay the total cost plus a markup after examining the projects. The Company has completed a number of public projects including road construction, landscaping projects, and water pipeline construction projects. As of the end of 2023, the Company had 7 major projects under construction, including schools, roads, tourism facilities and urban upgrading works, with a total investment of RMB4.5 billion and an outstanding amount of RMB3.3 billion. Meanwhile, the Company had 4 proposed projects with a total planned investment of RMB682 million, mainly construction projects related to the development of the agricultural sector. The Company has relatively 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 and contracting, and tourism and hotel 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's grain trading business primarily operates in a distribution model whereby it purchases wheat, rice, corn and other crops from farmers, pays in cash on the day of purchase and sells them upon receipt of sales payments from downstream customers. In addition, the grain trading business also includes the sale of a small amount of the Company's self-grown grain. 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 and the related government policy. In 2023, its revenue from the sales of agricultural products increased to RMB426 million from RMB240.5 million in 2022 mainly due to the significant increase in grain sales volume, but the gross margin declined to 3.9%.

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 assets leasing and land contracting business has increased by 9.9% YoY to RMB196.6 million, which is mainly due to an increase in leasable lands transferring from the local government in 2023.

The Company is engaged in the tourism and hotel operation mainly through the operation of five hotels including the Dongtai Guest House and 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 hotel operation, advertising space, parking lots and forest plots. In 2023, the Company achieved revenue of RMB226 million from the tourist sector, a significant increase of 45.4% YoY. However, the Company's tourism revenue was subject to volatility in tourism market conditions, which showed a YoY decline in the first half of 2024. Also, the return period of such business is long and the Company will plan to invest more in the future to improve and maintain the tourism facilities, so that brings more uncertainties to the Company.

DTAO has some self-operated projects that mainly focus on health and wellness, agriculture and new energy industries, and is expected to balance the initial investment of the projects through rental and service sales income. As of 30 June 2024, the Company had 2 major self-operated projects under construction and 7 major projects under planning, with a total investment of RMB8.2 billion and an invested amount of RMB112.0 million. Considering its current and future high investment in self-operated construction projects, the Company may face relatively high capital expenditure burden and bear the risk of operating uncertainties.

### **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 2023 to the first half of 2024, the Company has received government subsidies totaling RMB503.1 million. In 2023, the government transferred 16 rights of the use of sea area to DTAO with a total amount of RMB241.6 million. 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 asset liquidity**

DTAO's debt burden increased fast owing to its debt-driven business expansion and large investment in construction projects over the past years. As of 30 June 2024, the Company's total debt slightly increased to RMB13.8 billion from RMB13.3 billion as of mid-2023. At the same time, the total capitalization ratio, measured by total debt to total capital, remained at a reasonable level of 38.1%. However, the Company had a relatively

high short-term debt burden with the short-term debt accounting for 39.6% of the total debt and the cash to short-term debt ratio was at 0.6x as of the first half of 2024. The Company plans to invest in local project construction and self-operated projects with an outstanding amount of around RMB12.2 billion. Considering the external financing needs from its construction projects, we expect the Company's debt level will continue to increase in the next 12 to 18 months.

DTAO's asset liquidity is considered moderate and some assets are pledged for borrowings, which reduces the Company's financial flexibility. As of 30 June 2024, the Company's total restricted assets amount was RMB4.7 billion, accounting for 11.7% of total assets mostly due to borrowings. The Company's accounts receivable and other receivables accounted for a relatively high proportion, totaling over 26.3% of total assets as of 30 June 2024. Other receivables are mainly from government units and local SOEs and have a relatively low risk of default, but the timing of repayment is uncertain, which has formed a drain on the Company's working capital. At the same time, the intangible assets accounted for 25.7% of total assets, which are mainly agricultural land, mudflat assets, and rights to use the sea area, with low liquidity.

### **Access to multiple funding channels**

DTAO large investment needs could be supported by its multiple financing channels. The Company has an active presence in the onshore and offshore debt capital markets and maintains good relationships with large domestic banks. As of 30 June 2024, the Company had total bank facilities of RMB12.0 billion, with an unused portion of RMB4.3 billion, mainly from large state-owned banks and joint-stock commercial banks. The Company also has access to both onshore and offshore debt capital markets and has a track record of issuing different financial products in the onshore bond market. In 2024, the Company issued three-year private placement bonds with a total amount of RMB440.0 million. As of 30 June 2024, the Company's offshore bond portfolio was approximately RMB310.0 million. The Company's exposure to non-standard financing products has increased in recent years. As of 30 June 2024, the non-standard financing accounted for around 32.4% of its total debt, which mainly consist of financial leases and trust loans. Such funding is short tenor 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 2024, the Company had external guarantees of RMB11.8 billion, accounting for around 52.9% of its net assets. The guarantees are provided to other local SOEs 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 projects 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.

## 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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