

## **CCXAP affirms Dezhou Deda Investment Holding Group Co., Ltd.’s long-term credit rating at BBB<sub>g</sub>+, with stable outlook.**

Hong Kong, 23 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Dezhou Deda Investment Holding Group Co., Ltd.’s (“Deda” or the “Company”) long-term credit rating at BBB<sub>g</sub>+, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of DEDA reflects Dezhou Municipal Government’s very strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Dezhou Municipal Government’s capacity to support reflects its status as the 10th prefecture-level city ranked by gross regional production (“GRP”) in Shandong Province, with its improving economic and fiscal strength and moderate debt profile.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) strategically important position in infrastructure construction and public services of Dezhou City; (2) good access to diversified funding; and (3) solid track record of receiving government payments. However, the Company’s rating is constrained by its (1) high exposure to commercial activities, especially in property development and engineering construction; and (2) rising debt leverage with an increasing debt burden.

### **Corporate Profile**

Deda, formerly known as Dezhou Defa City Construction Investment Co., Ltd., was founded in October 2006 by the Dezhou Finance Bureau. In July 2009, the Company merged with the former Dezhou Deda City Construction Investment Operation Co., Ltd. On 20 December 2023, the Company changed its name from Dezhou Deda City Construction Investment Operation Co., Ltd. to Dezhou Deda Investment Holding Group Co., Ltd. due to the need of strategic development. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Dezhou Municipal Government (“Dezhou SASAC”), the ultimate controlling shareholder of the Company, directly held 50% of the Company’s shares. Meanwhile, Dezhou Tianqu Construction Development Group Co., Ltd. (“Tianqu”), Dezhou Caijin Investment Holding Group Co., Ltd. (“Caijin”), and Shandong Caixin Assets Operation Co., Ltd. (“Caixin”) directly held 25%, 16.67%, and 8.33% of the Company’s shares, respectively. Deda is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Dezhou City. It occupies an important strategic position in Dezhou City and is mainly engaged in urban construction, primary land development and the provision of utility services.

### **Rating Rationale**

#### **Credit Strengths**

**Strategically important position in infrastructure construction and public services of Dezhou City.** As one of the major state-owned capital investment operation entities in Dezhou City, Deda primarily engages in infrastructure construction, primary land development, property development, leasing, engineering construction, heat supply, as well as gas supply in Dezhou

City, which are strategically important to the Dezhou Municipal Government. As such, the Company's strategic importance to Dezhou City is unlikely to change in the foreseeable future.

**Good access to diversified funding.** Deda has good access to financing channels, including bank loans and domestic bonds. The Company's financing needs may be partially released by its diversified access to funding. As of the end of March 2024, the Company has obtained a total of RMB48.0 billion of bank credit, and the undrawn amount was RMB14.2 billion. The Company also finances its investment through the government special bond fund.

**Solid track record of receiving government payments.** Deda has a proven track record of receiving government support in the form of equity transfer, capital injection, debt swap and operating subsidies. We believe that, given the important position of Deda and its close relationship with the local government, the local government will provide strong support to the Company in times of need.

### Credit Challenges

**High exposure to commercial activities, especially in property development and engineering construction.** Deda's commercial activities mainly involve property development, engineering construction, property leasing, trading and self-operated healthcare project construction. We estimated Deda's commercial exposure is high especially in property development and engineering construction. During the downturn of China's real estate market, the property development business would suffer from high volatility in construction and sales progress. Moreover, the large number of project reserves for engineering construction business would bring relatively high capital expenditure pressure and certain recovery risks to the Company. In addition, the investment cycle of PPP projects is long and repayment is highly linked to the fiscal strength of the government where the project is located.

**Rising debt leverage with an increasing debt burden.** Deda's debt leverage has grown over the past three years mainly driven by the transfer of a large package of road and bridge sector and ongoing project investment. The Company's total debt increased from RMB 10.5 billion at end-2021 to RMB 26.6 billion at end-2024Q1. Accordingly, its total capitalization ratio rose from 30.7% to 49.9% during the same period. We expect the Company's debt burden to further increase in the next 12 to 18 months, given its high future financing demands such as toll road projects and commercial activities.

### Rating Outlook

The stable outlook on Deda's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its important strategic position of infrastructure construction and public utility services in Dezhou City.

### 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 lower exposure to risky commercial activities, and improved debt management and asset quality.

### **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, or deterioration of financing ability.

### **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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