

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

Hong Kong, 24 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Dongtai State-owned Assets Operation Group Co., Ltd. (“DTAO” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of DTAO reflects Dongtai City 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 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 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.

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 also has a diversified business scope including project construction, 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”).

Rating Rationale

Credit Strengths

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. 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 reverses. 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. The Company has sufficient project reserves to support the good stability and sustainability of the project construction business.

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. We expect that the Company will maintain its important position in project construction in Dongtai City, and the local government will continue to support its development when necessary.

Credit Challenges

Medium exposure to commercial activities. The Company engages 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.

Moderate debt management and moderate asset liquidity. DTAO's debt burden increased fast mainly due to large investment in project construction projects. 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.

Medium level of contingent risk. 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.

Rating Outlook

The stable outlook on DTAO's rating reflects our expectation that the Dongtai City Government's capacity to provide support will be stable, and the Company's characteristics such as its important role in Dongtai City will remain unchanged over the next 12 to 18 months.

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.

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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