

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

Hong Kong, 29 December 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed the long-term credit rating of Jiangsu Donghe Investment Group Co., Ltd. (“Donghe Group” or the “Company”) at BBB<sub>g-</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of Jiangsu Donghe Investment Group Co., Ltd. (“Donghe Group” or the “Company”) reflects Rudong County Government’s 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 Rudong County Government’s capacity to provide support reflects Rudong County’s good economic strength and industrial development, ranking 33rd among the Top 100 Counties in China in 2022, with a moderate fiscal balance ratio.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) status wholly and directly owned by the Rudong County Government; (2) key roles in local infrastructure construction and industrial development in Rudong County; and (3) solid track of government support in the form of subsidies, capital injections or asset injections. However, the rating is constrained by Company’s (1) moderate debt management and weak asset liquidity; and (2) high level of contingent liabilities which, nevertheless, are mostly related to local stated-owned enterprises.

### **Corporate Profile**

Founded in 2014, Donghe Group is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Rudong County, Nantong City. The Company is responsible for the operation of state-owned assets, local infrastructure construction and industrial development. The Company also develops other commercial activities such as property development and leasing, financial services, and energy businesses. As of 30 June 2023, Donghe Group was wholly owned and controlled by the State-owned Assets Supervision and Administration Commission of Rudong County (“Rudong SASAC”).

### **Rating Rationale**

#### **Credit Strengths**

**Important position as the key LIIFC in Rudong County.** Donghe Group is established primarily for the purpose to consolidate and manage local state-owned enterprises (“SOEs”) in Rudong County. The Company is one of the largest LIIFCs in terms of total assets in Rudong County, with total assets of RMB66.3 billion as of 30 June 2023. In view of Donghe Group’s strategic role in the development of local industries and economic development, we believe that potential substitution is relatively low and government support is very likely in the near future.

**Key public roles in local infrastructure construction and industrial development.** Commissioned by the local government, Donghe Group is mainly responsible for infrastructure



construction and industrial development in Rudong County. It is the sole entity undertaking the development work and is responsible for the domestic water supply in the Coastal EDZ. Donghe Group is committed to local industrial development and has expanded its business segments to tourism, energy, and agriculture, which are pillar industries in Rudong County.

**Solid government support through capital injections, asset injections or subsidies.**

Rudong County Government has a good track record of supporting the Company mainly through project repayments, financial subsidies, asset injection and equity injection. The number of financial subsidies increased as enlarge scope of business. The Company also received government payments from the procurement of services such as infrastructure construction. With the further consolidation of local SOEs, we believe that Donghe Group will continue to receive support from the Rudong government in the form of asset or equity injections.

**Credit Challenges**

**Medium risk exposure to commercial activities.** Donghe Group also has been engaged in commercial activities such as property development, property leasing, financial services, and energy businesses, in addition to its infrastructure construction. These commercial activities are also mandated by local government to support the overall development of Rudong County. Overall riskiness of the commercial activities is deemed medium reflecting the Company's prudent measures in engaging and managing such businesses.

**Moderate debt management and weak asset liquidity.** Donghe Group has moderate debt management. As of mid-2023, the Company's total debt (including perpetual debt) increased notably to RMB22.9 billion compared with the level of RMB19.5 billion as of mid-2022. The financial leverage remained at a moderate level. The Company's asset liquidity was weak with large amount of receivables with long account periods and construction costs. In addition, the large amount of restricted cash made it difficult to cover the short-term debt.

**Large exposure to contingent liabilities.** Donghe Group had significant external guarantee exposures related to local SOEs, which could potentially increase its repayment obligations. As of 30 June 2023, the Company recorded an external guarantee amount (excluding guarantee business) of around RMB12.0 billion, accounting for around 44.3% of net assets (excluding perpetual debt). The external guarantees (excluding guarantee business) were provided to other SOEs in Rudong County. However, if a credit event occurs in Rudong County, it may lead to large-scale cross-default.

**Rating Outlook**

The stable outlook on Donghe Group's rating reflects our expectation that the Rudong County Government's capacity to support the Company will be stable, and that the Company's characteristics, such as its key roles in local infrastructure construction and industrial development in Rudong County, are expected to remain stable over the next 12 to 18 months.

**What could upgrade the rating?**

The rating could be upgraded if (1) Rudong County Government's capacity to provide support materially strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as material decrease in external guarantees or improved debt management.

**What could downgrade the rating?**

The rating could be downgraded if (1) Rudong County Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as material increase in commercial business risk, or deteriorated financing abilities.

**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**

CCXAP's Rating Symbols and Definitions are available on its website at:

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