

Credit Opinion

4 August 2023

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

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Dalian Deta Holding Co., Ltd.

Surveillance credit rating report

CCXAP affirms Dalian Deta Holding Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Dalian Deta Holding Co., Ltd. (“Deta” or the “Company”) reflects (1) Jinpu New Area Government’s very strong capacity to support, and (2) the local government’s very high willingness to support, based on our assessment of the Company’s characteristics.

Our assessment of Jinpu New Area Government’s capacity to support reflects Jinpu New Area’s status as the tenth state-level new area in China, with good economic strength and fiscal metrics, but constrained by its relatively weak debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) high strategic importance as a key utility service provider and infrastructure construction entity in Jinpu New Area; (2) good track record of receiving government payments; and (3) good access to funding.

However, the Company’s rating is constrained by (1) medium exposure to commercial activities; (2) high debt growth with an increasing debt leverage; and (3) weakened liquidity profile.

The stable outlook on Deta’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its important role in the provision of utility services in Jinpu New Area.

Rating Drivers

- High strategic importance as the key utility service provider and infrastructure construction entity in Jinpu New Area
- Medium exposure to commercial activities
- High debt growth with an increasing debt leverage
- Good track record of receiving government payments
- Weakened liquidity profile but mitigated by good access to funding

Rating Sensitivities

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 increase in its strategic significance and improve in debt management.

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 decrease in its strategic significance; decrease in government payments; or materially increase in exposure to commercial activities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	40.2	43.7	50.0	50.1
Total Equity (RMB billion)	20.7	20.4	21.4	21.5
Total Revenue (RMB billion)	2.1	3.4	4.3	1.0
Total Debt/Total Capital (%)	41.8	42.7	47.0	47.1

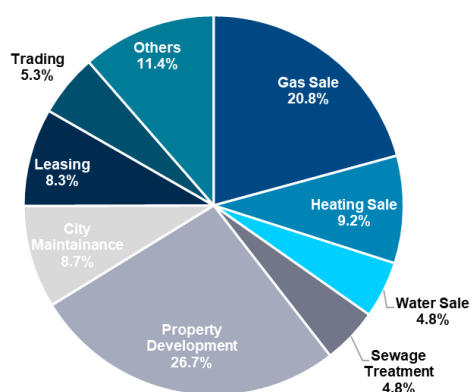
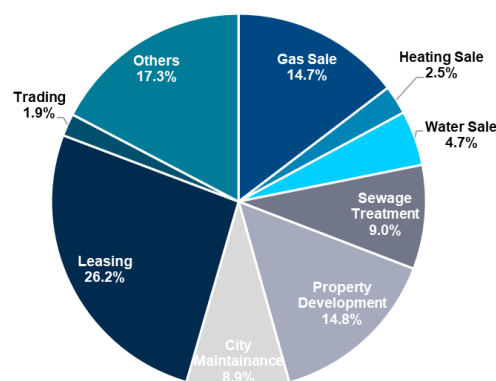
All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Deta was established in 2004 by the Administrative Committee of Dalian Economic and Technological Development Zone ("Dalian ETDZ"). In 2016, Dalian ETDZ became one of the functional districts of the Jinpu New Area, and hence, the ownership of Deta was transferred to the Administrative Committee of Dalian Jinpu New Area. At the same time, the Company's businesses expanded to the entire area of Jinpu New Area. In 2020, the ownership of Deta was further transferred to Dalian Jinpu New Area Industry Holding Group Co., Ltd., ("JNIH") which is wholly owned by Dalian Jinpu New Area State-owned Asset Management Bureau. As of 31 March 2023, JNIH held 100% shares of Deta, and the Administrative Committee of Dalian Jinpu New Area was the Company's ultimate controller.

Deta is the key local infrastructure investment and financing company ("LIIFC") in Jinpu New Area, which is strategically important in providing utility services, such as gas, heating, water, and sewage treatment in the Area. The Company also engages in urban renewal, property development, leasing, city maintenance, and trading businesses.

Exhibit 1. Revenue structure in 2022**Exhibit 2. Gross profit structure in 2022**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2023

Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe Jinpu New Area Government has very strong capacity to provide support reflects Jinpu New Area's status as the tenth state-level new area in China, with good economic strength and fiscal metrics, but constrained by its relatively weak debt profile.

Liaoning Province is the largest and strongest province in Northeast China. In 2022, Liaoning Province recorded gross regional product ("GRP") of RMB2,897.5 billion with year-on-year ("YoY") growth of 2.1%, ranking 1st in terms of GRP among the three provinces of Northeast China and 17th among all provinces in China. Its general budgetary revenue amounted to RMB252.4 billion in 2022, with tax income accounting for 65.9%. However, its debt burden is relatively high, with government debt of RMB1,098.0 billion in 2022, accounting for about 37.9% of GRP.

Dalian City is a port city located in the south end of the Liaodong Peninsula in Liaoning Province and the coast of Huanghai Sea and Bohai Sea, with competitive strength in trade, industry, and tourism. Dalian City is one of the fifteen sub-provincial cities and one of the five cities with independent planning in China. Dalian City also maintains growth in secondary industries, benefitting from leading industries such as modern equipment manufacturing, petrochemicals, electronic information, and shipbuilding. Also, tertiary industries, including transportation, finance, tourism, and software information services underpin the regional economic development. In 2022, Dalian City recorded GRP of RMB843.1 billion, ranking the first in Northeast China, with YoY increase of 4.0%. Its general budgetary revenue was RMB66.9 billion in 2022, with moderate fiscal balance ratio of 68.1%.

As of 31 December 2022, Dalian Municipal Government's debt balance amounted to RMB254.5 billion, equivalent to 30.2% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Dalian City

	2020FY	2021FY	2022FY
GRP (RMB billion)	703.0	782.6	843.1
GRP Growth (%)	0.9	8.2	4.0
General Budgetary Revenue (RMB billion)	70.3	73.8	66.9
General Budgetary Expenditure (RMB billion)	100.2	98.0	98.3
Local Government Debt (RMB billion)	206.4	237.0	254.5

Source: Statistics Bureau of Dalian City, CCXAP research

Jinpu New Area is located in the south-central part of Dalian City, which is also the tenth state-level new area in China and the first state-level new area in Northeast China. The five major pillar industries, including petrochemical, auto and auto parts, electronic information, equipment manufacturing, and bio-pharmaceutical underpin the economic development of Jinpu New Area. In 2022, Jinpu New Area's GRP increased by 5.0% YoY to RMB270.5 billion and its general budgetary revenue increased slightly to RMB16.2 billion, both ranking first among all districts in Dalian City. Jinpu New Area has a good fiscal balance, with general budgetary revenue to general budgetary expenditure ratio of 87.8%. At end-2022, the local government debt balance amounted to RMB60.9 billion, increasing from RMB58.6 billion at end-2021 and accounting for 22.5% of its GRP.

Exhibit 5. Key economic and fiscal indicators of Jinpu New Area

	2020FY	2021FY	2022FY
GRP (RMB billion)	207.9	257.6	270.5
GRP Growth (%)	0.6	9.0	5.0
General Budgetary Revenue (RMB billion)	15.2	16.1	16.2
General Budgetary Expenditure (RMB billion)	17.9	18.0	18.4
Local Government Debt (RMB billion)	51.4	58.6	60.9

Source: Statistic Bureau of Jinpu New Area, CCXAP research

Government Willingness to Provide Support

High strategic importance as a key utility service provider and infrastructure construction entity in Jinpu New Area

Deta is a leading LIIFC in the local development of Jinpu New Area and plays a key role in the public welfare of the residents in Jinpu New Area by providing integrate utility services in heat supply, gas and LNG supply, water supply, and sewage treatment. Also, the Company is responsible for the infrastructure construction through different construction models, supporting the continuous urban renewal.

Deta is the sole gas and water supplier in Dalian ETDZ, and an important entity participating in heat supply and sewage treatment in Dalian ETDZ and Jinpu New Area. The provision of public utilities has generated stable income for the Company over the past years. In 2022, the revenue from utility services grew 6.7% YoY to RMB1.7 billion, accounting for 39.5% of total revenue. The Company's utility business has a certain degree of monopoly and sustainability. Among them, the gas segment and sewage water treatment had several projects under construction, with total estimated investment over RMB80 million. Moreover, the Company gradually expanded its gas, water, and heating businesses to other regions through acquisitions, which may further consolidate its essential role in the provision of public services.

Deta is an important infrastructure construction entity in Jinpu New Area, including pipeline construction and urban renovation. The Company conducts pipeline construction and maintenance business in Dalian ETDZ, with corresponding ownership and disposal rights. Also, the Company undertakes urban renewal projects and infrastructure projects. At present, the Company mainly participates in infrastructure construction under PPP model. As of 31 March 2023, the Company had six PPP projects under construction with an estimated total investment of RMB6.2 billion and an uninvested amount of RMB782.0 million. In terms of urban renovation, Southern Urban Area Renewal Project is the key urban renewal project under construction, with an estimated total investment of RMB20.1 billion and uninvested amount of RMB18.7 billion. This project has been partly supported by central budget funds, national infrastructure investment funds, and fiscal funds.

The Company is also actively expanding its infrastructure business under the self-operated model. Currently, one important project under construction is the infrastructure construction project of Yishanhai International Community, which is financed by special government bonds. As of 31 March 2023, the total investment was RMB1.3 billion, with an uninvested amount of RMB750.0 million.

Overall, Deta's utility services have high stability and are unlikely to be replaced in the foreseeable future. Although the large uninvested amount of the infrastructure projects can ensure the business sustainability, the long operation time and long cash collection period cause capital occupation and exert expenditure pressure on the Company.

Good track record of receiving government payments

Deta has received ongoing cash payments from the local government in the form of capital injection and subsidies which improves its financial strength and business profile. Specifically, the Company continuously received increasing financial subsidies from the government with total amount of RMB883.0 million in 2022, as compared to that of RMB166.0 million in 2021. Moreover, the shantytown renovation projects are all included in the government fiscal budget and the future repayments are visible. The Company received government payments of RMB176.1 million for PPP projects and RMB182.8 million for shantytown renovation projects in 2022. In addition, the Company received capital from JNII, which increased its capital reserve from RMB15.0 billion at end-2021 to RMB15.9 billion as of 31 March 2023, including the newly injected cash of RMB777 million in 2022. We expect that Deta will continue to receive support from the local government in times of need, given its strategic importance to the Jinpu New Area.

Medium exposure to commercial activities

Deta also engages in commercial activities, such as property development, property leasing, city maintenance, and trading businesses. As of 31 December 2022, the assets of commercial businesses accounted for less than 20% of total assets, and we considered the exposure to be medium. Most of these activities can generate supplementary income for the Company, but are subject to related industry volatility and financial risk.

Deta's property development business consists of shantytown renovation and commercial housing development. As of 31 March 2023, Deta's property development business had a total of 4 commercial housing projects with a total investment of RMB3.6 billion. Yongzheng Street Hongta Village Squatter Housing Reconstruction Project is the representative project, which is divided into reconstruction phase and self-operating phase. The self-operating phase is in selling progress with expected total sales revenue of RMB143 million. Due to the addition of new saleable commercial housing projects in 2021, the revenue from the property development business has increased significantly in the past two years. However, the rest of sales is subject to uncertainty as it is highly

influenced by local government planning and the local property market, especially in the downturn of China's property development industry.

Deta's property leasing business includes leasing industrial plants and its properties to resident enterprises. In 2022, the Company achieved a leasing revenue of RMB360.0 million, 27.2% higher than the previous year, and the gross profit was maintained at a high level. At the beginning of 2023, the Company transferred some of its leasable assets, and the area of leasable property declined significantly. Moreover, Deta's trading business involves the trading of coal, chemical products, and iron ore powder. This business has a high concentration of upstream and downstream companies with a relatively limited gross profit margin. The Company also undertakes city maintenance activities in Jinpu New Area, with the business operating in an area that comprehensively covers the built-up area of Jinpu New Area and half of the agriculture streets. The Company's revenue in this segment decreased from RMB436.0 million in 2021 to RMB378.0 million in 2022, as it provided management fee relief to local enterprises during the pandemic.

Apart from that, the Company also has begun digital economy segment, which is under construction and operation progress and in line with the initial plan. The construction of the Artificial Intelligence Computing Centre and the Dalian Digital Valley Emerging Infrastructure Project of this segment has been initiated in 2022. As of 31 March 2023, the segment had a combined total investment of RMB7.4 billion and an uninvested amount of RMB5.9 billion, supported by the special government bonds. After the completion of the project, the Company still needs to put in relatively large works to attract enterprises to settle in, and the future fund balancing is still uncertain. However, it will be partially supported by government special bonds and special funds according to the management, which may mitigate its fund balancing pressure.

Overall, we expect that the diversified businesses can help enrich the Company's income source and cash flow. However, the performance of these businesses is volatile as compared to the public services and it is more difficult to receive direct support from the local government, which may challenge the Company's future operation.

High debt growth with an increasing debt leverage

With the expansion of its business and continued investment in construction projects, Deta maintained relatively fast debt growth. The Company's total debt increased from RMB15.2 billion at the end of 2021 to RMB19.1 billion as of 31 March 2023. The total capitalization ratio also increased from 42.7% to 47.1% over the same period. The Company also demonstrated increasing refinancing pressure as the proportion of short-term debt rose from 28.3% to 30.1% over the same period. Among them, bank loans accounted for majority of the total debt, with a large proportion of more than 60%, followed by bonds issuance (around 35%) and non-standard financing (around 2%). We expect Deta's debt leverage to moderately increase given the large capital expenditure requirements of its urban renewal projects.

Weakened liquidity profile but mitigated by good access to funding

Deta showed a weakened liquidity profile along with its increase in debt burden. As of 31 March 2023, the Company held cash reserves of RMB3.8 billion, representing 0.7x of its short-term debt, compared with 0.9x at end-2021.

Nevertheless, Deta has good access to diversified funding and mainly in bank loans and bonds issuance, which partially mitigates its liquidity risk. Meanwhile, the Company had total bank facilities of RMB42.8 billion, with an unutilized portion of RMB24.0 billion. The Company also has access to financing from the debt capital markets,

including onshore and offshore debt capital markets. From 2022 to the first half of 2023, the Company raised RMB4.0 billion through domestic bond market, with coupon rates ranging from 4.79% to 5.3%. It also issued an USD bond in July 2022, with issued amount of USD30.0 million and coupon rate of 5.0%, respectively.

ESG Considerations

Deta is exposed to environmental risks because it has undertaken infrastructure construction and utility projects. Such risks could be moderated by conducting environmental studies and planning before the commencement of projects, and close supervision during the construction phase.

In terms of social concerns, Deta plays a crucial role in the social welfare of the residents in Jinpu New Area by providing utility services, including gas, heating, water supply and sewage treatment. As an important state-owned entity in Jinpu New Area, the Company has also launched multiple measures to ensure the provision of utility and daily needs of the residents.

In terms of corporate governance, Deta has established a sound and effective internal control framework, and has also set up a corporate governance structure, with the shareholders, directors, supervisors, senior management team and internal departments performing their duties collectively and efficiently. The Company is subject to oversight and reporting requirements to the Jinpu New Area Government, which has full control and supervision of the Company's operation.

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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