

Credit Opinion

26 June 2025

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

Analyst Contacts

Christy Liu +852-2860 7127
Senior Credit Analyst
christy_liu@ccxap.com

Eddie Li +852-2860 7130
Credit Analyst
eddie_li@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Dezhou Deda Investment Holding Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Dezhou Deda Investment Holding Group Co., Ltd.'s long-term credit rating at BBB_g+, with stable outlook.

Summary

The BBB_g+ long-term credit rating of Dezhou Deda Investment Holding Group Co., Ltd. (“Deda” or the “Company”) reflects (1) Dezhou Municipal 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 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 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 rating is constrained by the Company’s (1) high exposure to commercial activities, especially in property development and engineering construction; and (2) rising debt leverage with an increasing debt burden.

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.

Rating Drivers

- Strategically important position in Dezhou City
- Key role in utility services and regional construction in Dezhou City
- Solid track record of receiving government payments
- High exposure to commercial activities especially in property development and engineering construction
- Rising debt leverage with an increasing debt burden
- Good access to diversified 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 lower exposure to risky commercial activities, and improved 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 reduced strategic significance, or deterioration of financing ability.

Key Indicators

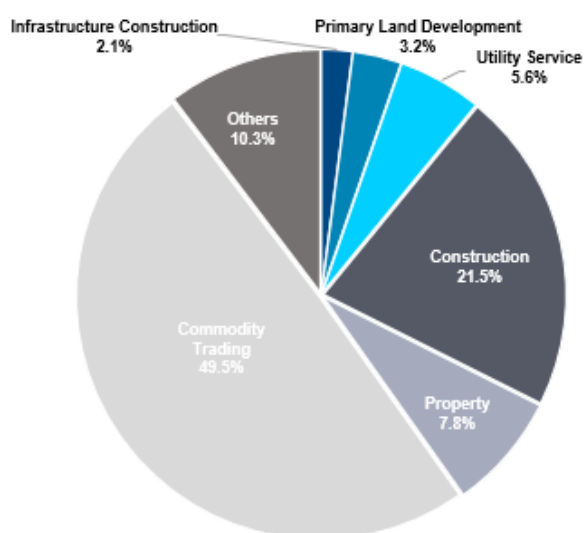
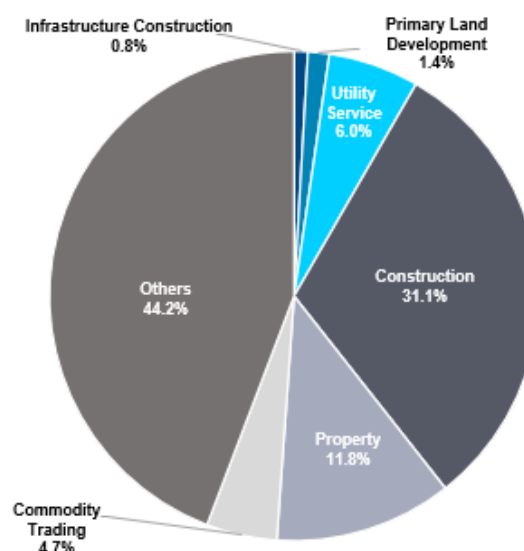
	2022FY	2023FY	2024FY	2025Q1
Total Asset (RMB billion)	59.3	64.9	69.7	70.4
Total Equity (RMB billion)	26.9	27.1	27.5	27.6
Total Revenue (RMB billion)	9.9	15.2	13.6	2.5
Total Debt/Total Capital (%)	43.6	47.7	52.3	53.3

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

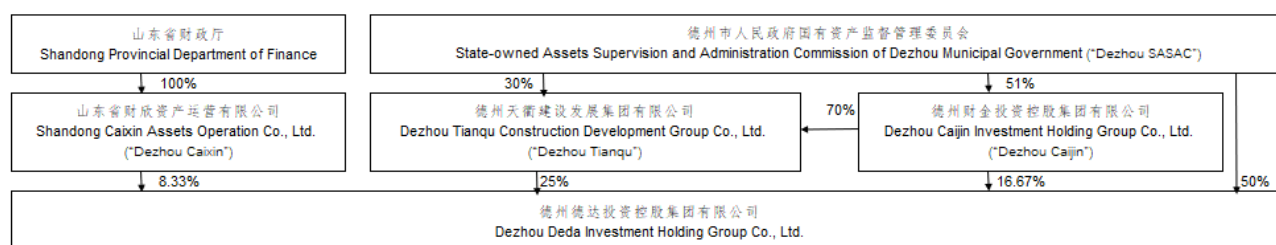
Source: Company data, CCXAP research

Corporate Profile

Deda, formerly known as Dezhou Defa City Construction Investment Co., Ltd., was founded in 2006 by the Dezhou Finance Bureau. In July 2009, the Company merged with the former Dezhou Deda City Construction Investment Operation Co., Ltd. and changed its name to Dezhou Deda Investment Holding Group Co., Ltd. in 2023 due to the need of strategic development. As of 31 March 2025, 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. ("Dezhou Tianqu"), Dezhou Caijin Investment Holding Group Co., Ltd. ("Dezhou 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.

Exhibit 1. Revenue structure in 2024**Exhibit 2. Gross profit structure in 2024**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 March 2025

Source: Company information, CCXAP research

Rating Considerations

Government Capacity to Provide Support

We believe that the Dezhou Municipal Government has a very strong capacity to provide support to the Company, given its status as the 10th prefecture-level city ranked by GRP in Shandong Province and its improving economic and fiscal strength, and moderate debt profile.

As the northwestern gate of Shandong Province, Dezhou City is located at the intersection of the Bohai Rim Economic Circle, the Beijing-Tianjin-Hebei Economic Circle, the Shandong Peninsula Blue Economic Zone, and the Yellow River Delta Efficient Ecological Economic Zone. In recent years, new generation information technology, new materials, modern medicine, high-end equipment manufacturing and new energy have developed fast and thus the industrial structure further optimized. Dezhou City is the 10th prefecture-level city ranked by GRP in Shandong Province. According to the preliminary estimation, Dezhou City realized GRP of RMB404.8 billion with a year-over-year ("YoY") growth of 5.6% in 2024.

Dezhou Municipal Government demonstrated improving fiscal strength in recent years. Its general budgetary revenue increased from RMB25.1 billion in 2023 to RMB26.3 billion in 2024. However, Dezhou Municipal Government's fiscal self-sufficiency ability is still moderate. In 2024, Dezhou Municipal Government's general budgetary revenue covered 40.9% of expenditure, suggesting reliance on transfer payments to achieve fiscal balance. Tax revenue is a stable source of general budgetary revenue with a relatively high portion of 67.6%

on average over the past three years. In 2024, Dezhou Municipal Government's debt amount increased by 16.5% to RMB155.7 billion with local government debt to total revenue ratio at 203.5%, indicating relatively large debt burden.

Exhibit 4. Key economic and fiscal indicators of Dezhou City

	2022FY	2023FY	2024FY
GRP (RMB billion)	363.3	380.5	404.8
GRP Growth (%)	4.4	6.0	5.6
General Budgetary Revenue (RMB billion)	23.5	25.1	26.3
General Budgetary Expenditure (RMB billion)	57.3	62.3	64.4
Local Government Debt (RMB billion)	112.8	133.7	155.7

Source: Dezhou Municipal Government, CCXAP research

Government Willingness to Provide Support Strategically important position in Dezhou City

There is a clear and strategical positioning for the state-owned enterprises ("SOEs") in Dezhou City, supporting the long-term development of Deda. As one of the major state-owned capital investment operation entities in Dezhou City, Deda primarily engages in engineering construction, heat supply, gas supply, infrastructure construction, primary land development, property development, as well as leasing in Dezhou City, which are strategically important to local economic development and public welfare.

Apart from Deda, there are four major municipal LIIFCs in Dezhou City. Among them, Dezhou Caijin is mainly responsible for the renovation of shantytowns, municipal infrastructure construction and grain storage in Dezhou City, while Dezhou City Construction Investment Development Group Co., Ltd. is mainly responsible for the construction of urban infrastructure and engineering, property sales, technical services, and commodity sales in Dezhou City. The other two, Dezhou Tianqu and Dezhou City Transportation Investment and Development Group Co., Ltd., are mainly responsible for the investment management and operation of the industrial parks, and public transport projects operations in Dezhou City, respectively. Each SOE in Dezhou City has a clear position under the government's planning. As such, the Company's strategic importance to Dezhou City is unlikely to change in the foreseeable future.

Key role in the utility services and regional construction in Dezhou City

Deda is an important platform for providing utility services, infrastructure construction, and primary land development in Dezhou City. The Company's major service areas include Decheng District, Dezhou Canal Economic Development Zone and Dezhou Tianqu New District.

Deda is an important heating and gas provider in the main urban area of Dezhou City. As of 31 December 2024, the Company had 525 heat exchange stations within a service area of around 33.9 million square meters, covering around 70% of main urban area of Dezhou City. It is also the sole gas provider in the main urban area of Dezhou City, covering around 98.5% of main urban area of Dezhou City. Due to its public welfare nature, the selling prices of heating and gas are relatively stable and controlled by the local government, and the local government provides subsidies to compensate for any losses incurred.

The Company also operates government-funded infrastructure construction projects under the agent construction model. However, the repurchase payments from the local government are normally offset by the RMB22.7 billion debt swap funds already given to the Company from 2015 to 2017, resulting in no new cash

flows generated in the Company's financial accounts from the settlement of infrastructure projects. As of 31 December 2024, there were debt swap funds of RMB729.0 million pending for settlement.

Moreover, Deda participates in primary land development in the main urban area of Dezhou City. The Company has not taken new primary land development since 2019. As at end of 2024, the Company has completed and consolidated land area of 2.3 million square meters. Deda also participates in land quota allocation business. In 2024, the Company allocated land quota of around 29.5 thousand mu, and generated revenue of around RMB441.4 million, which was netted out with debt swap funds.

In addition, the Company consolidated the highway toll business and contributed revenue of RMB254.0 million from two highways in 2024. As of 31 March 2025, there were two highways under construction with a total investment of RMB14.6 billion and an uninvested amount of RMB7.8 billion, which increased the pressure on future capital expenditure. The local government would provide special government bonds to support the construction of the two highways, which could partially mitigate the capital expenditure pressure of Deda.

Solid track record of receiving government payments

As the core operating entity carrying out municipal development activities and providing public services in Dezhou City, Deda has a proven track record of receiving government support in the form of equity transfer, capital injection, debt swap and operating subsidies, all of which could help the Company meet its policy objectives and financial obligations. Since its establishment, the local government has injected various assets into the Company, including land, properties, and equity interest. For example, the local government has transferred 100% equity of several road and bridge companies from Shandong Jinluban Group Co., Ltd. to Deda in 2022, increasing its capital by RMB3.0 billion.

In addition, the Company has a track of receiving debt swap funds and obtaining special government bonds from the local government in the past few years, totaling approximately RMB900 million and RMB1.6 billion, respectively. In 2024, Dezhou SASAC injected capital funds with RMB71.0 million to Deda. Over the same period, the Company received government subsidies of RMB3.3 million. The local government provides subsidies mainly for public activities such as heating and gas supply to the Company every year according to relative planning and actual situation. 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.

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.

The investment needs of property development projects may exert expenditure pressure on the Company. As of 31 December 2024, the Company had 6 residential property development projects under construction in

Dezhou City, with a total planned investment RMB11.0 billion and an uninvested amount of RMB3.8 billion. At the same time, the Company also had one property development project under planning with a total investment of RMB638.0 million. The relatively long development period could partly alleviate the expenditure pressure and some projects had received part of pre-sale funds. As of 31 December 2024, the Company's total saleable area and sold area of residential property projects under construction were around 1,169.1 thousand square meters and 577.3 thousand square meters, respectively. However, the Company's property development revenue declined from RMB1.5 billion in 2023 to RMB1.1 billion in 2024. Based on the impact of the market environment and the downturn of the real estate industry, the property development business would suffer from high volatility in construction and sales progress.

In 2022, there were 18 companies in the roads and bridges sector transferred into Deda, which significantly enlarged its construction and engineering business. The Company mainly engages in engineering construction of roads and bridges under the general contracting model and PPP model, and has a number of qualifications in road and bridge engineering including a top-grade qualification in general contracting for highway. In 2024, the Company consolidated revenue of RMB2.9 billion from engineering construction business, accounting for 21.5% of total revenue, with gross margin of 15.4%. Meanwhile, there were 94 newly signed engineering contracts with a total contract amount of around RMB3.0 billion. From 2025 to 2027, the Company's estimated total construction scale would be RMB3.8 billion, RMB4.0 billion, and RMB4.2 billion, respectively. Although, the large number of project reserve on hand can guarantee the sustainability of engineering construction business, it also brings relatively high capital expenditure pressure and certain recovery risks to the Company. As of end-2024, there were 7 PPP projects under construction and the actual uninvested amount for the Company was around RMB1.3 billion. Majority of the PPP projects is in operation, but 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. In addition, PPP projects face more risks of policy change which may affect the construction and operation model of PPP projects and the future operating revenue.

For property leasing business, the Company leased out its self-owned investment properties to local government agencies and enterprises, generating supplementary income to the Company. The gross margins are relatively high for property leasing business which are above 60% during past three years. As of 31 December 2024, the total leasing area of Deda was 134.4 thousand square meters. The main leasing properties of Deda are the Administration Centre Complex, the Government Affairs Centre Complex and the shops along the streets of Dezhou Garden. The leasing rate of the leasing properties is high. In addition, as of end-2024, the Company also has self-operated projects, such as healthcare and applied technology projects. The Company is expected to achieve fund balancing through future operating and leasing income. As of 31 December 2024, there were 2 key self-operating projects under construction, with a total estimated investment of RMB1.4 billion and uninvested amount of RMB51.0 million.

Moreover, the Company engages in trading business, including the supply of sugar, beef and mutton, aluminum ingots and copper cathodes. Deda adopts demand-on-purchase mode which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. In 2024, the Company controlled the business scale of trading business on the basis of risk considerations, while it still accounts for a relatively large portion of revenue. The revenue of trading business was decreased from RMB7.6 billion in 2023 to RMB6.7 billion, accounting for around 49.5% of total revenue. However, the profitability of trading business is low, and the gross profit margin was around 1%. The Company usually makes payments to upstream after receiving downstream payments, which could greatly avoid the pressure of capital occupation and reduce the exposure to recovery risk.

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 RMB24.7 billion at end-2023 to RMB31.4 billion at end-2025Q1. Accordingly, its total capitalization ratio rose from 48.1% to 53.3% during the same period. Among the total debt, the repayment of principal and interest of loans for shantytown projects would be bore by local district and county government and state-owned enterprises, and Deda would not undertake the responsibility of relevant repayment. As of 31 March 2025, the outstanding amount of the loans for shantytown projects was around RMB3.5 billion. 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. As of 31 March 2025, there were around RMB7.8 billion of the uninvested amount in two highways under construction. In addition, Deda's liquidity is relatively weak. Its cash to short-term debt ratio was around 0.3x at end-2025Q1. Therefore, we expect the Company's liquidity risk to be manageable, supported by its good access to funding.

However, there's a risk of recovery from a local state-owned enterprise and a local private-owned enterprise, both of which have been listed as judgment debtors. The Company had loan receivables of around RMB476 million in total from these two enterprises as of 31 March 2024, and the likelihood of receiving repayments was considered low. Deda has pursued the lending to Shandong Demian Group Co., Ltd. through a court enforcement procedure, but it has not yet been executed. The accumulative provision of bad debts for the receivables from these two enterprises was RMB453 million.

Good access to diversified funding

Deda has good access to financing channels, including bank loans and onshore bond issuances, which may partially release capital expenditure pressure and liquidity profile. As at the end of 2024, bank borrowings and bonds accounted for approximately 60.5% and 33.0%, respectively, of the Company's total debt. The Company has built a close relationship with large domestic banks, such as Agricultural Development Bank of China, Industrial and Commercial Bank of China and Bank of Qingdao Co., Ltd. As of 31 December 2024, the Company has obtained a total of RMB32.7 billion of bank credit with an unutilized amount of RMB16.9 billion, indicating sufficient standby liquidity.

The Company also has a track record of fund-raising activities in onshore debt capital market. It has issued several types of debt products such as medium-term notes ("MTNs"), private placement notes ("PPNs") and corporate bonds. From January to May 2025, the Company raised around RMB2.2 billion in the domestic market, with coupon rate ranging between 2.61% and 2.8%. The Company also finances its investment through the government special bond fund. For example, the Company has received government special bond fund with more than RMB1.5 billion for its self-operated projects and investment in highway projects as of 31 March 2024.

ESG Considerations

Deda is exposed to environmental risks because it has undertaken infrastructure construction, primary land development, and provision of utility services. 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, Deda plays a crucial role in the social welfare of the residents in Deda by providing utility services, including gas, and heating. As an important state-owned entity in Dezhou city, the Company has engaged in healthcare business, improving the social welfare of the aged in Dezhou City.

In terms of corporate governance, Deda has established a corporate governance structure composed of shareholders, the board of directors, the board of supervisors and the operation management, and clarify the powers of decision-making, supervisory and management at all levels performing their duties independently and efficiently. The Company is subject to oversight and reporting requirements to the Dezhou Municipal 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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China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656