

Credit Opinion

29 December 2023

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

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Jiangsu Donghe Investment Group Co., Ltd.

Surveillance credit rating report

CCXAP affirms Jiangsu Donghe Investment Group Co., Ltd.'s long-term credit rating at BBB_g-, with stable outlook.

Summary

The BBB_g- 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.

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.

Rating Drivers

- Key public roles in local infrastructure construction and industrial development
- Solid government support through capital injections, asset injections or subsidies
- Increased exposure to commercial activities
- Moderate debt management and weak asset liquidity
- Large exposure to contingent liabilities

Rating Sensitivities

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.

Key Indicators

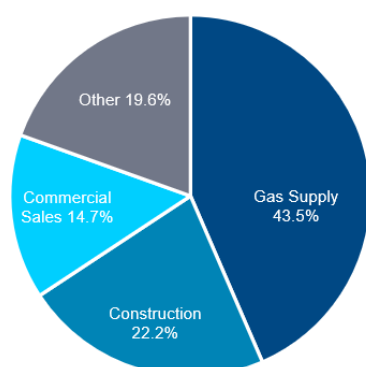
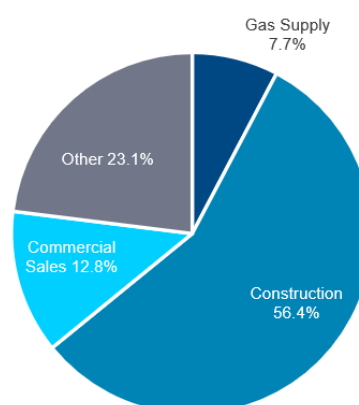
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	41.9	51.1	62.2	66.3
Total Equity (RMB billion)	14.1	20.7	27.0	27.2
Total Revenue (RMB billion)	1.8	3.9	5.4	2.6
Total Debt/Total Capital (%)	52.7	44.7	41.9	45.9

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

Source: Company information, CCXAP research

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").

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

*Agricultural product sales were combined in the commercial sales sector

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe Rudong County Government has a strong capacity to provide support to the Company, given its good economic fundamentals and reasonable industrial structure, ranking 33rd among the Top 100 Economic Counties in China in 2022.

Nantong City is a prefectural-level city in the southern part of Jiangsu Province. It is an economic center and a modern port city on the north shore of the Yangtze River Delta. Relying on its port resources and location advantages, Nantong City has developed six core industries, including textile and garment, shipbuilding and marine equipment, energy equipment, chemical and pharmaceutical, electronic information, and food production. Nantong City has strong economic strength, ranking 4th by gross regional product ("GRP") among prefecture-level cities in Jiangsu Province for 5 consecutive years. In 2022, Nantong City's GRP increased by 2.1% year-on-year ("YoY") to RMB1,138.0 billion. However, key financial indicators of the Nantong Municipal Government were negatively affected in 2022, mainly due to the tax refund policies. During the period from 2021 to 2022, the tax revenue declined from RMB57.3 billion to RMB41.3 billion, resulting in a decrease in general budgetary revenue from RMB71.0 billion to RMB 61.3 billion. In the first three quarters of 2023, Nantong City's GRP achieved RMB900.6 billion, an increase of 5.5% YoY. Nantong City's fiscal profile is characterized by good revenue-generating ability but moderate fiscal sufficiency. During the past three years, the average proportion of tax revenue in general budgetary revenue was 75.0% and the average fiscal balance ratio (general budgetary revenue to general budgetary expenditure) was 58.6%. As of 31 December 2022, the outstanding direct government amounted to RMB197.9 billion, accounting for 17.4% of GRP.

Exhibit 3. Key Economic and Fiscal Indicators of Nantong City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,003.6	1,102.7	1,138.0
GRP Growth (%)	4.7	8.9	2.1
General Budgetary Revenue (RMB billion)	63.9	71.0	61.3
General Budgetary Expenditure (RMB billion)	108.1	112.2	114.7
Local Government Debt (RMB billion)	168.4	186.3	197.9

Source: Statistics Bureau of Nantong City, CCXAP research

Rudong County is one of the county-level cities under the administration of Nantong City. Located in the northeast of Nantong City and facing the Yellow Sea, it had strong advantages in ocean and tideland resources. With a good transportation system including ports, canals, railways, and expressways, it is one of the cities in the one-and-a-half-hour economic circle of Shanghai. With ongoing development of industries like new energy, new material, biotechnology, intelligent equipment, intelligent sensing, and energy saving and environmental protection industry, Rudong County's economy continued to grow in recent years. In 2022, Rudong County recorded a GRP of RMB131.5 billion, yet the growth rate slowed down to 1.5%. As of the first half of 2023, the GRP of Rudong County increased by 6.7% YoY, 1.2% higher than the national level, demonstrated good economic resilience. According to CCID Consulting, Rudong County ranked 33rd among the Top 100 Counties in China in 2022. In 2022, the Rudong County Government's general budgetary revenue decreased by 25.5% to RMB5.3 billion, if excluding the effect of tax refund, increased by 7.1% to RMB7.7 billion. During the first half of 2023, Rudong County Government achieved general budgetary revenue of RMB3.9 billion, ranking the first tier among all county-level cities in Nantong City. The percentage of tax revenue to the general budgetary revenue dropped to 68.8%, a decrease from the level of over 80% in the past three years. However, Rudong County's fiscal balance ratio (general budgetary revenue/general budgetary expenditure) remained at a moderate level of 49.9% in 2022. As of year-end 2022, Rudong County Government's outstanding government debt amounted to RMB20.3 billion, equivalent to 15.4% of its GRP.

Exhibit 4. Key Economic and Fiscal Indicators of Rudong County

	2020FY	2021FY	2022FY
GRP (RMB billion)	115.5	127.2	131.5
GRP Growth (%)	5.9	8.9	1.5
General Budgetary Revenue (RMB billion)	6.0	6.9	5.3
General Budgetary Expenditure (RMB billion)	13.5	14.6	15.4
Local Government Debt (RMB billion)	15.9	19.4	20.3

Source: Rudong County Government, CCXAP research

Rudong County Government promoted industrial development by establishing functional zones such as the Coastal Economic Development Zone ("Costal EDZ") and the Yangkou Port Economic Development Zone ("Yangkou Port EDZ"). The Costal EDZ was established in 1992 and has developed chemical new pesticides, new medicine, new materials, new energy, and tourism industries, promoting the rapid economic development of Rudong County. The Yangkou Chemical Industrial Park in the Costal EDZ was one of the Top 30 Chemical Industrial Parks in China over the past conservative 5 years. Yangkou Port EDZ, a provincial economic development zone, was established in 2005 and focused on fiber industry, clean energy, equipment manufacturing, warehouse logistics and new building materials. It is the primary market for stone, new energy, new materials, petrochemicals, heavy machinery, and equipment in China. The sustainable economic development of these EDZs offers a favorable operating environment for Donghe Group.

Government's Willingness to Provide Support Important position as the key LIIFC in Rudong County

Donghe Group is designated as one of the key LIIFCs in Rudong County according to the local government's plan. Other key LIIFCs include Rudong Jinheng Urban Investment Group Co., Ltd. ("Jinheng Group") which is directly controlled and supervised by Rudong SASAC. Donghe Group was established primarily for the purpose of consolidating and managing the local state-owned enterprises ("SOEs") in Rudong County. Since its establishment, the local government has injected a large amount of stated-owned assets and shares in SOEs into the Company, such as Rudong New World Investment Development Co., Ltd. ("NWID"), Rudong Yangkou

Port Industry Holdings Co., Ltd. (“YPIH”) and Rudong County Benxing Construction and Development Ltd. In the second half of 2022, the local government agreed to transfer 70% stakes of Rudong Golden Coast Investment and Development Group Co., Ltd. (“GCID”), an investment and construction entity in Nantong Outward-oriented Agricultural Comprehensive Development Zone (“Agricultural CDZ”), to the Company, which made GCID the wholly-owned subsidiary of Donghe Group. 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. The business scope of infrastructure construction mainly includes development zones such as the Coastal EDZ, Yangkou Port EDZ and Agricultural CDZ, as well as towns such as Bencha Town and Hekou Town. The Company is positioned as the sole entity undertaking the development work in the Coastal EDZ under both the agency model and the self-built model. It is also responsible for the domestic water supply in the Coastal EDZ. The Company undertook a number of infrastructure construction projects including public rental housing, road building and upgrade projects, and tidal flat reclamation projects, which benefited the urbanization and economic development in Rudong County. As of 30 June 2023, NWID, the Company’s subsidiary, had major infrastructure projects under construction with a planned total investment of RMB4.5 billion and outstanding investment of around RMB438 million, and 2 infrastructure projects under planning with a planned investment of around RMB124 million. As of year-end 2022, GCID, the Company’s subsidiary, had various infrastructure projects under construction with a planned investment of RMB1.8 billion and an outstanding investment of around RMB1.1 billion, mainly in the Agricultural CDZ.

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. Among them, the agricultural segment including grain storage is more policy-driven and helps stabilize food prices. At the same time, it helps local agricultural development by establishing a local brand and promoting local featured crops. The Company has invested and constructed number of projects including wind power, tourist town such as Bencha Ancient Town, granaries, and factories and offices in industrial parks. With the development of the local economy and industry, the Company is expected to benefit from a better operating environment and continue to play an important role in the development of the local industry.

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 the 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.

Donghe Group engages in the energy business including wind power generation, photovoltaic power generation, and distribution and transmission of natural gas through equity investments or subsidiaries. Gas supply business accounts for a large proportion of the Company’s commercial activities. In 2022, the revenue from the sales of gas amounted to RMB2.3 billion, accounting for 44.0% of the Company’s revenue. However, the bargaining power of the gas supply business remains weak with a low margin profit of 1.1% as most of the customers are

upstream gas enterprises. Such business risk is controllable as the Company adopts the back-to-back model and the accounting period is around a month.

Donghe Group undertakes property development and leasing businesses such as commercial building development and factory leasing. In 2022, the revenue from leasing was around RMB101.9 million, slightly increasing by 2.2% from RMB99.6 million in 2021. The revenue from leasing is a supplement for the Company, however, it depends on the process of investment attraction as most of its leasable properties are located in industrial parks.

Donghe Group engages in financial services such as guarantees and money lending businesses through its subsidiaries, Rudong Shengtai Technology Financing Guarantee Co., Ltd. (“Shengtai Guarantee”) and Rudong County Ping’an Rural Microfinance Co., Ltd. (“Ping’an Microfinance”), respectively. Such businesses have high credit risk because the customers are mainly small and micro enterprises. As of 30 June 2023, the outstanding guarantees provided by Shengtai Guarantee were around RMB1.2 billion and the compensation rate was low at 0.43%, whose exposure was relatively small.

Solid government support through capital injections, asset injections or subsidies

Given the Company’s public roles in Rudong County, Rudong County Government has a good track record of supporting the Company mainly through project repayments, financial subsidies, asset injections and equity injections.

From 2020 to 2023H1, the Company received a total of around RMB1.2 billion in financial subsidies, mainly related to public housing, infrastructure construction and grain storage business. 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. The Company is expected to continuously receive project repayments given its projects under construction and government-related receivables in the next 12-18 months.

In addition, since its establishment, Donghe Group has received cash and asset injections such as properties, land, and equities from the local government, which has greatly improved its capital strength and increased operating assets. From 2020 to 2023H1, the local government injected a total of RMB2.9 billion in cash and assets into the Company. The injected equity shares are mostly related to its main businesses including agricultural, tourism, and energy businesses such as GCID. 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.

Exhibit 6. Track Record of Government Payments from 2020 to 2023H1

(RMB million)	2020	2021	2022	2023H1
Capital Injections	1,247	1,613	-	-
Financial Subsidies	223	231	428	135
Total	1,470	1,844	428	135

Source: Company information, CCXAP Research

Moderate debt management and weak asset liquidity

Donghe Group has moderate debt management. Due to the continuous investment in local infrastructure construction and industrial development projects, 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. However, along with the rise in capital, the total capitalization (total debt/ total capital) decreased to 45.9% from 48.4% during the same period. The financial leverage remained at a moderate level and we expect that the financial leverage will remain at a moderate level, considering ongoing investment in projects under construction in the next 12-18 months.

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. The Company's restricted cash amounted to RMB4.7 billion as of 30 June 2023, accounting for 62.7% of the total cash and equivalent. We expect the Company to maintain a high reliance on external financing in the next 12-18 months.

Donghe Group's funding channels include banks, financial institutions, and the debt market, which may partially mitigate the liquidity risk. As of 30 June 2023, the Company's total credit facilities amounted to around RMB22.4 billion, of which the unutilized portion was around RMB8.1 billion. The Company is also able to access the onshore debt market through its subsidiaries, NWID and GCID. During the past eleven months in 2023, NWID issued a tranche of three-year private corporate bond to raise around RMB550 million.

Large exposure to contingent liabilities

Mutual guarantees between local SOEs are common in Rudong County. 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.

ESG Considerations

Donghe Group bears environmental risks through its infrastructure projects. Such risks could be moderated by conducting environmental studies and detailed planning before the commencement of projects, as well as close supervision during construction.

The Company is also exposed to social risks as a public service provider in Rudong County. Demographic changes, public awareness, and social priorities shape the government's target for Donghe Group and, affect the government's propensity to support the Company.

Donghe Group's governance considerations are also material as the Company is subject to oversight and reporting requirements of the local government, reflecting its public-policy role and status as a government-owned entity.

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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