

## **CCXAP affirms Dongying District Municipal Holding Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook.**

Hong Kong, 18 December, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Dongying District Municipal Holding Group Co., Ltd.’s (“DYMH” or the “Company”) long-term credit rating at BBB<sub>g</sub>-, with stable outlook.

The BBB<sub>g</sub>+ long-term credit rating of DYMH reflects Dongying District 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 Dongying District Government’s capacity to provide support reflects Dongying District’s moderate economic strength and fiscal metrics.

The rating also reflects the local government’s very high willingness to provide support, based on the Company’s (1) important role in local infrastructure construction and public services; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt burden driven by the continuous investment in construction projects; (2) weak liquidity profile with limited bank standby facilities; and (3) medium contingent liabilities risk caused by mutual guarantee for local state-owned enterprises (“SOEs”).

### **Corporate Profile**

Founded in 2018, DYMH is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Dongying District. The Company shoulders the major responsibility of carrying out local public activities, including infrastructure construction, heat supply, and municipal sanitation. It also engages in commercial activities such as self-operated project construction and leasing. As of 30 June 2024, DYMH was wholly owned and controlled by the State-owned Assets Management Service Center of Dongying District, Dongying City.

### **Rating Rationale**

#### **Credit Strengths**

**Important role in local infrastructure construction and public services.** There are 3 major LIIFCs in Dongying District under the control of Dongying District Government. Each of them has a clear position under the government’s planning. Among them, DYMH is the key entity in infrastructure construction and provision of public services in Dongying District, mainly responsible for heat supply, renovation of old urban residential communities, road construction and improvement, river management, and municipal sanitation.

**Good track record of receiving government support.** DYMH has a good track record of receiving support from Dongying District Government in terms of subsidies, capital injection, special funds, and equity transfer. Given the Company’s important role in Dongying District, we believe that DYMH will continue to receive various kinds of support from the local government.

### Credit Challenges

**Increasing debt burden driven by the continuous investment in construction projects.**

DYMH's total debt continued to increase, due to the continuous investment in construction projects in Dongying District. Given the large uninvested amount of construction projects and maturing debt, we estimate the Company would continue to rely on external financing such as bank loans and its total debt would further increase over the next 12-18 months.

**Weak liquidity profile with limited bank standby facilities.**

DYMH's access to funding is fair. Bank loans accounts for the majority of the Company's total debt. The Company shows low standby liquidity. Moreover, the Company's bank loans were concentrated on regional banks. The Company also issued two tranches of offshore bonds in 2024. The Company's exposure to non-standard financing is low, and financing leasing accounted for less than 10% of total debt. Meanwhile, the liquidity of the Company's assets was relatively weak. The low asset liquidity may undermine the Company's financial flexibility.

**Medium contingent liabilities risk caused by mutual guarantee for local SOEs.**

DYMH bears moderate contingent risk resulting from large external guarantees. Most of the external guarantees were provided to SOEs. The practice of mutual guarantees among local SOEs is common phenomenon in Dongying District. In case a credit event occurs, the Company may face certain contingent liability risks and cross-default risks. Considering the important role of state-owned enterprises in Dongying District, we expect that the local government would provide support when necessary.

### Rating Outlook

The stable outlook on DYMH's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company's characteristics such as its important role in the infrastructure construction and public services of Dongying District will remain unchanged over the next 12-18 months.

**What could upgrade the rating?**

The rating could be upgraded if (1) the Dongying District Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that enhances the local government's willingness to support, such as improved financing ability.

**What could downgrade the rating?**

The rating could be downgraded if (1) the Dongying District 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, deteriorated financing ability, or decreased government payments.



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

Vincent Tong

*Assistant Director of Credit Ratings*

+852-2860 7125

[vincent\\_tong@ccxap.com](mailto:vincent_tong@ccxap.com)

Elle Hu

*Executive Director of Credit Ratings*

+852-2860 7120

[elle\\_hu@ccxap.com](mailto:elle_hu@ccxap.com)

Client Services: +852-2860 7111



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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](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656