CCXAP

CCXAP affirms Dalian Deta Urban Construction Co., Ltd.'s long-term credit rating at A_g-, with stable outlook.

Hong Kong, 21 September 2026 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Dalian Deta Urban Construction Co., Ltd. ("Deta" or the "Company") at A_g-, with stable outlook.

The A_g- long-term credit rating of Deta reflects Jinpu New Area Government's very 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 the local government's capacity to provide support reflects Jinpu New Area's status as China's tenth national-level new area, with good economic strength and fiscal metrics.

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) relatively high debt leverage with certain short-term debt pressure; and (3) relatively weak asset liquidity.

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 were expanded to the entire area of Jinpu New Area. As a result of the regional planning, on 31 December 2024, Jinpu New Area Industrial Holding Group Co., Ltd. transferred 100% of its equity interest in Deta to Dalian Deta Economic Development Co., Ltd., which is wholly owned by the State-owned Assets Supervision and Administration Bureau of Jinpu New Area. In 2025, the parent company was renamed Dalian Deta Holding Group Co., Ltd., while the Company was renamed Dalian Deta Urban Construction Co., Ltd. As of 31 March 2026, the Administrative Committee of Dalian Jinpu New Area remained as the Company's ultimate controller.

Rating Rationale

Credit Strengths

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. The Company's heating, gas and water supply segments hold distinct regional exclusivity. The gas segment features a long operating history and expanding footprint these years. As of March 31, 2026, it owned 1,756.0 km of networks with a daily capacity of around 4.3 million cubic meters. Meanwhile, falling raw coal purchase prices have driven continuous growth in the heating business's gross profit margin. The water supply segment has seen growing users and gross margins recently, though high raw water costs keep its profitability dependent on government subsidies. However, a drop in industrial consumption caused a slight decline in 2025 water sales. The Company also generates revenue by treating industrial and residential wastewater. As of end-2025, it had one sewage project under construction, with a total investment amount of RMB150.0 million, which is slated for completion by end-2026 and will expand daily treatment capacity by 30.0 thousand tons. The Company also engages in shantytown renovation, PPP projects, old residential area renovation, and urban renewal. As of 31 March 2026, it held six PPP projects with five already in operation. Its major urban renewal project entails a RMB20.1 billion investment over five years, financed by RMB4.1 billion in self-raised funds and RMB16.0 billion in China Development Bank loans. As of end-2025, the remaining investment required for the project was RMB17.5 billion. Future funding balance is planned to be achieved through secondary development sales and industrial revenue.

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. 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. For example, in 2025, the Company received a total of RMB3.0 million in capital injections from its parent company. In terms of operational subsidy, the Company received government subsidies of RMB788.6 million in 2025 to support its daily operation. Moreover, the shantytown renovation projects are all included in the government fiscal budget and the future repayments are visible. Overall, 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.

Good access to funding. Deta has good access to diversified funding and mainly in bank loans and bonds issuance, which partially mitigates its liquidity risk. As of 31 March 2026, the Company had no independent credit facilities and currently utilizes the consolidated credit lines of its parent company, which consist of a total bank credit facility of RMB48.8 billion with an unused amount of RMB25.7 billion. The Company also has access to the debt capital markets for onshore and offshore bond issuance. In 2025, the Company raised around RMB755.0 million through domestic bond market, with coupon rate of 2.5%. The Company also entered a perpetual bond investment contract with China Railway Trust Co., Ltd, under which it received RMB110.0 million of perpetual bond investment funds, expanded the Company's financing channels. At the same time, Deta has low exposure to non-standard financing, which accounting for around 1.2% of its total debt.

Credit Challenges

Medium exposure to commercial activities. Deta also engages in commercial activities, such as property development, property leasing, city maintenance, trading, and service fee businesses. We expect that the diversified businesses can help enrich the Company's income source. 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 operational capability. As of 31 March 2026, the Company had 5 real estate projects for sale with a total investment of RMB5.3 billion and an outstanding investment of RMB1.2 billion. The Talent Park project has substantially completed its sales, whereas the sales performance of other projects remains moderate. Deta's trading segment includes coal, chemical products, iron ore powder, and aluminum panel production, featuring highly concentrated counterparties and slim gross margins. Additionally, the Company handles city maintenance in Jinpu New Area, with service coverage encompassing the entire built-up area and half of its agricultural subdistricts. Additionally, the Company has entered the digital economy segment, launching the construction of the Artificial Intelligence Computing Centre and the Dalian Digital Valley Emerging Infrastructure Project with a total investment of RMB7.4 billion and remaining investment of RMB4.5 billion ss of end-2025. Currently, Zhichuang Park Area A is operational, and these projects are planned to balance the funding mainly through computing power and facility leasing.

Relatively high debt leverage with certain short-term debt pressure. With the expansion of its business and continued investment in construction projects, Deta maintained a relatively high level of debt these years. Benefiting from the parent company's bond issuances to refinance the Company's maturing debt and the continuous progress of debt resolution initiatives, the Company's adjusted total debt slightly decreased from RMB22.7 billion at the end of 2024 to RMB21.6 billion as of 31 March 2026. The total capitalization ratio increased from 49.1% to 49.7% over the same period, indicating a relatively high debt leverage. The Company also demonstrated certain short-term debt pressure as the proportion of short-term debt to total debt was 30.4% as of 31 March 2026. In addition, the cash to short-term debt ratio was 0.5x, which is insufficient to cover the short-term debt. We expect Deta's debt leverage to moderately increase given the large capital expenditure requirements of its urban renewal projects and property development projects.

Relatively weak asset liquidity. Deta showed a relatively weak liquidity profile. As of 31 March 2026, inventories, long-term accounts receivable, and construction in progress accounted for approximately 52.6% of total assets. The inventories and construction in progress are mainly cost of infrastructure construction, property development, and self-construction projects. The long-term accounts receivable mainly consists of uncollected payment under government purchase service and investment of PPP projects, which were considered to have low liquidity. As of end-2025, the Company’s total restricted assets amounted to RMB6.2 billion, accounting for 10.7% of its total assets, representing a year-on-year decline. The low asset liquidity may undermine the Company's financial flexibility in the near term.

Rating Outlook

The stable outlook on Deta’s rating reflects our expectation that, for the next 12 to 18 months, the local government’s capacity to support will remain stable, and the Company will maintain its important role in the provision of public services in Jinpu New Area.

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 strengths 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.

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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