

Dalian Deta Holding Co., Ltd.

Issuer Rating Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Government Financing Vehicle
Date	28 March 2022

Lianhe Ratings Global Limited (“Lianhe Global”) publishes ‘BBB+’ global scale Long-term Issuer Credit Rating of Dalian Deta Holding Co., Ltd. (“Dalian Deta”). The Outlook is Stable.

Summary

The Issuer Credit Rating reflects a high possibility that the de facto local government of Dalian’s Jinpu New Area (“DJNA”), Jinpu New Area Administrative Committee (“DJNA Administrative Committee”), would provide strong support to Dalian Deta if needed. This mainly considers the DJNA Administrative Committee’s full ownership of Dalian Deta, the high importance of Dalian Deta to DJNA in the infrastructure and public utilities development, and the strong linkage between the DJNA Administrative Committee and Dalian Deta, including management supervision, ongoing operational and financial support. In addition, DJNA may face significant negative impact on its reputation and financing activities should Dalian Deta encounter any operational and financial difficulties.

The Stable Outlook reflects our expectation that Dalian Deta’s strategic importance would remain intact while the DJNA Administrative Committee will continue to ensure Dalian Deta’s stable operation.

Rating Rationale

Dalian Jinpu New Area Administrative Committee’s Full Ownership: The DJNA Administrative Committee holds 100% stake in Dalian Deta, via a newly-created holding company, Dalian Jinpu New Area Industry Holdings. We believe the setup of Dalian Jinpu New Area Industry Holdings would not reduce the policy role of Dalian Deta in DJNA, Dalian Deta’s operations would still remain independent. At end-2021, the DJNA Administrative Committee was the only shareholder of Dalian Deta. The paid-in capital of Dalian Deta increased to RMB3.7 billion in 2021 after capital injections, which was the same as its registered capital.

Strategic Importance to Dalian and DJNA: We believe that the DJNA Administrative Committee is willing to extend support to Dalian Deta in view of its strategic important role as one of the major state-owned infrastructure entities of DJNA to support the local economic and urban development. Dalian Deta is one of DJNA’s major LGFVs and has undertaken various businesses including utilities (water, gas and heat) infrastructures and services, public bus transportation and industrial parks construction to support the development of DJNA.

Government Supervision and Strategic Alignment: The DJNA Administrative Committee has strong control and supervision over Dalian Deta, including control of the board of directors, senior management appointments, major strategic, investment, and financing planning. In addition, DJNA Administrative Committee will assess the economic performance of Dalian Deta’s business executives. Dalian Deta’s business operation and development have been aligned with the DJNA government’s economic and social policies.

Ongoing Government Support: Dalian Deta had received assets and capital injections from the DJNA Administrative Committee and related government entities during the past

Key Figures of DJNA and Dalian Deta (RMB billion)	2020	2021
DJNA		
GDP	207.9	252.9
GDP growth rate (%)	0.6	9.0
Budgetary revenue	15.2	16.1
Government fund	3.3	6.3
Transfer payment	2.8	2.6
Budgetary expenditure	17.9	18.0
Dalian Deta		
Assets	40.1	41.3*
Equity	20.7	20.9*
Revenue	2.1	2.2*

*Note: The assets, equity and revenue figures used above are at end-September 2021.
Source: DJNA, Finance Bureau of DJNA, Dalian Deta and Lianhe Global’s calculations*

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Applicable Criteria

[China Local Government Financing Vehicle Criteria \(31 December 2021\)](#)

few years. The assets injection included fixed assets, project under development and real estate properties.

Moderate Financials: Dalian Deta's earnings generation capability has been moderate given its focus on providing utilities and infrastructure construction. Dalian Deta's financial leverage (total liabilities to assets) was moderate at 49.4% at end-September 2021. Apart from the financial support from the government, Dalian Deta has access to financing channels such as bank loans, bond issuance and other financing channels to support its debt repayment and business operation.

Dalian Deta had unrestricted cash of c. RMB2.8 billion and available credit line amount of c. RMB19.2 billion at end-2021, compared with its debt to be due within one year of c. RMB3.15 billion.

Economy and Fiscal Strength of DJNA: At end-2021, DJNA's GDP reached RMB252.9 billion, which was approximately 30% of Dalian's GDP. DJNA mainly relies on the high-tech industry to support its industrial development (the secondary sector), and the industry structure was 5% primary, 60% secondary and 35% tertiary at end-2021. DJNA population was 1.54 million based on the 7th Population Census, which was approximately 21% of Dalian's total population.

DJNA's aggregate fiscal revenues were mainly derived from its budgetary revenue with tax revenue accounting for approximately 65%, 84% and 84% in 2019, 2020 and 2021, respectively. The budget deficit of DJNA was relatively low and it continues to receive subsidies from higher government authorities.

Rating Sensitivities

We would consider downgrading Dalian Deta's rating if (1) there is perceived weakening in support from the local governments, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of DJNA Administrative Committee's ownership of Dalian Deta, or (3) there is a downgrade in our internal credit assessment on DJNA.

We would consider upgrading Dalian Deta's rating if (1) there is strengthened support from the DJNA Administrative Committee, or (2) there is an upgrade in our internal credit assessment on DJNA.

Operating Environment

Stable with Sustained Growth of Dalian Jinpu New Area

Established in June 2014, DJNA is the first state-level new area in the northeast China approved by the Central Government. It consists of multiple functional parks including the previous Jinzhou District, Dalian Economic and Technological Development Area (“Development Area”), Bonded Area, Puwan Economic Zone and Golden Pebble Beach National 5A-Level Tourism and Holiday Resort.

DJNA's GDP and Financial Condition (RMB billion)	2018	2019	2020	2021
GDP	219.9	207.4	207.9	252.9
GDP Growth Rate (%)	7.5	4.6	0.6	9.0
Fixed Asset Investment Growth Rate (%)	16.0	-33.1	5.1	11.0
Population (million)	-	-	1.5	1.5
Budgetary revenue	15.3	19.3	15.2	16.1
Tax revenue	13.0	12.5	12.6	13.5
Tax revenue (% of budgetary revenue)	85.0	64.6	82.6	83.8
Government fund income	3.7	4.5	3.3	6.3
Transfer payment	3.5	2.1	2.8	2.6
Aggregate revenue	22.4	25.4	21.3	25.0
Budgetary expenditure	19.1	15.9	17.9	18.0
Budget deficit ¹ (%)	-24.8	17.4	-17.5	-11.2

Source: DJNA's website and Lianhe Global's calculation

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

At end-2021, DJNA's GDP reached RMB252.9 billion, which was approximately 30% of Dalian's GDP at the time. DJNA mainly relies on high-tech industry to support industrial development (the secondary sector), and the industry structure was 5% primary, 60% secondary, 35% tertiary at end-2021. DJNA's population was 1.54 million based on the 7th Population Census, which was approximately 21% of Dalian's total Population.

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Ownership Structure and Profile

Full State Ownership with Strong Government Supervision

Dalian Deta was established in 2004 in Liaoning Province as an authorized state-owned asset management organization approved by the Dalian Municipal People's Government, with an initial registered capital of RMB1 billion. The Finance Bureau of Dalian Economic and Technological Development Area (“the Finance Bureau”) [大连经济技术开发区财政局] allotted cash of RMB2.7 billion to Dalian Deta as capital injection in May 2010 and c. RMB10 billion to meet the needs of integration in 2011, respectively. In October 2020, the DJNA Administrative Committee [大连金普新区管理委员会] transferred its 100% equity on Dalian Deta free of charge to Dalian Jinpu New Area Industry Holdings Group Co., Ltd. (“DJNA Industry Holdings”) [大连金普新区产业控股集团有限公司], while the DJNA Administrative Committee is the actual controller of Dalian Deta and the only shareholder with 100% ownership of DJNA Industry Holdings.

Dalian Deta is positioned as the main state-owned entity responsible for the investment and financing of infrastructure construction and public utilities operation in DJNA. Dalian Deta consolidated 118 entities at end-2021, covering multiple public servicing businesses including gas supply, heating supply, water supply and sale, sewage treatment, cultural development and municipal management etc.

Strategic Importance and Government Linkage

Strategic Importance of Dalian Deta to DJNA

Dalian Deta is one of DJNA's major LGFVs and has undertaken various businesses including utilities (water, gas and heat) infrastructures and services, public bus transportation and industrial parks construction to support the development of DJNA. DJNA's GDP accounted for c. 30% of Dalian's GDP in 2021 and DJNA is an important area of Dalian. Dalian Deta is a key utilities service provider in DJNA, responsible for over 90%, 30% and 60% of DJNA's gas, heat and water services in 2021, respectively.

Strong Linkage with the DJNA Government

The DJNA Administrative Committee holds 100% stake in Dalian Deta, via a newly-created holding company, Dalian Jinpu New Area Industry Holdings [金普新区产业控股集团有限公司]. At end-2021, the DJNA Administrative Committee was the ultimate beneficial owner of Dalian Deta.

The DJNA Administrative Committee has strong control and supervision over Dalian Deta, including control of the board of directors, senior management appointments, major strategic, investment, and financing planning. In addition, the DJNA Administrative Committee will assess the economic performance of Dalian Deta's business executives. Dalian Deta's business operation and development have been aligned with the government's economic and social policies.

Ongoing Government Support

Dalian Deta has received assets and capital injections from the DJNA Administrative Committee and related government entities during the past few years. The asset injections included fixed assets, projects under development and real estate properties.

Other support included financial subsidies, equity transfer and tax benefits from the government. The financial subsidies were mainly based on business operation, which included special subsidies for urban construction, water and heating supply, sewage treatment and project subsidies from the finance bureau of DJNA. The tax benefits (tax reduction and exemption) increased greatly mainly due to the tax incentives policies during the epidemic in 2020. Dalian Deta is expected to continue receiving subsidies from the government in the future.

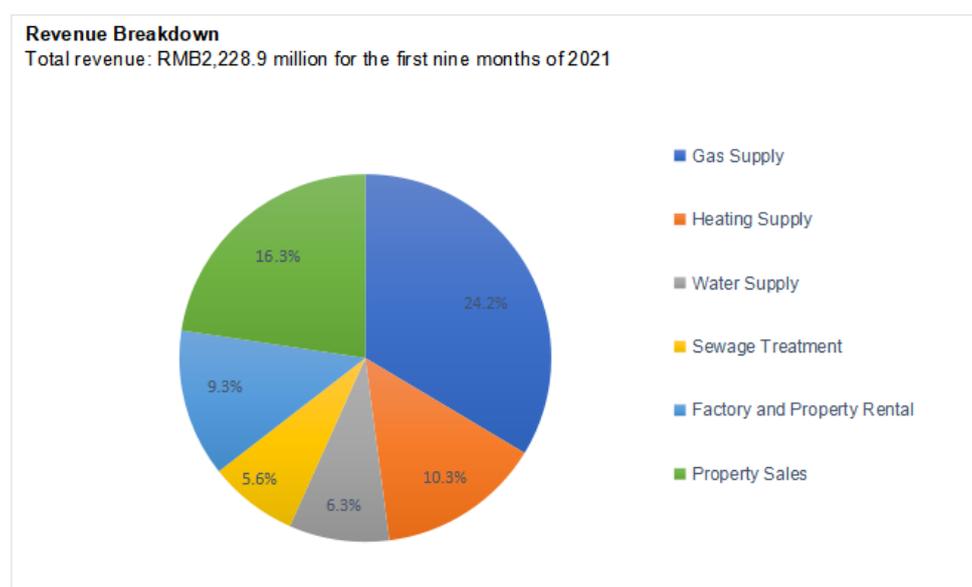
Business Profile

Major LGFV Responsible for Urban Infrastructure Construction in Dalian Jinpu New Area

As the main body of urban infrastructure construction and state-owned entity in DJNA, Dalian Deta is mainly engaged in public utility operations and infrastructure construction business, mainly including gas supply, heating supply, water supply and sewage treatment,

through direct holding subsidiaries participate and earn profits. Dalian Deta has a solid market position as its franchise in some specific business activities and plays a major role in DJNA.

Dalian Deta realized total revenue of RMB2,228.9 million for the first nine months of 2021. Income generated from gas supply decreased to RMB539.9 million, accounting for the largest share of 24.2% of total revenue. Heating supply was the second largest at RMB229.6 million, followed by the water supply at RMB139.7 million for the first nine months of 2021. The distribution of total revenue was generally unchanged in this period, compared with 2020 and 2019.



Gas Supply

Dalian Deta is the major gas supply entity in DJNA and the only gas supplier in the Development Area and Bonded Area with a 30-year market franchise approved by the DJNA Administrative Committee in 2009. Its gas business is mainly operated by Dalian Deta Hong Kong & China Gas Co., Ltd. (“the Gas Company”), a subsidiary of Dalian Putai Energy Co., Ltd. (“Putai Energy”) [大连普泰能源有限公司]. Dalian Deta held 55% equity of the Gas Company after it established a joint venture relationship with Hong Kong and China Gas (Dalian) Co., Ltd. and Dalian Rongxin Energy Co., Ltd. in 2008. With the development of these areas in Dalian, the gas sales volume increased steadily in the past three years. However, the average selling price was controlled by the local government. The revenue from gas sales were RMB705 million, RMB725 million and RMB534 million with gross margin of 25.6%, 25.1% and 26.8% in 2019, 2020 and for the first nine months of 2021, respectively.

Heating Supply

Dalian Deta’s heating supply business was originally operated by the wholly owned subsidiaries Dalian Economic and Technological Development Zone Heating Co., Ltd. (“the Heating Company”) and Dalian Deta Jinshitan Heating Co., Ltd. (“Jinshi Company”). The Heating Company was established in March 2000 and mainly responsible for providing heating services in the Development Area, including the Dalian DD Port Industrial Park, and the south of University Town, as well as the heat (and steam) production for industrial

enterprises throughout the year and residential heating (hot water) services during winter. In October 2018, the above two companies were merged by Putai Energy, which is a new subsidiary of Dalian Deta that established to take over the heating business operation. The heating sector achieved sales revenue of RMB353 million, RMB344 million and RMB230 million with gross margin of 25.9%, 31.4% and 29.9% in 2019, 2020 and for the first nine months of 2021, respectively.

The company will use low-carbon technology to take over the nearly 30 million square meters of residential heating business in the southern city of Jinzhou, Jinzhou Industrial New Park, Xiaoyao Bay International Business District and the energy supply business of hundreds of enterprises.

Water Supply and Sewage Treatment

The water supply business is mainly operated by the wholly owned subsidiary Dalian Deta Water Co., Ltd. (“the Water Company”) [大连德泰水务有限公司]. It is the major water supply entity in DJNA as well as the only water supplier in the Development Area. All raw water was purchased from Dalian Water Supply Group Co., Ltd. (a SOE wholly owned by Dalian SASAC) with a fixed price of RMB0.8 per ton, while the selling price must maintain as Dalian’s price according to the “Same City Same Price” principal. To ensure stable operation of the Water Company, the DJNA Administrative Committee gives a financial subsidy of RMB0.243 per ton since July 2006. The revenue generated from this sector were RMB183 million, RMB179 million and RMB140 million with gross margin of 20.6%, 17.7% and 18.9% in 2019, 2020 and for the first nine months of 2021, respectively.

The sewage treatment business is operated by several subsidiaries in different areas such as 大连德泰小窑湾污水处理有限公司, 大连德泰金石滩污水处理有限公司, 大连德泰七顶山污水处理有限公司 etc. This sector grew rapidly in the past few years with revenue of RMB111 million, RMB167 million and RMB125 million in 2019, 2020 and for the first nine months of 2021, respectively, mainly due to the development of DJNA and the increase of sewage treatment capacity. The local government will supervise the cost and revenue and allocate sewage treatment fees annually.

Other Businesses

Dalian Deta has commenced other businesses including infrastructure construction, factory rental and property sales, city maintenance, and commodity trading business since 2020. The commodity trading business is operated by 大连德泰供应链科技有限公司, a subsidiary with 51% equity held by Dalian Deta that established in 2018. It is mainly engaged in the trading of hazardous products such as xylene, pure benzene and iron ore pellet. The commodity trading business realized revenue of RMB225 million with a gross margin of 0.8% for the first nine months of 2021, mainly due to the limit product types and short operating time.

Commodity trading is a fragmented business with many small players amid intense competition which results in low profit margin. In addition, given the volume-drive nature of the commodity trading business with low or no product differentiations, it also results in low profit margin. But at the same time, the commodity trading business incurs low operating costs.

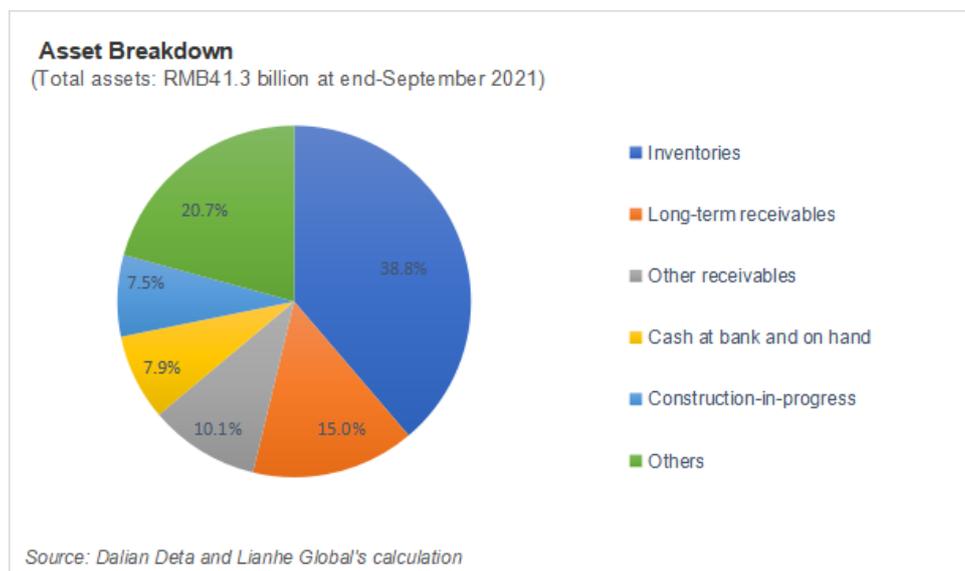
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2018	2019	2020	Sep2021
Total Asset	30,158	33,302	40,055	41,314
Equity	19,803	19,964	20,697	20,903
Debt	7,377	9,964	14,708	15,134
Debt / (Debt + Equity) (%)	27.1	33.3	41.5	42.0
LT Debt	7,110	9,293	12,505	11,963
LT Debt / (LT Debt + Equity) (%)	26.4	31.8	37.7	36.4

Source: Dalian Deta, Dalian Deta's 3Q2021 financial report and Lianhe Global's calculations

Dalian Deta's total assets increased approximately 3.1% to RMB41.3 billion at end-September 2021 from RMB40.0 billion at end-2020. Inventories accounted for most of its assets (38.8%) which mainly consisted of land to be developed and development costs. The amount of land to be developed accounted for c. 85% of inventories mainly due to the land use right obtained from the transfer contract signed with Dalian Land Resource and Housing Bureau [大连市国土资源和房屋局]. Other receivables accounted for 10.1% of total assets at end-September 2021, which mainly included land payment and current account with different government departments. Long-term receivables mainly included government payment for PPP projects and service procurement for the housing projects.



Dalian Deta's financial leverage (total liabilities to assets) exhibited a slight upward trend in recent years which was increased to 49.4% at end-September 2021 from 48.3% at end-2020, mainly due to the increase of debenture payable. Dalian Deta issued USD300 million and c. RMB3.8 billion debentures to repay its existing debt and supplement its working capital in 2019 and 2020, respectively.

Cash Flow

Cash Flow				
(RMB million)	2018	2019	2020	9M2021
Cash Inflows from Operation	1,943.8	3,087.1	6,809.6	4,507.6
Cash Outflows from Operation	2,462.3	3,467.7	6,924.5	4,205.7

Net CF from Operation	-518.5	-380.5	-114.9	301.9
Cash Inflows from Investment	11,131.5	276.2	822.3	641.6
Cash Outflows from Investment	2,793.8	1,788.7	3,632.8	1,575.8
Net CF from Investment	8,337.6	-1,512.5	-2,810.5	-934.2
Cash Inflows from Financing	4,231.2	2,866.9	6,630.4	5,011.5
Capital Contribution	25.6	22.2	200.0	37.1
Borrowings	4,202.5	2,808.4	6,411.0	4,053.6
Bonds	-	-	-	-
Cash Outflows from Financing	12,115.7	820.7	2,486.1	4,079.8
Net CF from Financing	-7,884.5	2,046.3	4,144.3	931.7
Net Increase in Cash and cash equivalent	-65.4	169.0	1,217.3	299.3

Source: Dalian Deta's financial reports

Debt Servicing Capability

Dalian Deta has access to multiple channels of financing, including bank loans, issued bonds etc. to support its debt repayment and business operation. Dalian Deta had cash of c. RMB2.8 billion (excluding restricted cash), and unused credit facilities of RMB19.2 billion, compared with its outstanding debt of RMB3,146.4 million to be due within one year at end-2021.

Debt Maturity Profile at end-2021		
(RMB million)	Amount	Percentage
Within 1 year	3,146.4	21.0%
1-2 years	4,417.8	29.5%
2-3 years	1,381.7	9.2%
3-4 years	311.0	2.1%
More than 4 years	5,723.7	38.2%
Total	14,980.6	100.0%

Source: Dalian Deta and Lianhe Global's calculations

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