

# Dalian Deta Holding Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	20 March 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Dalian Deta Holding Co., Ltd. (“Dalian Deta” or “the company”); Issuer Rating Outlook 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

**Government’s Ownership and Supervision:** The DJNA Administrative Committee indirectly holds 100% stake in Dalian Deta, via a holding company, Dalian Jinpu New Area Industry Holdings. The DJNA Administrative Committee has strong control and supervision over Dalian Deta, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions. In addition, the DJNA Administrative Committee has formulated a performance appraisal policy for Dalian Deta, and regularly appoints auditors to review the company’s operating performance and financial position.

**Strategic Importance and Strategic Alignment:** Dalian Deta is still the major state-owned entity that is responsible for utilities (water, gas and heat) supply and infrastructures construction in DJNA. It also undertakes public bus transportation and industrial parks construction to support the urban and economic development of DJNA. Dalian Deta’s strategic planning and development have been aligned with the local government’s economic and social policies, aiming to develop DJNA.

**Ongoing Government Support:** Dalian Deta received government support in the form of asset and capital injection, equity transfer financial subsidies and tax breaks, etc. The company received government subsidies of c. RMB203.2 million and RMB178.7 million in 2021 and first nine months of 2022, mainly included the special fund for urban construction project and financial subsidies for utilities supply. Given the company’s role and its strategic importance, we believe that Dalian Deta is likely going to receive timely government support in the form of operational and/or financial subsidies in the future.

**Dalian Deta’s Financial and Liquidity Position:** Dalian Deta’s financial leverage (total liabilities to assets) and total debt capitalization were 55.6% and 42.5% at end-September 2022, respectively. Dalian Deta mainly relies on external financing for debt repayment. The

### Key Figures of DJNA and Dalian Deta

(RMB billion)	2021	2022
<b>DJNA</b>		
GDP	252.9	270.5
GDP growth rate (%)	9.0	5.0
Budgetary revenue	16.1	16.2
Government fund	6.3	7.2
Transfer payment	2.6	3.0
Budgetary expenditure	18.0	18.4
<b>Dalian Deta</b>		
Total Asset	43.6	48.1
Equity	20.5	21.4
Revenue	3.5	2.2

Source: Public information, Dalian Deta and Lianhe Global’s calculations

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### Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

total adjusted debt of the company increased to RMB17.9 billion, of which the short-term and long-term debt accounted for 15.3% and 84.7%, respectively, at end-September 2022. The liquidity of Dalian Deta was sufficient. It had a total cash balance of c. RMB5.2 billion and a total unused credit line of RMB23.7 billion at end-September 2022, compared with its debt to be due within one year of RMB5.3 billion. Besides, Dalian Deta had access to multiple financing channels including bank borrowings, bond issuance and other non-traditional financing channels to support its debt repayment and business operation.

**Economy and Fiscal Condition of DJNA:** DJNA's GDP increased to RMB270.5 billion, representing a year-over-year growth rate of 5.0% in 2022. DJNA mainly relies on high-tech industry to support industrial development (the secondary sector). GDP per capita and disposal income per capita were c. RMB175,000 and RMB52,000, respectively.

The aggregate fiscal revenue of the DJNA government maintained a steady growth in 2022, with its budgetary revenue and government-managed fund reaching c. RMB16.2 billion and RMB7.2 billion, respectively. The DJNA's government's budgetary revenue was slightly affected by large-scale value-added tax credit refunds. The budget deficit deteriorated slightly from -12.3% in 2021 to -13.9 % in 2022 but remained at a relatively low level. DJNA continues to receive subsidies from higher government authorities. The debt ratio (i.e., total government debt divided by aggregate fiscal revenue) of the DJNA government remained at a relatively high level in 2022, with RMB53.6 billion outstanding debt at year-end.

### 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.

### Company Profile

Dalian Deta was established in 2004 as an authorized state-owned asset management organization under the approval of the Dalian Municipal People's Government. At end-2022, The DJNA Administrative Committee indirectly holds 100% stake in Dalian Deta, via a holding company, Dalian Jinpu New Area Industry Holdings.

Dalian Deta serves as the primary entity for urban infrastructure construction and state-owned asset operation in DJNA, focusing on public utility operations and infrastructure construction, such as gas supply, heating supply, water supply, and sewage treatment, through its subsidiaries. Given the franchised advantage in DJNA, the company holds a strong market position in specific business activities and plays a significant role in the region.

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