

Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongtai Huimin Urbanization Construction Group Co., Ltd.

HONG KONG, 17 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Dongtai Huimin Urbanization Construction Group Co., Ltd. (“DTHM” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dongtai City (“Dongtai government”) would provide very strong support to DTHM if needed. This mainly considers the Dongtai government’s full ownership of DTHM, DTHM’s strategic importance as an important local investment and development company (“LIDC”) responsible for projection construction in Dongtai City (“Dongtai”), especially in Economic Development Zone (“Dongtai EDZ”), and the strong linkage between the Dongtai government and DTHM, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Dongtai government may face significant negative impact on its reputation and financing activities if DTHM encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that DTHM’s strategic importance would remain intact while the Dongtai government will continue to ensure DTHM’s stable operation.

Key Rating Rationales

Dongtai Government’s Ownership and Supervision: The Dongtai government is the sole shareholder and actual controller of DTHM. The Dongtai government has strong control over the company, including the appointment of senior management, strategic alignment, supervision of major financing plan and investment decisions and ongoing operation and financial support. In addition, the Dongtai government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: As an important LIDC in Dongtai, DTHM is mainly responsible for the projection construction in Dongtai EDZ. The primary sources of operating revenue for DTHM are engineering construction, resettlement housing sales and commodity sales, while it also engages in landscape maintenance, crop sales, property leasing, etc. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The Dongtai government provided ongoing support to DTHM. The company has received total subsidies of RMB486.2 million from the Dongtai

government during 2020 to 2022. Besides, the company received a series of asset injections with a total value of RMB953.3 million from the Dongtai government in 2022. In addition, the company's paid-in capital was also enlarged to RMB2.0 billion from RMB1.5 billion in 2022. We expect DTHM to receive ongoing support from the Dongtai government in the coming years considering its strategic importance in Dongtai.

Economy and Fiscal Condition of Dongtai: Dongtai is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Yancheng City. It recorded an economic growth in 2022, achieving a GDP of c. RMB105.1 billion, with a year-on-year growth of 4.7%. Its total GDP ranks first among all districts and counties in Yancheng. The aggregate fiscal revenue of the Dongtai government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Dongtai government increased to c. RMB6.1 billion. However, the tax revenue decreased to RMB4.4 billion due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income decreased to RMB5.6 billion in 2022, owing to the weak property market. Dongtai's budget deficit increased to 130.7% in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 108.1% at end-2022 from 98.7% at end-2021.

DTHM's Financial Matrix and Liquidity Position: DTHM's total assets surged to RMB23,955 million at end-September 2023 from RMB8,221 million at end-2020, mainly due to a series of large asset injection and capital injection in 2022. The total debts of DTHM increased to RMB14,683 million at end-September 2023 from RMB4,464 million at end-2020, and the financial leverage (total debt capitalization ratio) of DTHM stayed at c. 57%-64% in the past few years.

DTHM's liquidity was moderate. At end-September 2023, the company had cash of RMB2.4 billion (including restricted cash of RMB823 million), compared with debt due within one year of RMB4.1 billion. The company had unused bank facilities of RMB2.9 billion at end-September 2023. Besides, the company has access to various financing channels, including bank borrowings, bond issuances and other non-traditional financings, to support its debt repayments and business operations.

Rating Sensitivities

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

We would consider upgrading DTHM's rating if there is an upgrade in our internal credit assessment on the Dongtai government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this DTHM's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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