

Dongtai Huimin Urbanization Construction Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	17 January 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongtai Huimin Urbanization Construction Group Co., Ltd. (“DTHM” or “the company”)

Summary

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 project 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.

Rating Rationale

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 project 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 (“Yancheng”). It

Key Figures of Dongtai and DTHM (RMB billion)

Dongtai	2021	2022
GDP	98.6	105.1
GDP growth rate (%)	8.9	4.7
Budgetary revenue	6.0	6.1
Government fund	6.2	5.6
Transfer payment	4.4	4.8
Budgetary expenditure	12.8	14.0
DTHM	2022	2023.9
Asset	20.3	24.0
Equity	8.1	8.4
Revenue	4.3	3.0

Source: Public information, DTHM and Lianhe Global’s calculations

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Applicable Criteria

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

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.

Operating Environment

Economic Condition of Dongtai

Dongtai is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Yancheng on behalf of Jiangsu Province. Dongtai has abundant tourism resources, including Xixi Area, Huanghai Forest Park, Anfeng Ancient Town, etc. Dongtai has jurisdiction over 14 towns, with a total area of 3,176 square kilometers. At end-2022, Dongtai had a resident population of c. 0.9 million, with an urbanization rate of 60.5%.

Dongtai maintained steady economic growth in the past three years. Dongtai's GDP reached c. RMB105.1 billion in 2022, representing a year-over-year growth rate of 4.7%, and its GDP ranked first among all districts and counties under the administration of Yancheng. In the past few years, Dongtai focused on the development of five major industries, namely IT, advanced equipment manufacturing, new energy, new material and health industry. Dongtai's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 36.3% and 48.7% in 2022, respectively. GDP per capita of Dongtai was

c. RMB118,200 in 2022, which was higher than the GDP per capita of China (c. RMB85,700) as well as that of Yancheng (c. RMB105,600).

Dongtai's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	89.3	98.6	105.1
-Primary industry (%)	14.0	14.5	15.0
-Secondary industry (%)	35.4	35.9	36.3
-Tertiary industry (%)	50.5	49.6	48.7
GDP growth rate (%)	5.8	8.9	4.7
Fixed asset investment	48.3	41.8	46.5
Fixed asset investment growth rate (%)	4.2	-13.5	11.2
Population (million)	0.9	0.9	0.9

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Dongtai

The Dongtai government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. From 2020 to 2022, the budgetary revenue of the Dongtai government maintained a steady growth, and the tax revenue accounted for 73-78% of its budgetary revenue. Dongtai's budget deficit increased to 130.7% in 2022. In addition, Dongtai's government fund income, mainly generated by land sales, dropped to c. RMB5.6 billion in 2022 from c. RMB6.2 billion in 2021, owing to the weak property market.

The outstanding debt of the Dongtai government continued to grow in the past three years. At end-2022, the Dongtai government's outstanding debt was c. RMB10.8 billion, representing a year-over-year growth rate of 12.8%. 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, mainly due to the increase in special purpose debt.

Dongtai's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	5.5	6.0	6.1
Budgetary revenue growth rate (%)	5.0	10.4	4.5*
Tax revenue	4.3	4.7	4.4
Tax revenue (% of budgetary revenue)	78.0	78.0	72.9
Government fund income	4.4	6.2	5.6
Transfer payment	5.1	4.4	4.8
Aggregate revenue	15.0	16.6	16.5
Budgetary expenditure	11.8	12.8	14.0
Budget balance ¹ (%)	-116.8	-112.1	-130.7

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

Note*: Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

DTHM was established in June 2010 by Dongtai Investment Development Co., Ltd. DTHM had a shareholding structure in which the Dongtai government, as the sole shareholder and actual controller, held 100% of the company's equity.

Strategic Importance and Government Linkage

Strategic Importance of DTHM to Dongtai

As an important LIDC in Dongtai, DTHM is mainly responsible for the project construction in Dongtai EDZ. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Strong Linkage with the Local Government

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.

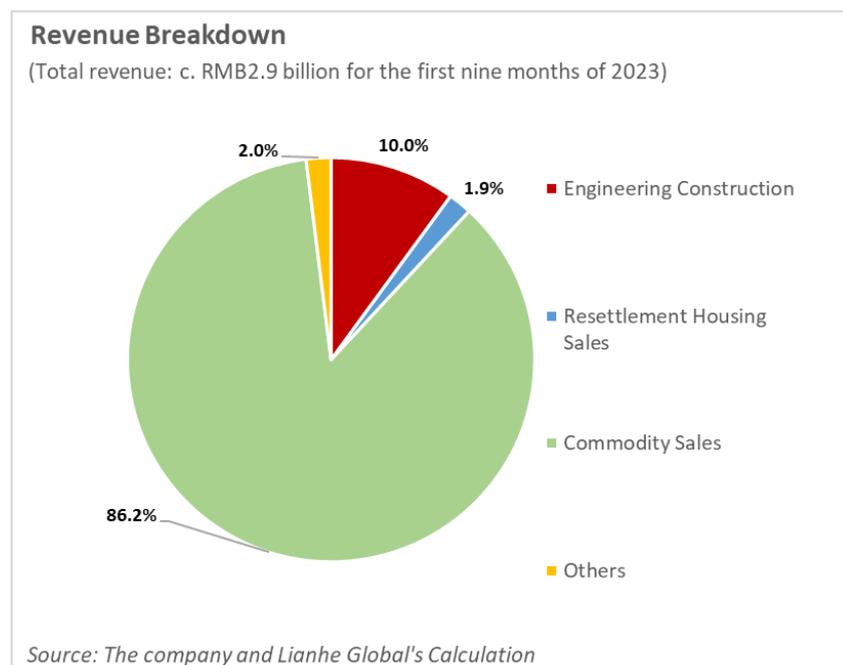
Ongoing Government Support

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.

Business Profile

The Key Entity Responsible for Project construction in Dongtai EDZ

DTHM, as an important LIDC in Dongtai, is mainly responsible for project construction within the Dongtai EDZ. The primary sources of operating revenue for DTHM are engineering construction, resettlement housing sales and commodity sales, while it also engaged in landscape maintenance, crop sales, property leasing, etc.



Engineering Construction

The company's engineering construction business mainly involves the construction of roads, sewage treatment facilities, pipe networks, etc. The projects are mainly conducted in agent construction mode, where the company settles construction costs plus a certain percentage of profit with entrusting parties.

Resettlement Housing Sales

The company's resettlement housing sales business is targeted for the resettlement households, and the company signed compensation agreements with the Dongtai EDZ Management Committee ("Dongtai EDZ MC"), according to which Dongtai EDZ MC would pay compensation to the company based on the difference between the market price and guideline price of the resettlement housing.

Commodity Sales

As the largest source of revenue for the company, commodity sales business is mainly engaged the sales of timber, coal, hot-rolled coil, etc. and mostly conducted in a "demand-driven" model, where it determines the amount of materials to be procured strictly based on the actual purchase orders placed by customers. The company makes a profit from the spread between buying and selling prices. The customers of this segment are relatively concentrated, and most of them are private enterprises, indicating a relatively high counterparty risk.

Other Businesses

Except for the above businesses, the company also operates other businesses including greening, crop sales, property leasing, etc. They mainly play a supplementary role and have little impact on JHIG's financial position and creditworthiness.

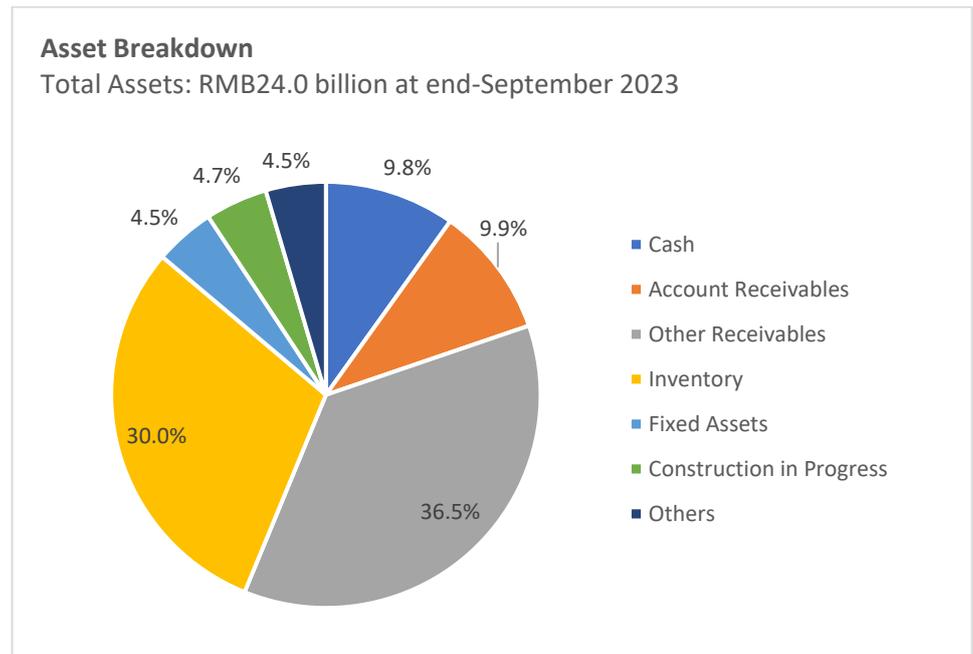
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	Sept 2023
Total Asset	8,221	11,119	20,257	23,955
Equity	3,371	3,874	8,090	8,392
Debt	4,464	6,710	11,068	14,683
Debt/(Debt+Equity) (%)	57.0	63.4	57.8	63.6
LT Debt	2,774	4,750	7,911	11,481
LT Debt/(LT Debt+Equity) (%)	45.1	55.1	49.4	57.8

Source: DTHM and Lianhe Global's calculation

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.



The current assets accounted for c. 86.4% of the company’s total assets at end-September 2023, which mainly consisted of notes receivables, other receivables and inventories. As the company actively participated in infrastructure projects in Dongtai EDZ, it accumulated sizeable inventories (mainly construction costs and land use rights), which accounted for 30.0% of the company’s current assets, while other receivables (mainly due from Dongtai government agencies and local SOEs) accounted for 36.5% of the current assets. The non-current assets of DTHM were RMB3.3 billion at end-September 2023, which mainly consisted of fixed assets and construction in progress.

Debt Servicing Capability

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.



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