Dongyang State-owned Assets Investment Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	18 January 2024

Key Figures of Dongyang and DSAI

(RMB billion)	2021	2022
Dongyang		
GDP	73.1	76.1
GDP growth rate (%)	10.5	3.2
Budgetary revenue	8.3	8.2
Government fund	10.6	10.0
Transfer payment	3.1	3.5
Budgetary expenditure	11.1	11.5
DSAI	**2022**	**2023.6**
Assets	83.3	96.6
Equity	39.2	39.6
Revenue	4.9	2.0

Source: Public information, DSAI and Lianhe Global's calculations

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

Lianhe Ratings Global Limited ("Lianhe Global") has upgraded the global scale Long-term Issuer Credit Rating of Dongyang State-owned Assets Investment Co., Ltd. ("DSAI" or "the company") to 'BBB+' from 'BBB'; Issuer Rating Outlook Stable.

Summary

The Issuer Credit Rating upgrade reflects the increased strategic importance of DSAI in Dongyang City ("Dongyang"), as the company is expanding its range and extent of its investment in a variety of industries. It is aligned with the development plans of the People's Government of Dongyang City ("Dongyang government") and strengthen DSAI's role in fostering consistent industrial growth in the region.

We believe there is a high possibility that the Dongyang government would provide very strong support to DSAI if needed. This mainly considers the Dongyang government's indirectly full ownership of DSAI, DSAI's strategic importance as the most important local investment and development company ("LIDC") for state-owned assets operation and infrastructure construction in Dongyang City ("Dongyang"), and the strong linkage between the Dongyang government and DSAI, including appointment of the senior management, strategic alignment, supervision of major investment and financing plan decisions and ongoing operational and financial support. In addition, the Dongyang government may face significant negative impact on its reputation and financing activities if DSAI encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that DSAI's strategic importance would remain intact while the Dongyang government will continue to ensure DSAI's stable operation.

Rating Rationale

Dongyang Government's Ownership and Supervision: The Dongyang government indirectly holds full ownership of DSAI through the State-owned Assets Supervision and Administration Office of People's Government of Dongyang City ("Dongyang SASAO") and Zhejiang Financial Development Co., Ltd. The Dongyang government has the final decision-making authority and supervises over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dongyang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: DSAI, as the most important LIDC in Dongyang, is mainly responsible for municipal infrastructure construction, land development, project construction, investment and development of urban public resource projects, investment and management of state-owned assets, real estate development, merchandise sales, labor services, etc. with franchise advantages. In addition, DSAI is also responsible for the water-related business, mainly including water supply and sewage treatments in the region. Meanwhile, DSAI engaged in raw water sales and energy sales business. DSAI is the core entity for state-owned assets operation and infrastructure construction in a monopoly position in Dongyang. It plays an important role in promoting the economic and social development of Dongyang. DSAI's business operation and development have been aligned with the government's development plans.

Ongoing Government Support: DSAI continued to receive financial subsidies and asset injections from the Dongyang government to support its business operations. DSAI received asset injections in the form of cash, reservoirs, parking lot operating rights, equity transfer, properties, etc., reached about RMB15.5 billion and RMB428.7 million in 2022 and 1H2023, respectively, and totalling around RMB16.7 billion between 2020 and the first six months of 2023. DSAI received financial subsidies amounting to RMB1,552.3 million between 2022 and the first six months of 2023. We expect DSAI to receive ongoing support from the local government in the coming years considering its strategic importance in Dongyang.

Economy and Fiscal Strength of Dongyang: Dongyang is a county-level city under the jurisdiction of Zhejiang Province, administered by Jinhua City. It was ranked 52nd among China's Top 100 Districts in 2023. Dongyang's GDP reached RMB76.1 billion in 2022, representing a year-over-year growth rate of 3.2%, and its GDP amount was ranked 2nd among the 4 county-level cities in Jinhua City (behind Yiwu).

The aggregate fiscal revenue of the Dongyang government was mainly derived from the budgetary revenue and government fund income. Although the Dongyang government's budgetary revenue decreased to RMB8.2 billion in 2022 from RMB8.3 billion in 2021, mainly due to the large-scale value-added tax credit refund policies to support the economy. The government fund income also decreased to RMB10.0 billion in 2022 from RMB10.6 billion in 2021, owing to the weak property market.

The Dongyang government's budget deficit widened to 41.3% in 2022, compared with 37.2% and 32.8% in 2020 and 2021, respectively, mainly due to the relatively weak growth of budgetary revenue. In addition, the government debt ratio, as measured by total government debts/ aggregate revenue, was 100.2% at end-2022 up from 80.1% at end-2021.

Moderately Weak Financials of DSAI: DSAI's total assets showed a strong growth in 2022, with a growth rate of 64.0%, mainly due to the continuous investment in project development, purchase of land assets, additional equity participation in enterprises and railway high-speed project investment, as well as assets injection from the local government, such as parking lot operating rights and reservoirs. Its total assets further increased by 16.0% to RMB96.6 billion at end-June 2023. Its overall asset liquidity was weak, primarily due to the large proportion of inventories, intangible assets and other receivables.

The total debt of DSAI increased significantly to RMB45.7 billion at end-June 2023 from RMB21.3 billion at end-2021, mainly due to its business expansion, and mainly driven by the long-term debt. DSAI's financial leverage level, as measured by total debts/capitalization, increased to 53.5% at end-June 2023 from 48.4% at end-2021. We expect DSAI to continue to rely on external financing to support its capital expenditures and debt repayments, given its financing needs in infrastructure construction projects and industrial investment

DSAI's liquidity was moderately weak. At end-June 2023, DSAI had unrestricted cash balance and unused credit facilities of RMB5.3 billion and RMB22.6 billion, respectively, compared with its debt to be due within one year of RMB10.4 billion. In addition, DSAI has access to various channels of financing, including bank loans and bonds issuance, to support its debt repayments and business operations. At end-June 2023, the company had an available offshore bond issuance quota of RMB1.5 billion.

Rating Sensitivities

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

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

Company Profile

DSAI, formerly Dongyang City Development Co., LTD. (东阳市城市发展有限公司), was established as a fully state-owned entity in 2003. At end-June 2023, the Dongyang government indirectly holds full ownership of DSAI through the Dongyang SASAO (90% shareholding) and Zhejiang Financial Development Co., Ltd. (10% shareholding), and the Dongyang SASAO is the actual controller of the company.

The company is the core LIDC in Dongyang, mainly responsible for state-owned assets operation and infrastructure construction, such as municipal infrastructure construction, land development, project construction, investment and development of urban public resource projects, real estate development, merchandise sales, water and energy related business, etc., to support local economic and social development. The company is expanding its range and extent of its investment in a variety of industries.

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