

Dongtai Xixi Tourism and Cultural Scenic Area Investment Development Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	18 June 2024

Key Figures of Dongtai and DXTCS

(RMB billion)	2022	2023
Dongtai		
GDP	105.1	111.8
GDP growth rate (%)	4.7	7.0
Budgetary revenue	6.1	6.5
Government fund	5.6	5.4
Transfer payment	4.8	5.0
Budgetary expenditure	14.0	15.0
DXTCS		
Assets	11.3	11.5
Equity	4.7	4.8
Revenue	0.6	0.6

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

Analysts

Jack Li, CESGA
 +852 3462 9585
jack.li@lhratingsglobal.com

Toni Ho, CFA, FRM
 +852 3462 9578
toni.ho@lhratingsglobal.com

Applicable Criteria

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

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongtai Xixi Tourism and Cultural Scenic Area Investment Development Co., Ltd. (“DXTCS” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dongtai City, Jiangsu Province (“Dongtai government”) would provide strong support to DXTCS if needed, in light of its indirect full ownership of DXTCS, DXTCS’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and resettlement housing construction in Dongtai City, Jiangsu Province (“Dongtai”), especially in Xixi Tourism and Cultural Scenic Area (“Xixi Area”), and the linkage between the Dongtai government and DXTCS, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Dongtai government may face significant negative impact on its reputation and financing activities if DXTCS encounters any operational and financial difficulties.

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

Rating Rationale

Dongtai Government’s Ownership and Supervision: The Dongtai government indirectly holds 100% ownership of DXTCS through Dongtai Tongda Investment Co. Ltd. and Dongtai Transportation Investment and Construction Group Co. Ltd. (“DTIC”), and is the actual controller of the company. The Dongtai government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dongtai government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance and Strategic Alignment: DXTCS remained as the main implementation body for infrastructure investment, construction and operation in Dongtai, especially in Xixi Area. It is primarily responsible for the construction of key tourism projects, municipal projects such as bridges and roads, as well as resettlement housing projects within the region. With the support of the local government, the company actively participates in tourism resource development. The company plays an important role in promoting the economic and social development of Xixi Area. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: DXTCS received operational and financial support from the government. DXTCS received a total subsidy amount of RMB276.8 million from 2021 to

2023, mainly including operating subsidies. Besides, the government will repurchase some infrastructure projects and provide policy supports to DXTCS to ensure its business operation. Given the regional advantages in infrastructure construction within Xixi Area, DXTCS has advantage to obtain major projects and other resources. We believe DXTCS is likely to receive government support in the form of financial subsidies to support its daily business operation.

DXTCS's Financials and Liquidity Position: DXTCS's financial position remained stable at end-2023, with total assets amounting to RMB11.5 billion. Despite the relatively high proportion of current assets (77.0% at end-2023), the assets were illiquid due to the large proportion of costs associated with construction projects, investment properties and receivables. DXTCS's financial leverage (total liabilities to assets) slightly increased to 58.3% at end-2023 from 58.1% at end-2022. Its total debt reached RMB5.2 billion at end-2023, maintaining a consistent trend, with non-traditional financing still constituting approximately 50% of the debt portfolio.

The liquidity of DXTCS was tight. DXTCS had a total cash balance of RMB393.3 million (including restricted cash of RMB276.1 million), compared with its debt to be due within one year of RMB3.0 billion. DXTCS has established cooperative relationship with banks to obtain a certain amount of liquidity support and medium- and long-term loans, and it has maintained a normal bank loan financing ability. DXTCS also has other financing channels, such as non-traditional financing, to support its debt repayment and business operations.

Dongtai's Economy and Fiscal Condition: Dongtai's GDP reached RMB111.8 billion in 2023, representing a year-over-year growth rate of 7.0%, and its GDP ranked first among all districts and counties under the administration of Yancheng. Its fixed asset investment growth rate maintained high speed growth, recording at 12.9% in 2023, up from 11.2% in 2022.

The Dongtai government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. Dongtai's budgetary revenue increased to RMB6.5 billion in 2023, representing a year-on-year growth rate of 7.3%. The contribution of the tax revenue was elevated to 78.2% in 2023 from 72.9% in 2022. Dongtai's government fund income declined slightly to RMB5.4 billion in 2023 from RMB5.6 billion in 2022, mainly due to the decreased of land use right transfer income. On the other hand, the budgetary expenditure arrived at RMB15.0 billion in 2023, up from RMB14.0 billion in 2022. Its budget balance kept stable, recorded at -130.6% in 2023. The outstanding debt of the Dongtai government continued to grow in the past three years. At end-2023, the Dongtai government's outstanding debt was RMB19.5 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 114.6% at end-2023 from 108.0% at end-2022.

Rating Sensitivities

We would consider downgrading DXTCS'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 DXTCS, or (3) there is a downgrade in our internal credit assessment on the Dongtai government.

We would consider upgrading DXTCS's rating if (1) there is strengthened support from the Dongtai government, or (2) there is an upgrade in our internal credit assessment on the Dongtai government.



Company Profile

DXTCS was established in October 2010 with an initial registered capital of RMB100 million. After an array of capital injections and equity transfers, the company's registered and paid-in capital were both enlarged to RMB410 million, and its share were 100% held by DTIC at end-2023.

DXTCS is the main implementation body for infrastructure investment, construction and operation in Xixi Area. It is primarily responsible for the construction of key tourism projects, municipal projects and resettlement housing projects within the region. With the support of the local government, the company actively participates in tourism resource development.

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