

CCXAP assigns first-time long-term credit rating of BBB_g to Huai'an Traffic Holding Group Co., Ltd., with stable outlook

Hong Kong, 27 June 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g long-term credit rating to Huai'an Traffic Holding Group Co., Ltd. (“HATH” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of HATH is underpinned by the Company's (1) strong strategic role in local transportation infrastructure construction in Huai'an City; and (2) growing importance in the transportation related business.

However, the rating is constrained by the Company's (1) high debt leverage due to slow progress of cash collection; (2) weak operating profitability of transportation services with reliance on government subsidies; and (3) modest liquidity buffers.

The rating also incorporates our expectation that HATH is likely to receive support from the Huai'an Municipal Government in times of need, given the Company's (1) strong strategic role in the transportation infrastructure development of Huai'an City; (2) close relationship with the local government; and (3) good track record of receiving government support.

Corporate Profile

Founded in 2003, HATH is wholly owned and directly supervised by the Huai'an Municipal Government, as an important transportation construction operation enterprise in Huai'an City. It is mainly responsible for the investment, financing, construction and operation of transportation infrastructure as well as the shantytown renovation projects. It also engaged in transportation logistics businesses such as transportation services, port logistics and airport operations, as well as other commercial businesses including commercial trading and real estate development in Huai'an City.

Rating Rationale

Credit Strengths

Strong strategic role in the development of Huai'an City. The Huai'an Municipal Government reorganized the municipal state-owned enterprises (“SOEs”) in Huai'an City in July 2021. After the reorganization, there are five majors SOEs with clear differences in functional positioning in Huai'an City. HATH focuses on the investment and construction of transportation in Huai'an City, and its revenue is mainly from infrastructure construction and transportation operations. We expect that the Company's important role in Huai'an City will not be easily replaced by other companies in the foreseeable future, and its strategic objectives are expected to be implemented steadily in the future.

Growing importance in the transportation related business. Benefiting from the geographical location and canal port advantages of Huai'an City, as well as the continuous improvement of the Company's infrastructure construction, the Company's transportation

logistics business has grown year by year. This segment includes transportation services, port logistics, airport operations, railroad and toll road operations and management.

High likelihood of receiving support from the Huai'an Municipal Government in times of need. There is a close relationship between HATH and the local government. The Company is wholly owned and directly supervised by the Huai'an Municipal Government. HATH has received ongoing support from the Huai'an Municipal Government including capital injections, asset transfers, project grants, and financial subsidies. Given the importance status of the Company and its close relationship with Huai'an government, we expect the local government will continue to provide business and financial support to HATH in the future.

Credit Challenges

High debt leverages due to slow progress of cash collection. It usually takes long time for the project repurchase period of infrastructure construction, and it also takes about 25 years for the repayment of shantytown renovation project, resulting in the slowdown in project settlement process. In recent years, the government expenditure is more susceptible to local property market volatility and the progress of government land sales, which will further weigh on the cash collection of the Company. HATH has high debt leverage due to its debt-driven business expansion over the past few years. As of end-2021, the Company's total debt amounted to RMB28.6 billion. Its capitalization ratio, measured by total debt to total capital, was 57.8% at end-2021.

Weak operating profitability with reliance on government subsidies. Given public welfare nature of transportation services, the Company relies heavily on government subsidies from the Huai'an government for its public bus transportation services and trams operations. The Company received around RMB200.0 million every year from 2019 to 2021, however, its operating revenue together with government subsidies still cannot cover the operating cost.

Modest liquidity buffer. The Company held cash and cash equivalents of RMB4.6 billion, which was unable to cover its short-term debt of RMB8.3 billion as of end-2021. As sizeable pipeline projects require significant financial backing, we expect that the Company will need to obtain extra external funding resources to repay its debt and invest in new projects. The Company has limited available credit facilities of RMB5.9 billion as of end-2021, posing certain pressure on capital needs.

Rating Outlook

The stable outlook on HATH's rating reflects our expectation that the Company will maintain its strategic role in Huai'an City, and that it will continue to receive government support over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal performance of Huai'an City materially improves; (2) HATH demonstrates a stronger role in Huai'an City, with an

increasing likelihood of government support; and (3) the Company's stand-alone credit profile improves significantly, such as improved business sustainability and strengthened profitability.

What could downgrade the rating?

The rating could be downgraded if (1) the economic and fiscal performance of Huai'an City significantly deteriorate; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deteriorated operating performance or heightened refinancing risk.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

Regulatory Disclosures

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