

CCXAP affirms Huai'an Development Holdings Co., Ltd's long-term credit rating at BBB_{g-}, with stable outlook.

Hong Kong, 27 March 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Huai'an Development Holdings Co., Ltd's (“HADH” or the “Company”) long-term credit rating at BBB_{g-}, with stable outlook.

The BBB_{g-} long-term credit rating of Huai'an Development Holdings Co., Ltd's (“HADH” or the “Company”) reflects (1) Huai'an Municipal Government's strong capacity to provide support; and (2) the local government's high willingness to provide support, based on our assessment of the Company's characteristics. Our assessment of Huai'an Municipal Government's capacity to provide support reflects Huai'an City's relatively strong economic condition and good industrial base.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) good business position as the sole primary land developer and largest infrastructure constructor in Huai'an Economic and Technological Development Zone (“Huai'an ETDZ”); and (2) ongoing support from the local government. However, the Company's rating is constrained by its (1) medium exposure to commercial activities; (2) moderate debt management and asset liquidity; and (3) high exposure to contingent liabilities related to local state-owned enterprises.

Corporate Profile

Founded in 2005 and formerly known as Huai'an Economic and Technological Development Zone Real Estate Development Co., Ltd., HADH is the most important local infrastructure investment and financing company (“LIIFC”) in Huai'an ETDZ and a competitive state-owned enterprise in Huai'an City. The Company is mainly responsible for infrastructure investment and financing, state-owned assets management, and capital operation in the region. HADH is the only primary land developer in the Huai'an ETDZ and is also engaged in infrastructure and resettlement housing construction. Apart from its multiple public-related businesses, the Company takes part in several commercial activities consisting of real estate development, asset leasing, and financial services. As of 30 September 2022, HADH was wholly owned by the Huai'an Municipal Government and directly supervised by the Management Committee of Huai'an ETDZ.

Rating Rationale

Credit Strengths

Good business position as the sole primary land developer and largest infrastructure constructor. HADH has a clear functional positioning in Huai'an City as the largest state-owned infrastructure constructor and sole primary land developer in Huai'an ETDZ, which has benefited from the ongoing economic development of Huai'an ETDZ. The Company is mainly responsible for local primary land development, resettlement housing construction, and infrastructure construction.



Ongoing support from the local government. HADH has a good track record of receiving support from the local government including capital injections, asset transfers, project grants, and financial subsidies. The Company had received operating financial subsidies, with the amount of RMB447 million and RMB233 million in 2021 and the first three quarters of 2022, respectively. From 2020 to the first three quarters of 2022, the Company received government payments of RMB408 million, RMB1,509 million and RMB153 million, respectively.

Credit Challenges

Medium exposure to commercial activities. With the expansion of HADH's business scale, the Company has diversified its business scope into commercial activities such as property sales and leasing, car sales, hotel services, property management, and financial services. However, these types of businesses will bring considerable operational risks to the Company. We consider HADH's commercial business exposure to be moderate as its market-driven nature accounts for a certain proportion of its total assets.

Moderate debt management and asset liquidity. HADH demonstrated a heightened debt burden with high debt leverage as a result of slow payment collections and large capital demands for construction projects. The Company's total debt increased slightly from RMB52.0 billion as of 31 December 2021 to RMB54.2 billion as of 30 September 2022. Moreover, the Company pledged certain amount of assets for external financing, resulting relatively large restricted assets of RMB13.5 billion which accounted for 30.4% of its net assets. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company, in our view.

Relatively weak liquidity buffers. HADH's balance-sheet liquidity position was moderate. The Company held cash and cash equivalents of RMB8.4 billion, which was unable to cover its short-term debt of RMB18.8 billion as of 30 September 2022. The Company showed a relatively high refinancing pressure as the short-term debt accounted for 34.7% of its total debt. The Company also has limited available credit facilities of only around RMB3.0 billion as of 30 September 2022, posing certain pressure on capital needs.

High exposure to contingent liabilities related to state-owned enterprises. HADH's credit profile is constrained by its external non-operating guarantees, which could potentially increase its repayment obligations. As of 30 September 2022, the Company had outstanding external guarantees (excluding guarantee business) of RMB19.8 billion, representing 44.6% of its net assets. The Company's contingent liabilities are subject to regional risks due to the mutual guarantee situation. In case a credit event occurs, the Company may face certain contingent liability risks, which could negatively impact its credit quality.

Rating Outlook

The stable outlook on HADH's rating reflects our expectation that Huai'an Municipal Government's capacity to provide support will be stable, and that the Company will maintain its solid strategic importance in the social and economic development in Huai'an ETDZ over the next 12 to 18 months.



What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens local government's willingness to provide support, such as strengthened strategic significance and lower exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced government payments or increased exposure to commercial activities.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

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