

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub> to Jiangsu Haisheng Holding Group Co., Ltd., with stable outlook.**

Hong Kong, 27 April 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Jiangsu Haisheng Holding Group Co., Ltd. (“JHHG” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of JHHG reflects Haimen District Government’s strong capacity to provide support and its very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Haimen District Government’s capacity to provide support reflects Haimen District’s status as the third largest district by gross regional product (“GRP”) in Nantong City for years. It has good economic fundamentals and good fiscal stability.

The rating also reflects the local government’s willingness to provide support, which is based on the Company’s (1) position as the core entity of transportation projects in Haimen District; (2) track record of receiving government payments; and (3) good access to diversified funding. However, the Company’s rating is constrained by (1) medium exposure to commercial activities; (2) high debt leverage with an increasing short-term debt burden; and (3) high level of external guarantees.

### **Corporate Profile**

Founded in 2003, JHHG is one of the key local infrastructure investment and financing companies (“LIIFCs”) in Haimen District and has a dominant position in transportation infrastructure construction in Haimen District and the infrastructure construction in Haimen Port New Area. In addition, the Company has diversified commercial activities such as engineering construction, trading, station leasing, and travel service business. As of 30 September 2022, the Company was controlled by the State-owned Assets Supervision and Administration Commission of Haimen District Government (“Haimen SASAC”), which directly held 80% of the Company’s share and indirectly held 20% of the share through Jiangsu Hairun Urban Development Group Co., Ltd (“JHUD”).

### **Rating Rationale**

#### **Credit Strengths**

**Essential role in transportation infrastructure construction in Haimen District.** JHHG plays an essential role in the development of the local transportation system and has undertaken a lot of transportation infrastructure construction projects in Haimen District, and infrastructure construction projects in Haimen Port New Area. JHHG has a clear functional positioning among the state-owned enterprises in Haimen District. We believe that the strategic role of JHHG in Haimen District’s economic development and public welfare is irreplaceable in the short-to-medium time period.

**Track record of receiving government payments.** The Company has a track record of receiving ongoing support from the Haimen District Government and Management Committee of Haimen Port New Area, including capital injections, project payments, and operating subsidies. For example, the local government injected capital of RMB1.5 billion and RMB600 million in cash into the Company in 2019 and 2021 respectively, which substantially enhanced the capital strength of the Company. We expect JHHG to receive ongoing government support from the government given its strong position in transportation infrastructure construction.

**Good access to diversified funding.** JHHG's good refinancing ability could partially release the pressure on debt repayment and capital expenditure. As of 30 September 2022, the Company had unutilized credit facilities of RMB5.2 billion, which were provided by various banks. JHHG also has a good track record of fund-raising activities in the capital market which is an important financing channel for the Company. At the same time, the Company had manageable exposure to non-standard financing of less than 10% of the total debt.

#### Credit Challenges

**Medium exposure to commercial activities.** JHHG engaged in diversified commercial activities including engineering construction, trading business, and transport station leasing. While commercial activities generate supplemental income, they may pose higher business risks than resettlement housing and infrastructure construction businesses. Based on our assessment, the Company's exposure to commercial businesses is considered medium.

**High debt leverage with an increasing short-term debt burden.** JHHG reported fast debt growth owing to its infrastructure construction over the past few years. Meanwhile, the Company had a high short-term debt burden with the short-term debt accounting for 47.6% of the total debt as of 30 September 2022. In addition, its cash to short-term debt ratio was around 0.3x.

**High level of external guarantees.** The credit profile of JHHG is constrained by its large number of external guarantees, which could potentially increase its repayment obligations. As of 30 September 2022, the Company had outstanding external guarantees of RMB12.2 billion, accounting for 74.0% of its net assets. However, we believe that the contingent risk of the external guarantee is moderately controllable, considering that these local state-owned enterprises will receive support from the local government in a timely manner.

#### Rating Outlook

The stable outlook on JHHG's rating reflects our expectation that the local government's capacity to provide support will remain stable, and the Company will maintain its position as the key entity in transportation infrastructure construction in Haimen District over the next 12-18 months.

#### What could upgrade the rating?

The rating could be upgraded if (1) Haimen District Government's ability to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local



government's willingness to provide support, such as improved debt management or material reduction in the exposure to external guarantees.

### **What could downgrade the rating?**

The rating could be downgraded if (1) Haimen District Government's ability to provide support weakens; or (2) the Company's characteristics change in a way that decreases the local government's willingness to provide support, such as reduced regional importance or higher exposure to risky 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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