

## **CCXAP affirms Huai'an Traffic Holding Group Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>, with stable outlook.**

Hong Kong, 28 June 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Huai'an Traffic Holding Group Co., Ltd.'s (“HATH” or the “Company”) long-term credit rating at BBB<sub>g</sub>, with stable outlook. At the same time, CCXAP has affirmed its senior unsecured debt rating of BBB<sub>g</sub>.

The BBB<sub>g</sub> long-term credit rating of Huai'an Traffic Holding Group Co., Ltd.'s (“HATH” or the “Company”) reflects (1) Huai'an Municipal Government's strong capacity to provide support; and (2) the local government's very 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) strong strategic role in local transportation infrastructure construction in Huai'an City; (2) continuous support from the local government; and (3) diversified funding resources. However, the Company's rating is constrained by its (1) medium exposure to commercial activities with certain counterparty and concentration risks; (2) relatively high refinancing pressure; and (3) moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises.

### **Corporate Profile**

Founded in 2003, HATH acts as an important local infrastructure investment and financing company (“LIIFC”) in Huai'an City. It is mainly responsible for the investment, financing, construction and operation of transportation infrastructure as well as the shantytown renovation and affordable housing projects. The Company also engages in transportation logistics businesses such as transportation services, port logistics, as well as other commercial activities including commercial trading and real estate development in Huai'an City. On 13 June 2023, Huai'an Municipal Government transferred 30% of the Company's equity to Huai'an State-owned United Investment & Development Group Co., Ltd. (“SUID”), which is the most important LIIFC in Huai'an City and wholly owned by Huai'an Municipal Government. As of 13 June 2023, Huai'an Municipal Government directly held 70% of the Company's equity shares and indirectly held 30% through SUID, which remained the ultimate controller.

### **Rating Rationale**

#### **Credit Strengths**

**Strong strategic role in local transportation infrastructure construction in Huai'an City.** HATH has benefited from the ongoing economic development of Huai'an City as the vital transportation infrastructure constructor in the region. The Company is mainly responsible for infrastructure construction, shantytown redevelopment, and affordable housing construction.



In recent years, HATH has not undertaken new infrastructure construction and shantytown renovation projects through agency construction model. The Company is expected to focus on engineering construction business with sufficient contract reserves.

**Continuous support from the local government.** HATH has received ongoing support from the Huai'an Municipal Government including capital injections, asset transfers, project grants, and financial subsidies. As of 31 March 2023, thanks to the local government's ongoing injection of assets and equities, the Company's capital reserves further increased to RMB4.7 billion, as compared to RMB4.6 billion as of 31 December 2021. The local government also provided RMB261 million in operating financial subsidies to HATH in 2022.

**Diversified funding resources.** HATH has good access to diversified funding resources and concentrated in bank loans and direct issuances, which partially mitigate the Company's refinancing pressure. As of 31 March 2023, the Company had total bank facilities of RMB15.2 billion and the available portion amounted to RMB6.9 billion. Moreover, HATH also had limited non-standard financing exposure, which accounted for around 10% of its total debts only.

#### Credit Challenges

**Medium exposure to commercial activities with certain counterparty and concentration risks.** With the expansion of HATH's business scale, the Company has diversified its business scope into property sales and trade business. However, these types of businesses will bring considerable counterparty and concentration risks to the Company. In our estimation, HATH's exposure to commercial activities was medium as its commercial assets accounted for less than 30% of its total assets.

**Relatively high refinancing pressure.** HATH still has relatively large debt burden although its total debt has recorded moderate growth in recent years. As of 31 March 2023, the Company's total debt (including perpetual bonds) was RMB30.7 billion, slightly increased from RMB28.6 billion as end-2021 and RMB29.9 billion as end-2022. However, it had relatively high debt leverage and its total capitalization ratio maintained at 59.3%. The Company also showed a relatively high refinancing pressure as the short-term debt accounted for 43.8% of its total debt.

**Moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises.** HATH bears moderate contingent risk resulting from relatively large external guarantees. As of 31 March 2023, the Company had outstanding external guarantees of RMB5.3 billion and most of them were provided to local state-owned enterprises ("SOEs"), representing 23.0% of its net assets. Large exposure to guarantees will increase the Company's contingent liability risk.

#### Rating Outlook

The stable outlook on HATH'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 strong strategic role in local transportation infrastructure construction and operation in Huai'an City over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) Huai'an Municipal Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as increased sustainability of the public policy projects, improved debt management, and materially reduced exposure to risky commercial activities.

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

The rating could be downgraded if (1) Huai'an Municipal 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 strategic significance or deteriorated refinancing ability.

#### **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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