

## Credit Opinion

28 April 2025

Ratings	
Senior Unsecured Debt Rating	A <sub>g</sub> -
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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## Huai'an Traffic Holding Group Co., Ltd.

### Surveillance credit rating report

**CCXAP upgrades Huai'an Traffic Holding Group Co., Ltd.'s long-term credit rating to A<sub>g</sub>-, with stable outlook.**

### Summary

CCXAP has upgraded the long-term credit rating of Huai'an Traffic Holding Group Co., Ltd. ("HATH" or the "Company") to A<sub>g</sub>- from BBB<sub>g</sub>+, reflecting the Company's clear and improving strategic position in the transport and logistic development of Huai'an City.

The A<sub>g</sub>- long-term credit rating of HATH reflects the Huai'an Municipal Government's (1) very strong capacity to provide support; and (2) 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) high importance in the operation of tram and city bus transportation services; and (3) good track record of support from the local government.

However, the Company's rating is constrained by its (1) medium exposure to commercial activities with certain destocking and counterparty risks; (2) relatively high refinancing pressure; and (3) moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises.

The stable outlook on HATH's rating reflects our expectation that Huai'an Municipal Government's capacity to provide support will be stable, and 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.

## Rating Drivers

- Strong strategic role in local transportation infrastructure construction in Huai'an City
- High importance in the transportation related services
- Good track record of support from the local government
- Medium exposure to commercial activities with certain destocking and counterparty risks
- Relatively high refinancing pressure but mitigated by diversified funding resources
- Moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as materially reduced exposure to risky commercial activities, improved debt management, or enhanced financing ability.

### 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 strategic significance or deteriorated refinancing ability.

### Key Indicators

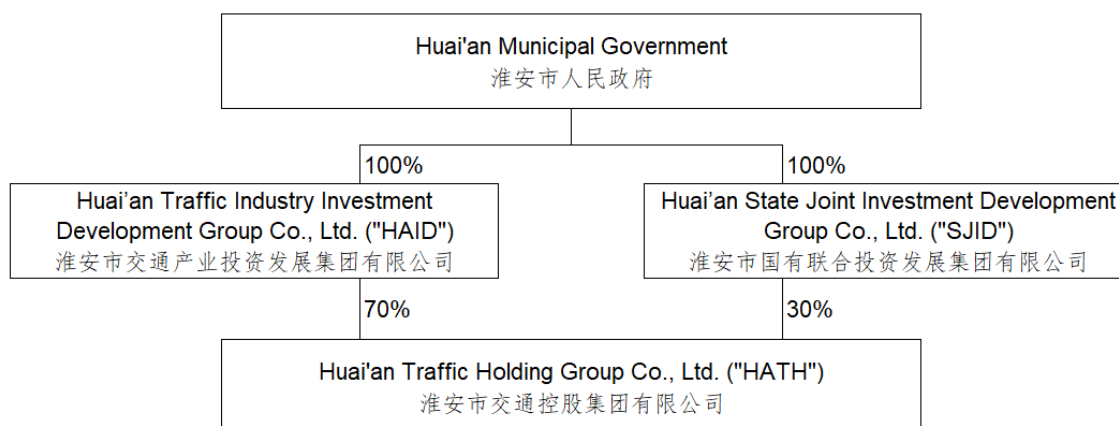
	2021FY	2022FY	2023FY	2024Q3
Total Asset (RMB billion)	53.4	55.4	58.7	55.3
Total Equity (RMB billion)	22.6	22.9	24.8	23.1
Total Revenue (RMB billion)	3.0	3.2	3.3	1.9
Total Debt/Total Capital (%)	57.8	58.6	59.5	58.6

All ratios and figures are calculated using CCXAP's adjustments.

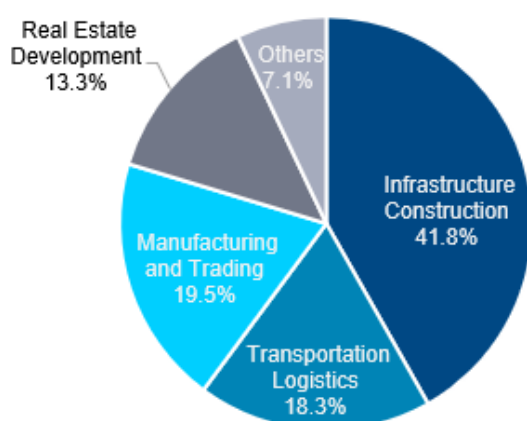
Source: Company data, CCXAP research

## Corporate Profile

Founded in 2003, HATH is one of the important local infrastructure investment and financing companies ("LIIFCs") in Huai'an City, mainly responsible for the investment, financing, construction and operation of transportation infrastructure. The Company also engages in transportation logistics businesses such as transportation services, port logistics, as well as other commercial activities including commodity trading and real estate development in Huai'an City. In June 2023, Huai'an Municipal Government transferred 30% of the Company's equity shares to Huai'an State Joint Investment Development Group Co., Ltd. ("SJID"), which is the major municipal-level entity undertaking infrastructure construction tasks in Huai'an City. In October 2024, to further optimize the state-owned capital layout, Huai'an Municipal Government reorganized Huai'an Traffic Industry Investment Development Group Co., Ltd. ("HAID") and transferred 70% of the Company's equity shares to HAID. As of 31 December 2024, Huai'an Municipal Government indirectly held 100% of the Company's equity shares and remained as the ultimate controller.

**Exhibit 1. Shareholding chart as of 31 December 2024**

Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023**

Source: Company information, CCXAP research

**Rating Considerations****Government's Capacity to Provide Support**

We believe the Huai'an Municipal Government has a very strong capacity to provide support given its relatively strong economic condition and good industrial base.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2024, its total GRP amounted to RMB13.7 trillion, a year-over-year ("YoY") increase of 5.8%. The GRP per capita for the same period was RMB160,694.0, ranking third among all provinces in China.

Huai'an City is a prefecture-level city administrated under Jiangsu Province and is the central city of the northern region of Jiangsu Province, with a total area of 10,030 square kilometers. In recent years, Huai'an City has remained a stable industrial structure, and its industrial production has achieved rapid growth driven by the pillar sectors such as information technology, equipment manufacturing, new materials, and green food. Huai'an City has one national-level economic and technological development zone and one national-level high-tech industrial development zone. In 2024, Huai'an City's fixed asset investment above designated size increased by 13.3%

from 2023 and growth rate ranked first in Jiangsu Province. In 2024, there was 327 enterprises in Huai'an City was approved as national high-tech enterprises and the output value of high-tech industries accounted for 36.0% of Huai'an City's industrial output value.

In 2024, Huai'an City recorded a GRP of RMB541.3 billion and achieved a YoY increase of 7.1%, ranking second in Jiangsu Province in terms of growth rate. With the continuous economic growth and industrial development, Huai'an City's general budgetary revenue also maintained a stable growth trend. In 2024, it reported a general budgetary revenue of RMB32.6 billion, increasing by 2.8% from 2023. Tax revenue represented a large proportion of its general budgetary revenue, accounting for 74.0% on average over the past three years, indicating good fiscal quality. However, its fiscal self-balance was relatively weak, with a ratio of 44.5% on average. Governmental fund revenue serves as a critical fiscal supplement, yet it has experienced a decline in recent years influenced by the fluctuations in the land market and real estate sector. Huai'an Municipal Government also relies on transfer income and government debt issuance to achieve balance. As of the end of 2024, the outstanding direct debt of Huai'an Municipal Government amounted to RMB103.1 billion, accounting for 19.1% of GRP, which has increased compared with end-2023.

### Exhibit 3. Key economic and fiscal indicators of Huai'an City

	2022FY	2023FY	2024FY
GRP (RMB billion)	474.2	501.5	541.3
GRP Growth (%)	3.6	7.8	7.1
General Budgetary Revenue (RMB billion)	30.0	31.7	32.6
General Budgetary Expenditure (RMB billion)	65.9	71.7	74.2
Local Government Debt (RMB billion)	75.1	83.3	103.1

Source: Huai'an Municipal Government, CCXAP research

## Government's Willingness to Provide Support

### 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. Since its establishment, the Company has undertaken a number of major transportation infrastructure construction projects in Huai'an City, such as roads, bridges and ports. In 2024, to further optimize the state-owned capital layout, Huai'an Municipal Government reorganized HAID and transferred 70% of the Company's equity shares to HAID. The Company's controlling shareholder changed to HAID, but its regional position remained unchanged as the principal entity in transportation infrastructure investment, construction and operation.

HATH signed entrusted construction agreements with Huai'an Municipal Transportation Bureau and was responsible for the financing and construction management of the municipal road infrastructures in Huai'an City. Huai'an Municipal Transportation Bureau has recognized a management fee of 10% based on the asset value of the completed projects each year since 2014, and paid back entrusted construction service fees to the Company. HATH also conducts the construction of shantytown redevelopment and affordable housing construction projects through the government repurchase model and the Huai'an Finance Bureau pays the government purchase service fee in 25 years. As of 30 September 2024, the Company had 2 major competed shantytown renovation projects, with a total investment of RMB2.6 billion. However, the cash collection from the completed shantytown projects is relatively lagging. As of 30 September 2024, the Company received RMB705.0 million from the government for the two shantytown redevelopment projects.

Furthermore, HATH entered the transportation construction and engineering construction businesses by acquiring equity shares of construction companies, Jiangsu Tiancheng Construction Group Co., Ltd. and Jiangsu Wancheng Steel Structure Technology Co., Ltd. The Company mainly undertakes the construction projects of highways, bridges, ports, waterways, and house buildings by attending biddings on the open market, instead of the previous agency construction model and government purchase service model. As of 30 September 2024, there were 11 key projects under construction with a total contracted amount of RMB1.1 billion, showing a high sustainability. However, the Company's engineering construction business tends to market-oriented and expands to different regions, which further increases its repayment risks, in our view.

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 ongoing projects amounting to RMB1.1 billion and proposed projects amounting to RMB30.0 million, which may maintain its business sustainability in the short to medium term.

### **High importance in the transportation-related services**

Benefiting from the geographical location and canal port advantages of Huai'an City, as well as the continuous enhancement of transportation-related infrastructure construction, the Company's transportation logistics business has grown year by year. This segment includes city bus transportation service, port logistics, railroad operations and management, tram operations, road toll operations, and services provided to the public. As the key transportation operator in Huai'an City, HATH's transportation services are essential for the city's economic development and people's livelihood. With the ongoing urbanization of Huai'an City, the Company's transportation-related services are expected to grow steadily in the future, backed by continuous government support.

HATH's logistics business mainly includes the operation of Huai'an Port and Xingang Railway, and generates revenue from port handling shipping, freight forwarding, and rail transportation services. The revenue from logistic business is relatively stable at RMB403.0 million, RMB527.0 million, and RMB539.0 million from 2021 to 2023. Huai'an Port is an important inland river port in Jiangsu Province and an important hub of the comprehensive transportation system in northern Jiangsu Province. As of 31 March 2024, the Company had 2 projects under construction, with gross investment of RMB2.4 billion and uninvested amount of RMB1.5 billion, which are expected to improve the operation capacity of Huai'an Port and provide the Company with recurring income after completion. The two projects received government special bond funds of around RMB1.5 billion, alleviating the Company's capital expenditure pressure. At the same time, the Company had 1 project under planning, namely the Xingang Railway Expansion Project, with an estimated investment amount of RMB607.0 million.

The urban public transport business mainly includes city bus and tram operations. As of the end of September 2024, the Company has 1,651 buses, 102 operating lines, and more than 2,600 stations, with a total line length of 1,879.7 kilometers, covering the main urban area of Huai'an City; and 26 trams, with a maximum daily passenger flow of 40,500. Given the quasi-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 tram operations.

Furthermore, the Company is responsible for the operation of three highway tolls consisting of National Highway No.205 Huai'an Section, Provincial Highway No.237 Huai'an Section, and Provincial Highway No.327 Lianshuicheng to Shihu Section, which are injected by Huai'an Municipal Government. The highway tolls operations further demonstrate the Company's high importance in local transportation. Currently, these three

tolls are still under development and the Company has not yet realized revenue from them.

### **Good track record of support from the local government**

HATH has received ongoing support from the Huai'an Municipal Government, including capital injections, asset transfers, project grants, financial subsidies, government special funds, and payments for previous construction projects. In 2023 and the first three quarters of 2024, the Company continued to receive financial subsidies of approximately RMB280.5 million and RMB177.4 million respectively, mainly including operating subsidies for city bus transportation service, port logistics, and tram operations. In addition, the Company received the special refinancing funds from the local government to repay the debts in 2023 and 2024. From the perspective of repayments of its infrastructure construction projects, the Company continued to receive management fees of RMB195.0 million from the local government in 2023. However, we expect that the direct payment from government will be reduced in the future since the Company no longer undertakes new infrastructure construction and shantytown renovation projects through agency construction model.

Overall, given the Company's important role in the development and operation of transportation-related services and infrastructure construction, we believe that HATH will receive ongoing government support to support its business operations.

### **Medium exposure to commercial activities with certain destocking risk and counterparty risks**

With the expansion of HATH's business scale, the Company has diversified its scope into property sales and trading business. However, these types of businesses are subject to market conditions and might bring considerable destocking risk and counterparty risk to the Company. In our estimation, HATH's exposure to commercial activities was medium as its commercial assets represented less than 30% of its total assets.

HATH engages in real estate development through its subsidiaries, including residential properties and commercial properties. As of 30 September 2024, the Company had 4 completed residential properties with a total investment of RMB2.3 billion. Part of the completed projects were in the process of selling or leasing, with the total revenue of RMB1.1 billion and sale amount of RMB1.2 billion. Meanwhile, it had 2 property projects under construction, with an estimated total investment amount of RMB1.2 billion and an uninvested amount of RMB657.0 million. The Company funds these projects with self-raised funds and is expected to achieve fund balance through leasing and sales of the properties. However, the property sales business is highly subject to the economic condition and the local real estate market. The Chinese property market has remained volatile in recent years, which may exert uncertainty on the Company's sales progress and payment collection.

HATH also participates in trading business through its subsidiaries, including the sales of building materials, agricultural products, small household appliances, and automobiles. Apart from that, the Company principally participates in producing and selling plastic pipes and fittings. The revenue from manufacturing and trading business has experienced a fast growth, which increased to RMB644.9 million in 2023 and further to RMB713.6 million in 2024Q3. While the gross profit margin of manufacturing and trading business remains relatively low at around 5.2% in 2023 and 4.3% in 2024Q3, respectively. Meanwhile, the manufacturing trading business may subject to certain payment collection risk as some of the customers are paid by credit. In January 2025, the Company transferred the entire equity in Jiangsu Andy Automobile Sales and Service Co., Ltd. to HAID, terminating its automotive trading and sales business.

### **Relatively high refinancing pressure but mitigated by diversified funding resources**

HATH still has a relatively high debt burden, although it recorded a slight decrease in its total interest-bearing



debt and a fall in leverage ratio during the first three quarters of 2024 owing to the net repayment of the debt. As of 30 September 2024, the Company's total interest-bearing debt (including perpetual bonds) decreased to RMB30.2 billion from RMB32.1 billion at end-2023. Meanwhile, the Company's total capitalization ratio (calculated as total debt to total capital) remained high at 58.6% at the end of September 2024, compared to 59.5% at end-2023. At the same time, the Company showed a relatively high short-term refinancing pressure with the short-term debt accounting for 40.9% of its total debt, and 61.4% of its short-term debt consisted of bond financing. The cash to short-term debt ratio decreased to 0.1x at the end of September 2024 from 0.3x at end-2023, implying insufficient buffers for short-term obligations. Given the stringent regulatory policy on China's local infrastructure investment and financing companies, the Company's refinancing situation may be subject to policy changes in the capital market. Moreover, considering the ongoing investment in projects under construction, we expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Nevertheless, HATH has access to diversified funding channels which could partially mitigate the Company's refinancing pressure. Bond issuances and bank loans accounted for the majority of its total debt. The Company's direct financing accounted for 52.8% of total debt as of 30 September 2024, with multiple issuances in bond markets including MTNs, SCPs, PPNs and corporate bonds. The Company has a good recognition in capital market with declining funding costs and good debt continuation. In 2024, the Company raised nearly RMB12.3 billion from several tranches of domestic bonds with coupon rates ranging from 2.14% to 2.8%. Meanwhile, the Company maintains a good relationship with joint-stock commercial banks and large domestic banks, ensuring ample liquidity buffer from credit facilities. As of 30 September 2024, the Company had total bank facilities of RMB15.5 billion and the available portion amounted to RMB7.3 billion. HATH's exposure to non-standard financing was moderate, accounting for around 14.1% of its total debt as of 30 September 2024, which were mainly financial leases with relatively high financing cost.

#### **Moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises**

HATH bears moderate contingent risk resulting from the relatively large external guarantees. As of 30 September 2024, the Company had outstanding external guarantees of RMB4.8 billion and all of them were provided to local state-owned enterprises, representing for 20.9% of its net assets. Large exposure to guarantees will increase the Company's contingent liability risk. Also, 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. Nevertheless, we believe that the credit risk of these guarantees is manageable, as all of them are provided to local state-owned enterprises and are under the supervision of the Huai'an Municipal Government.

### **ESG Considerations**

HATH assumes environmental risks through its major transportation infrastructure construction and engineering construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close supervision during the construction phase.

HATH bears social risks as it implements public policy initiatives by constructing transportation infrastructure projects and providing public transportation services in Huai'an City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

HATH's governance considerations are also material as the Company is subject to oversight by Huai'an

Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## Structural Consideration

HATH's senior unsecured debts rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its strong strategic role in local transportation infrastructure construction and operation in Huai'an City, thereby mitigating any differences in an expected loss that could result from structural subordination.

## Rating Methodology

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

## Appendix

### Exhibit 4. Peer comparison

	Huai'an Traffic Holding Group Co., Ltd.	Huai'an Investment Holding Group Co., Ltd.	Huai'an Development Holdings Co., Ltd.
Long-Term Credit Rating	Ag-	Ag-	BBB <sub>g</sub> +
Shareholder	Huai'an Traffic Industry Investment Development Group Co., Ltd. (70%) and Huai'an State Joint Investment Development Group Co., Ltd. (30%)	Huai'an City Development and Investment Holding Group Co., Ltd. (100%)	Huai'an Kaikong Industrial Investment Development Group Co., Ltd. (65%) and Huai'an Economic Development Investment Group Co., Ltd. (35%)
Positioning	Key entity in transportation infrastructure construction and transportation-related public services in Huai'an City	Key entity in infrastructure construction, land consolidation, regional hydro-environmental governance and resettlement housing in Huai'an City	Important entity in infrastructure construction, state-owned assets management, and capital operation in Huai'an ETDZ
Total Assets (RMB billion)	55.3	288.0	105.6
Total Equity (RMB billion)	23.1	118.7	46.0
Total Revenue (RMB billion)	1.9	12.0	1.8
Total Debt/Total Capital (%)	58.6	51.5	53.4

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2024Q3.

Source: Company information, CCXAP research



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