

Credit Opinion

28 June 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
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 affirms Huai'an Traffic Holding Group Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook.

Summary

The BBB_g long-term credit rating of Huai'an Traffic Holding Group Co., Ltd. ("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.

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.

Rating Drivers

- Strong strategic role in local transportation infrastructure construction in Huai'an City
- High importance in the transportation related public services
- Continuous support from the local government
- Medium exposure to commercial activities with certain counterparty and concentration 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) 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.

Key Indicators

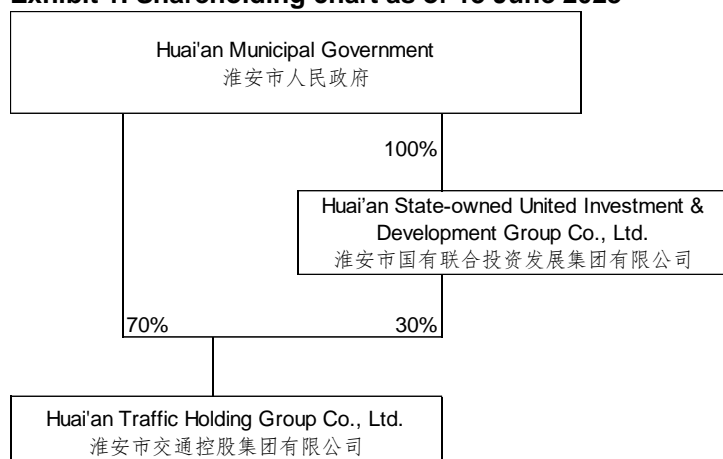
	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	47.8	52.4	55.4	56.3
Total Equity (RMB billion)	21.0	22.1	22.9	22.9
Total Revenue (RMB billion)	2.6	2.5	3.2	0.7
Total Debt/Total Capital (%)	57.7	57.8	58.6	59.3

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

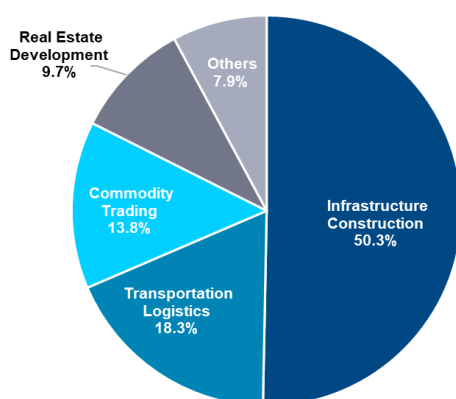
Source: CCXAP research

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.

Exhibit 1. Shareholding chart as of 13 June 2023

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company information, CCXAP research

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

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

Jiangsu's economic and fiscal strength has outperformed other provinces in China. In 2022 Jiangsu's gross regional products ("GRP") reached RMB12.3 trillion, a year-over-year ("YoY") increase of 2.8%, ranking 2nd among the provinces in China; its general public budget revenue was RMB925.9 billion.

Huai'an City is located in the northern part of Jiangsu Province, at the junction of the Beijing-Hangzhou Grand Canal and the ancient Huai River. In order to promote local economic development, Huai'an City focuses on the development of four major industries, including new generation information technology, new energy vehicles and parts, new salinized attapulgite materials, and food production. Huai'an City maintained stable economic growth, recording a GRP of RMB474.2 billion in 2022, representing 3.6% YoY growth. Meanwhile, Huai'an Municipal Government recorded a general budget revenue of RMB30.0 billion in 2022; taxes represented a large proportion of its general budgetary revenue, accounting for 70.0%. The fiscal balance rate was relatively low at 45.4%. Huai'an City's outstanding government debt balance was RMB75.1 billion at end-2022, accounting for 15.8% of GRP.

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

	2020FY	2021FY	2022FY
GRP (RMB billion)	402.5	455.0	474.2
GRP Growth (%)	3.2	10.0	3.6
General Budgetary Revenue (RMB billion)	26.4	29.7	30.0
General Budgetary Expenditure (RMB billion)	56.8	61.3	66.0
Local Government Debt (RMB billion)	63.1	69.3	75.1

Source: Statistics Bureau of Huai'an City, 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, shantytown redevelopment, and affordable housing construction.

HATH generally signs an entrusted construction agreement with Huai'an Municipal Transportation Bureau, which will pay the Company an entrusted construction service fee based on 15% of the cost after the completion of the project. However, Huai'an Municipal Transportation Bureau only recognized a management fee at 10% of the asset value each year since 2014, and irregularly 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 31 March 2023, the shantytown redevelopment project has been completed, and the Company received RMB504 million from the government for the two shantytown redevelopment projects. Although there is a clear collection of payment for the shantytown renovation project, the amount of invested funds is large with a long retention time.

Furthermore, HATH entered the transportation construction and engineering construction businesses by acquiring equity shares of private-owned construction companies, Jiangsu Jetta Traffic Engineering Group Co., Ltd., 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 31 March 2023, the Company had completed 35 projects with total contracted amount and total payments of RMB7.0 billion and RMB6.0 billion, respectively. Meanwhile, there were 26 key projects under construction with total contracted amount of RMB4.6 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 sufficient contract reserves, which may maintain its business sustainability in the short to medium term.

High importance in the transportation related public services

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 city bus transportation service, port logistics, railroad operations and management, tram operations, road toll operations, and services provided to the public.

The logistics business mainly includes the operation of Xingang Port and Xingang Railway. Two phases of Xingang port have been completed and put into use, also, the phase III project was in construction with a planned investment of RMB1.5 billion. The urban public transport business mainly includes city bus and tram operations. As of end-2022, the Company has 1,659 buses, 104 operating lines, and more than 2600 stations, with a total line length of 1,950.7 kilometers, covering the main urban area of Huai'an City; and 26 trams, with a maximum daily passenger flow of 55,000. 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. Overall, we believe the HATH's regional position in transportation-related business will remain strong, given its strong functional positioning and resource utilization in Huai'an City.

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. In 2016, the Huai'an Municipal Government injected assets such as waterways, roads, land parcels, and real estate into the Company, the Company's paid-in capital increased by RMB12.9 billion to RMB14.3 billion. 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. From the perspective of repayments of infrastructure projects, the Company received management fees of RMB195 million from the local government over the same period. However, the direct payment from government will be reduced in the future since the Company no longer undertakes the new infrastructure construction and shantytown renovation projects.

On 13 June 2023, Huai'an Municipal Government transferred 30% of the Company's equity to SUID. As a result, Huai'an Municipal Government directly held 70% of the Company's equity shares and indirectly held 30%. We believe this action is less likely to affect the local government's incentive to provide support in times of need, regarding the important importance of the Company to the local government.

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.

HATH engages in real estate development through its subsidiaries. However, the recent volatility in China's real estate market has had a negative impact on this segment, there are certain uncertainties in the sale and revenue of subsequent real estate projects. Also, the construction project funds mainly rely on external financing, which means that the Company still has large capital needs for future projects. As of 31 March 2023, the Company had 6 real estate projects under construction, with an estimated total investment amount and uninvested amount of RMB3.3 billion and RMB1.6 billion, respectively. Meanwhile, these projects were in selling progress and had already generated total revenue of RMB777 million.

HATH also participates in commercial trading business through its subsidiaries, this segment includes sales of building materials, agricultural products, small household appliances, and automobile sales. Apart from that, the Company principally participates in the production and sale of plastic pipes and fittings. However, the revenue from commercial trading business has high volatility, which dropped by 26.4% YoY to RMB442 million in 2022. Moreover, the Company's commercial trading business also faces counterparty risk with the regular payment model and concentration risk with a high proportion of top 5 suppliers and customers.

Relatively high refinancing pressure but mitigated by diversified funding resources

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%. Moreover, HATH's balance-sheet liquidity position was modest. The Company held cash and cash equivalents of RMB5.2 billion, which was unable to cover its short-term debt of RMB13.4 billion as of 31 March 2023. The Company showed a relatively high refinancing pressure as the short-term debt accounted for 43.8% of its total debt.

Nevertheless, 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. From January 2022 to May 2023, the Company raised nearly RMB13 billion from several tranches of domestic bonds with coupon rates ranging from 2.8% to 4.28%. In 2022, the Company further diversified its funding into the offshore market by issuing one USD bond with total amount and coupon rate of USD300 million and 5.5%, respectively. Moreover, HATH also had limited non-standard financing exposure, which accounted for around 10% of its total debts only.

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. Nevertheless, we believe that the credit risk of these guarantees is manageable, as most of them are provided to local SOEs and directed by the Huai'an City government. However, 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.

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 equal 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 \(July 2022\)](#).

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