

## Credit Opinion

28 March 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB <sub>g</sub>
Outlook	Stable

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## Huai'an Development Holdings Co., Ltd.

### Surveillance credit rating report

### CCXAP upgrades Huai'an Development Holdings Co., Ltd.'s long-term credit rating to BBB<sub>g</sub>, with stable outlook.

#### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Huai'an Development Holdings Co., Ltd. ("HADH" or the "Company") to BBB<sub>g</sub> from BBB<sub>g</sub><sup>-</sup>, reflecting the ongoing economic growth of Huai'an City and Huai'an Economic and Technological Development Zone ("Huai'an ETDZ"), as well as the Company's important position in the construction and development of Huai'an ETDZ.

The BBB<sub>g</sub> long-term credit rating of HADH reflects the Huai'an Municipal Government's (1) very strong capacity to provide support; and (2) high willingness to provide support based on our assessment of the Company's characteristics.

Our assessment of the Huai'an Municipal Government's capacity to provide support reflects Huai'an City's relatively strong economic condition and good industrial base. In addition, Huai'an ETDZ has experienced ongoing economic development during the past three years.

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 land operator and largest infrastructure constructor in Huai'an ETDZ; and (2) ongoing support from the local government. However, the rating is constrained by the Company's (1) high exposure to commercial activities; (2) moderate debt management and asset liquidity; (3) moderate financing ability with relatively weak liquidity buffers; and (4) high exposure to contingent liabilities.

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

## Rating Drivers

- Good business position as the sole land operator and largest infrastructure constructor in Huai'an ETDZ
- Ongoing support from the local government
- High exposure to commercial activities
- Moderate debt management and asset liquidity
- Moderate financing ability with relatively weak liquidity buffers
- High exposure to contingent liabilities related to 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 local government's willingness to provide support, such as lower exposure to risky commercial activities and improved debt management.

### 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 decreased strategic importance.

## Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	99.5	101.5	102.5	102.7
Total Equity (RMB billion)	42.8	43.9	44.6	44.4
Total Revenue (RMB billion)	1.9	3.9	3.9	1.6
Total Debt/Total Capital (%)	53.9	54.2	53.5	53.5

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

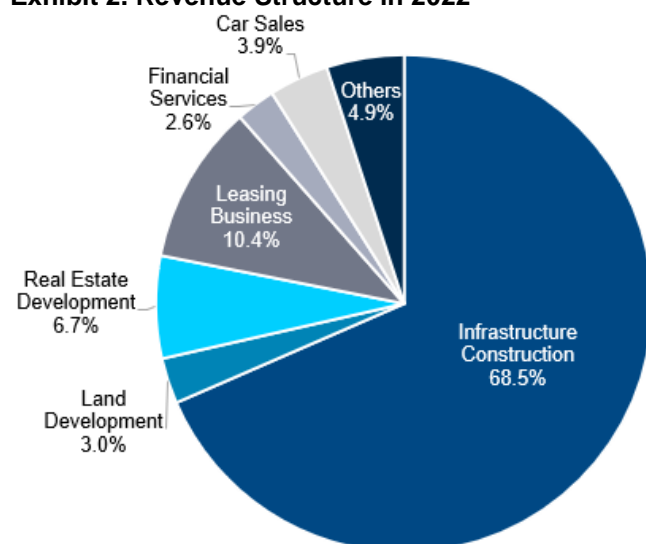
Source: Company data, CCXAP research

## Corporate Profile

Founded in 2005, HADH is the most important local infrastructure investment and financing company ("LIIFC") in Huai'an ETDZ, and occupies a dominant position in infrastructure construction, state-owned assets management, and capital operation in the region. HADH is the sole land operator in Huai'an ETDZ and is also responsible for infrastructure and resettlement housing construction business. Apart from that, the Company also takes part in diversified commercial activities consisting of property development, leasing, and financial services. As of 30 September 2023, the Company was wholly owned by the Huai'an Municipal Government and directly supervised by the Management Committee of Huai'an ETDZ.

**Exhibit 1. Shareholding Chart as of 30 September 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 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, chemical, and textile. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The per capita GRP also ranked top among all provinces in China for years.

Located in the eastern part of the Jianghuai Plain, 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. Huai'an City has a national economic and technological development zone and a national high-tech industrial development zone. It has currently formed four leading industries, including green food, new generation of electronic information, high-end equipment manufacturing, and textiles. In 2023, Huai'an City recorded a GRP of RMB501.5 billion and achieved a YoY increase of 7.8% which ranked 2nd in Jiangsu Province. With the continuous economic growth and industrial optimization, Huai'an City's fiscal strength also maintained a stable growth trend. In 2023, it reported a general budgetary revenue of RMB31.7 billion, increasing by 5.3% from 2022. Taxes represented a large proportion of its general budgetary revenue,

accounting for 75.2% on average over the past three years. However, its fiscal self-balance was relatively weak, with a ratio of 46.1% on average. Huai'an Municipal Government relies on transfer income and government debt issuance to achieve balance. As of the end of 2023, the direct debt of Huai'an Municipal Government amounted to RMB83.3 billion, accounting for 16.6% of GRP, which has increased compared with end-2022.

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

	2021FY	2022FY	2023FY
GRP (RMB billion)	455.0	474.2	501.5
GRP Growth (%)	10.0	3.6	7.8
General Budgetary Revenue (RMB billion)	29.7	30.0	31.7
General Budgetary Expenditure (RMB billion)	61.3	66.0	71.7
Local Government Debt (RMB billion)	69.3	75.1	83.3

Source: Huai'an Municipal Government, CCXAP research

Located in the central area of Huai'an City, Huai'an ETDZ was established in 1992 and was upgraded to a national-level economic and technological development zone in 2010, with an administrative area of 183 square kilometers. As the industrial base for new energy automobile and intelligent equipment manufacturing in the northern Jiangsu Province, Huai'an ETDZ has formed characteristic industrial clusters such as IT, new energy vehicles and parts, and intelligent equipment. Huai'an ETDZ is also an important window for Huai'an City to achieve high-standard opening up and attract foreign investment, with many leading companies settled such as Foxconn Technology Group and Hankook Tire & Technology Co., Ltd. In 2023, the GRP of Huai'an ETDZ was RMB47.5 billion, a YoY increase of 8.0%; the general budgetary revenue was RMB3.3 billion, with a high fiscal balance ratio of 97.6%. Meanwhile, the output value of strategic emerging output value was RMB42.0 billion, a YoY increase of 15.9%, accounting for 79.6%, ranking first in Huai'an City.

### Exhibit 4. Key economic and fiscal indicators of Huai'an ETDZ

	2021FY	2022FY	2023FY
GRP (RMB billion)	44.1	44.9	47.5
GRP Growth (%)	9.0	1.0	8.0
General Budgetary Revenue (RMB billion)	3.6	3.0	3.3
General Budgetary Expenditure (RMB billion)	3.2	3.4	3.4
Local Government Debt (RMB billion)	2.2	2.3	3.0

Source: Management Committee of Huai'an ETDZ, CCXAP research

## Government's Willingness to Provide Support

### Good business position as the sole land operator and largest infrastructure constructor

HADH has a clear functional positioning in Huai'an City and is the largest state-owned infrastructure constructor and sole land operator in Huai'an ETDZ, which has benefited from the ongoing economic development of Huai'an ETDZ. The Company is mainly responsible for local land operation, resettlement housing construction, and infrastructure construction. HADH's functional positioning in Huai'an ETDZ remained unchanged during 2023. We believe that HADH's strategic role in local economic development and public welfare undertakings is irreplaceable in the short-to-medium term.

HADH conducts public projects mainly through the government repurchase model, which mainly includes infrastructures and resettlement housing in Huai'an ETDZ. The Company signs a repurchase agreement with the Management Committee of Huai'an ETDZ or its agency to undertake the financing and construction of the

project. After the project is completed, the government will allocate the project settlement funds to the Company in installments, with a 10%-15% markup on the total cost. Meanwhile, the Company also takes part in infrastructure construction in Xuyi Economic Development Zone (“Xuyi EDZ”) through its subsidiary under the agency construction model. The Management Committee pays the Company construction costs plus a 10% within 6 years markup after the audit of completed projects. Xuyi EDZ is a provincial economic development zone where major industries are concentrated, focusing on attracting investment.

As of 30 September 2023, HADH has completed series of large-scale resettlement housing, infrastructure construction and comprehensive projects with a total investment of RMB19.7 billion and an accumulated received payment amount of RMB9.7 billion, respectively. The Company’s infrastructure projects included public libraries, school campuses, parks, exhibition centers, bridges, and roads, with high public-policy goals. However, as the project repurchase period is usually 3-7 years after the completion of the project, the Company’s project settlement is slow. Meanwhile, the Company had a number of projects under construction and planning, with the outstanding investment of RMB4.6 billion and RMB1.6 billion, respectively.

HADH is also a key state-owned enterprise responsible for land transfer designated by the local government in Huai’an ETDZ, mainly through secondary transfer of self-owned lands. Specifically, upon the completion of secondary transfer of lands which are returned to Land Reserve Center by the Company, the Management Committee of Huai’an ETDZ pays to the Company with the land purchasing and funds costs, along with certain profits. However, the Company’s business profile is affected by the changes in regulatory policy and the local market. Also, the Company’s project payments are more susceptible to local property market volatility and the progress of government land sales. In 2022, the Company’s revenue in this segment dropped to RMB114.3 million from RMB684 million in 2021. As of 30 September 2023, the Company has 3,095.6 acres of land to be developed, with a book value of RMB548 million, mainly including commercial and residential land. Although the Company’s land operation revenue was adversely affected by the policy change, we believe the government will help maintain HADH’s business stability and sustainability given its status as the sole land operator in Huai’an ETDZ.

### **Ongoing support from the local government**

HADH has received ongoing support from the local government including capital injections, project payments, and financial subsidies. In 2022, the Management Committee of Huai’an ETDZ injected RMB192 million in cash to the Company, increasing its paid-in capital and enhancing the capital strength. From 2020 to 2023Q3, the Company has also received operating financial subsidies of RMB1.0 billion from the local government. In addition, as of 30 September 2023, the Company has received a total of RMB9.7 billion in completed infrastructure construction projects, covering around 51% of the investment. Given the Company’s strategic importance in Huai’an ETDZ, we believe that the local government will provide HADH with ongoing operational and financial support.

### **High 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 high as its market-driven nature.

HADH and its subsidiary, Huai’an Higher Education Park Investment Industries Co., Ltd., are mainly engaged in self-operated property development projects. As of 30 September 2023, the Company had a total outstanding

property with a saleable area of 532 thousand square meters and has sold 363.6 thousand square meters of property. Meanwhile, the Company had 1 property project under construction with an outstanding investment of RMB176 million. The sales of this segment were affected by the recent market downturn and shrinking profit margins in China's property market. In our view, increasing investment in commercial property projects will cause higher financial and business risks to the Company. Moreover, the Company's self-operated property development project mainly rely on external financing, which means that the Company still has large capital needs for its future projects.

The Company takes responsibility for the industrial development of Huai'an EDTZ through construction and operation of the leasable assets, which is mandated by the local government. It continues to expand its asset leasing business, which will enhance the stability of its recurring income source. The Company has a large investment properties portfolio, including offices, apartments, government buildings, industrial parks and utility facilities, providing preferential rents for settled enterprises. In 2022, the Company generated stable and recurring rental income of RMB400.5 million, increasing by 8.6% YoY. In the first three quarters of 2023, the income was RMB235.3 million, representing 15.1% of the total revenue. In addition, HADA had 2 industrial parks under construction with an outstanding investment amount of RMB1.6 billion, and 1 industrial park under planning with a total investment amount of RMB4.2 billion. As more industrial parks are completed and more enterprises are settled in the industrial parks in the future, the leasable area and rental income are expected to increase.

In order to facilitate financing for local business entities, HADH also provides different types of financial services, such as guarantee, small loans, pawn broking, venture capital, distressed asset acquisition, and financial leasing, to local private-owned companies with relatively high operating risk. The Company recorded compensations for its guarantee business and bad debts in other financial businesses. As of 30 September 2023, the Company's credit exposure to its financial service business increased compared to 2022, including outstanding loan guarantees of RMB2.4 billion, the incurred amount of compensation of RMB126.4 million and the uncollected amount of compensation of RMB27.9 million. Meanwhile, the Company had pawns of RMB150.8 million, small loans of RMB7.3 million, as well as financial leasing of RMB323 million. These credit exposures may bring credit risk and asset quality risk to the Company in the future, in our view.

### **Moderate debt management and asset liquidity**

HADH faces a relatively large debt burden with high debt leverage as a result of slow payment collections and large capital demands for construction projects. As of 30 September 2023, the Company's total debt increased slightly to RMB51.1 billion from RMB50.0 billion as of end-2020; while the total capitalization ratio maintained at around 54%, indicating a relatively high debt leverage. Moreover, the short-term debt burden maintained to be high with the portion of 44.4%. As of 30 September 2023, the Company's short-term debt was RMB22.7 billion and the cash-to-short-term debt ratio remained at a relatively low level of 0.3x, indicating that cash unable to cover the short-term debt. As of 30 September 2023, the Company had 16 construction projects under construction and planning, with gross investment of around RMB16.0 billion and uninvested amount of RMB12.1 billion. Among them, the majority of the commercial projects are expected to be funded mainly through external financing, we expect the Company's debt leverage to remain at a relatively high level in the next 12 to 18 months.

**Exhibit 5. Projects under construction and planning as of 30 September 2023**

Project type	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB billion)	amount (RMB billion)	amount (RMB billion)
<b><i>Project Under Construction</i></b>				
Resettlement housing	4	5.0	2.0	3.0
Infrastructure construction	6	2.9	1.3	1.6
Property development	3	2.3	0.6	1.7
<b><i>Project Under Planning</i></b>				
Resettlement housing	1	1.5	0.0	1.5
Infrastructure construction	1	0.1	0.0	0.1
Property development	1	4.2	0.0	4.2
<b>Total</b>	<b>16</b>	<b>16.0</b>	<b>3.9</b>	<b>12.1</b>

Source: Company information, CCXAP Research

Moreover, HADH's asset liquidity is moderate which mainly comprised of inventories and other receivables, accounting for 38.8% and 33.2% of its total assets as of 30 September 2023, respectively. The inventories were mainly the construction costs from infrastructure construction and resettlement housing projects, as well as the cost of lands to be developed; while the other receivables were mainly receivables from the local government and other state-owned enterprises. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company, in our view.

**Moderate financing ability with relatively weak liquidity buffers**

HADH showed a relatively high refinancing pressure due to its relatively high short-term debt burden and low cash to short-term ratio. In addition, as sizeable pipeline projects require significant financial backing, we expect that the Company will need to obtain extra external funding resources to repay its debt and to invest in new projects. The Company's funding channels mainly include bank loans, direct financing and non-standard financing products. Direct financing is the main funding source, accounting for around 50% of the total debt as of 30 September 2023. HADH's active access to the debt capital market was supported by its strong shareholder background. In 2023, the Company raised funds of RMB12.8 billion via several tranches of onshore bonds with coupon rates ranging from 2.79% to 5%. As for the bank loans, the Company has relatively limited available credit facilities of around RMB3.6 billion as of 30 September 2023, posing certain pressure on refinancing needs. Meanwhile, HADH also had moderate non-standard financing exposure, which accounted for around 17% of its total debts. The non-standard financing products are mainly financial leasing and trust.

**High exposure to contingent liabilities**

HADH's credit profile is constrained by its external non-operating guarantees, which could potentially increase its repayment obligations. As of 30 September 2023, the Company had outstanding external guarantees (excluding guarantee business) of RMB27.2 billion, representing 61.3% of its net assets. All of them were provided to local state-owned companies such as Huai'an Economic and Technological Development Zone Economic Development Group Co., Ltd. and Huai'an Transportation Holding Co., Ltd. Considering the government support and counter-guarantee measures, the credit risk of these guarantees among local state-owned companies is moderately controllable. 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

HADH faces environmental risks because it has undertaken major infrastructure construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

HADH bears social risks as it implements public policy initiatives by building public infrastructure 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.

HADH's governance considerations are also material as the Company is subject to oversight by the Huai'an Municipal Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

## 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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