

## Credit Opinion

23 September 2024

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

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## Huizhou Transportation Investment Group Co., Ltd.

### Initial credit rating report

**CCXAP assigns first-time long-term credit rating of A<sub>g</sub> to Huizhou Transportation Investment Group Co., Ltd., with stable outlook.**

### Summary

The A<sub>g</sub> long-term credit rating of Huizhou Transportation Investment Group Co., Ltd. (“HTIG” or the “Company”) reflects Huizhou 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 Huizhou Municipal Government’s capacity to provide support reflects Huizhou City’s good geographic advantage and strong industrial development, with ongoing economic growth.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in transportation construction and operation of Huizhou City; (2) high sustainability in local public activities; and (3) track record of receiving government payments.

However, the rating is constrained by the Company’s (1) high debt growth and leverage; (2) moderate asset liquidity; (3) medium exposure to commercial activities.

The stable outlook on HTIG’s rating reflects our expectation that the local government’s capacity to support will remain stable, and the Company will maintain its dominant role in transportation infrastructure construction and operation in Huizhou City.

## Rating Drivers

- Dominant role in transportation construction and operation of Huizhou City
- High sustainability in local public activities
- Medium exposure to commercial activities
- Track record of receiving government payments
- High debt growth and leverage
- Moderate asset liquidity

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improvement in debt leverage or assets quality.

### What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

## Key Indicators

	2021FY	2022FY	2023FY	2024Q1
Total Asset (RMB billion)	48.0	73.0	85.3	86.4
Total Equity (RMB billion)	16.5	23.4	25.1	25.5
Total Revenue (RMB billion)	2.7	3.1	6.8	1.0
Total Debt/Total Capital (%)	59.0	60.6	64.2	65.4

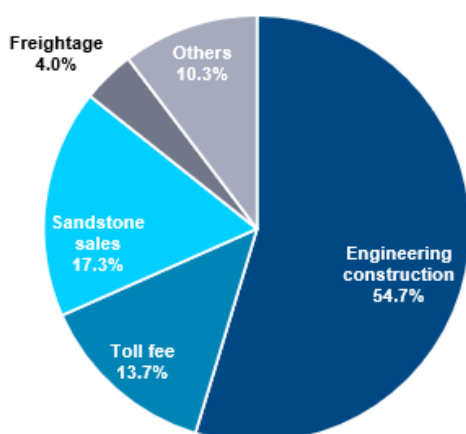
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company information, CCXAP research

## Corporate Profile

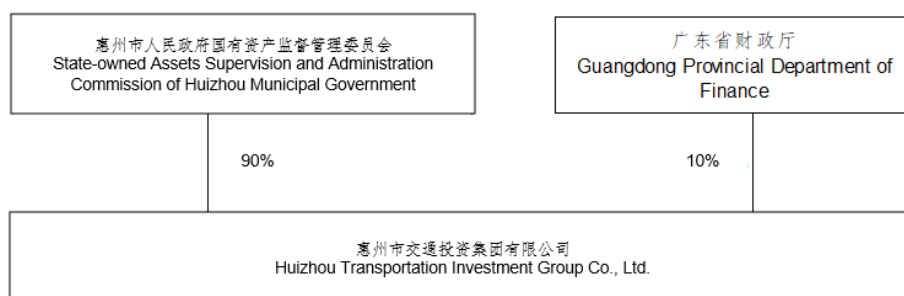
Established in 2012, HTIG is the most important local infrastructure investment and financing companies ("LIIFCs") for transportation infrastructure construction and operation in Huizhou City. The Company is mainly engaged in toll road construction and operation, engineering construction and public transportation operation. In addition, the Company is also engaged in commercial businesses including freightage transportation and sandstone sales. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Huizhou Municipal Government ("Huizhou SASAC") held 90% equity interests of HTIG, while Guangdong Provincial Department of Finance held the remaining 10%. Huizhou SASAC is the ultimate shareholder of the Company.

### Exhibit 1. Revenue structure in 2023



Source: Company information, CCXAP research

### Exhibit 2. Shareholding chart as of 31 March 2024



Source: Company information, CCXAP research

## Rating Considerations

### Government Capacity to Provide Support

We believe that Huizhou Municipal Government has a very strong capacity to provide support as reflected by its good geographic advantage, with ongoing economic growth.

Guangdong Province is one of the most developed provinces in China with diversified industry clusters. In 2023, the gross regional product (“GRP”) of Guangdong reached RMB13.6 trillion, with a year-on-year (“YoY”) growth of 4.8%, leading all provinces in China. Meanwhile, its general budgetary revenue also amounted to RMB1.4 trillion in 2023, representing a YoY growth of 4.3%.

Huizhou is a key transportation hub on the east coast of China's Guangdong-Hong Kong-Macao Greater Bay Area. It boasts a robust transportation infrastructure, including an airport handling more than 2 million passengers annually and several major rail lines. Additionally, the city's extensive expressway network has a total length of more than 900 kilometers, further enhancing its connectivity and accessibility within the province. Huizhou City has built a “2+1” modern industrial cluster, with petrochemical energy new materials and electronic information as the two pillar industries.

Over the past few years, the GRP of Huizhou City grew to RMB564.0 billion in 2023 from RMB497.7 billion in 2021. Due to the rapid industry growth, Huizhou’s general budgetary revenue increased from RMB45.5 billion

in 2021 to RMB47.3 billion in 2023. In 2023, the GRP and general budgetary revenue of Huizhou City ranked 5<sup>th</sup> and 6<sup>th</sup> among 21 prefecture-level cities in Guangdong Province, respectively. Meanwhile, its fiscal stability is moderate, with tax income accounting for around 64.7% of general budgetary revenue for the past three years. Its fiscal balance remains at a fair level, with general budgetary revenue to general budgetary expenditure ratio of 65.1% in 2023. However, Huizhou's outstanding government debt amounted to RMB123.1 billion with an increasing trend, accounting for 21.8% of its GRP.

### Exhibit 3. Key Economic and Fiscal Indicators of Huizhou City

	2021FY	2022FY	2023FY
GRP (RMB billion)	497.7	540.1	564.0
GRP Growth (%)	10.1	4.2	5.6
General Budgetary Revenue (RMB billion)	45.5	44.2	47.3
General Budgetary Expenditure (RMB billion)	66.3	69.3	72.7
Local Government Debt (RMB billion)	88.7	105.0	123.1

Source: Statistics Bureau of Huizhou City, CCXAP research

### Government Willingness to Provide Support

#### Dominant role as the most important transportation construction and operation entity in Huizhou City

There are six functional LIIFCs in Huizhou City, with business covering transportation construction and operation, urban construction, water affairs, industrial investment, port construction and investment, and financial services. The Company is the largest municipal state-owned company in Huizhou City in terms of total asset and the most important entity in the investment, construction, operation and management of transportation infrastructure. Benefited from Huizhou City's status as a regional transportation hub, the Company has been able to invest in various important public projects such as Huida Expressway and Huiyan Expressway. Considering its high strategic significance to the development of Huizhou City, we believe the Company is unlikely to be replaced by other local state-owned enterprises in the foreseeable future.

#### High sustainability in local public activities

The Company's transportation business has high sustainability given the considerable amount of transportation construction projects in the pipeline and the strong traffic volume in Huizhou Area. However, the large outstanding investment amount has also exerted large capital expenditure pressure on the Company.

As the most important transportation construction and operation entity in Huizhou City, the Company responsible for operating expressways within Huizhou City, assumed the management responsibilities for these expressways. As of 31 March 2024, the Company operates 3 expressways with a total toll mileage of 150.5 kilometers. The toll fee income amounted to RMB928 million, representing a YoY growth of 16.4%, which is mainly due to the economic rebound and the opening of Huilong Expressway. Meanwhile, the operating efficiency of Huida and Huiyan Expressway are strong, as reflected by their average toll fee per kilometer surpassing RMB10 million in 2023, which is above the national average level. In addition, the Company also invested in expressways through equity participation, such as Guanghui Expressway and Guanghe Expressway. As of 31 March 2024, the Company invested 6 expressways through equity participation, with a total mileage of 459.6 kilometer. The equity investment of expressways provides a stable dividend income for Company, resulting in an investment income of RMB141 million for the Company in 2023. As of 31 March 2024, there are two controlled expressways under construction, with total investment of RMB35.3 billion and uninvested amount of RMB20.0 billion.

The Company also has participated in 3 national and provincial highways construction under PPP model, which the project breakeven will be achieved by government repayment. The related funds are included in the Huizhou City's medium and long-term fiscal expenditure. As of 31 March 2024, the Company has invested around RMB989 million in 3 national and provincial highways, and the portion of the Company's capital funds for which it is responsible has been basically completed. The fund breakeven will be achieved by government purchase.

Engineering construction business expanded in 2023. The projects under the segment are mainly road and parking lots. As of the 31 March 2024, the Company had 8 major contracts with total contract value of around RMB22.5 billion and recognized revenue of RMB3.6 billion.

The Company is also responsible for the public bus transportation in Huizhou City, with 729 buses, 54 bus routes, and a total mileage of 1,087 kilometers as of 31 March 2024. Though the traffic volume has rebounded in 2023, this segment still relies on government to achieve breakeven. The subsidy amount showed a decreasing trend in the past few years due to the change in the settlement mechanism.

### **Medium exposure to commercial activities**

HTIG also engages in commercial businesses including freightage transportation, property development, parking lot operation, and sandstone sales. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% of its total assets.

The freightage transportation business is mainly operated via Huida Railway, with total length of 51 kilometers, connecting Huizhou West Railway Station and Huizhou Daya Bay Economic and Technological Development Zone ("Huizhou Daya Bay ETDZ"). The majority of goods are chemical products. With the steady development of Huizhou Daya Bay ETDZ, the goods delivery volume of Huida Railway has been increasing steadily over the past few years, providing stable supplementary income to the Company. In 2023, the volume of goods delivered via Huida Railway increased to 10.3 million tons from 7.4 million tons in 2021, resulting in revenue of around RMB213 million.

Sandstone sales is second largest contributor to the Company's revenue. With the commencement of new quarries, the Company recorded a 274% YoY increase in sales in 2023. As of 31 March 2024, the Company had obtained the mining rights of 8 green quarries in Huizhou City, with a total sandstone reserve of approximately 1.6 billion tons and an annual mining volume of approximately 73.9 million tons. Meanwhile, the Company had 8 quarries in operation or under construction, with a total planned investment of RMB22.9 billion and uninvested amount of RMB9.1 billion. With the completion of quarries, the sales revenue is expected to rise.

The Company also participates in property development business. As of 31 March 2024, there were 2 property development projects under construction, with total planned investment of RMB3.0 billion and uninvested amount of RMB560 million. However, the slowdown of property market in China may exert certain business risks to the Company. As of end-2024Q1, the Company had no property development project under planning.

The parking lot operation business has started to generate profit since 2023. As of 31 March 2024, the Company had a total of 80 parking lots in operation, and 6 parking lots under construction with a total planned investment of RMB780 million and uninvested amount of RMB600 million. Besides, the Company plans to start construction of 19 parking lots, adding approximately 5,000 parking spaces, with an estimated total investment of RMB855 million, which may exert certain capital expenditure pressure.

### **Track record of receiving government payments**

As the most important transportation infrastructure construction and operation entity in Huizhou City, HTIG has a track record of receiving government support in the form of capital injection, asset transfer and financial subsidies. From 2021 to 2024Q1, the local government has provided financial subsidies of RMB880 million to the Company. In order to support its construction work on parking lots projects and railway projects, the government has injected capital of RMB7.5 billion to the Company over the same period, mainly in cash. Considering the Company's strategic importance in Huizhou City, we expect the local government will give ongoing support to the Company in the future.

### **High debt growth and leverage**

HTIG's total debt has increased in the past three years due to external financing needs, especially from the construction of expressways and quarries. The Company's total debt increased from RMB23.8 billion at end-2021 to RMB48.0 billion as of 31 March 2024, with a high capitalization ratio of 65.4%. Meanwhile, the Company faces certain short-term repayment pressure as its short-term debt accounted for 19.8% of its total debt and cash to short-term debt ratio was 0.5x at end-2024Q1. Given its continuous investment for expressways and other transportation infrastructure projects, we expect the Company will maintain a high debt growth and high debt leverage in the foreseeable future.

### **Moderate asset liquidity**

The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 March 2024, the Company's total asset mainly consisted of inventories, construction in progress, and intangible assets, accounting for around 62.1% of total assets. The inventories are mainly construction costs and property development projects; the construction in progress is mainly self-owned road assets such as expressways; and intangible assets are mainly expressway toll rights and mining rights, all with weak liquidity. Nevertheless, the toll road assets and sandstone mines can provide stable income and cash flow to the Company.

Meanwhile, its restricted asset was RMB13.9 billion as of end-2024Q1, representing 16.1% of the total asset. The restricted asset was mainly the charge rights of its expressways, which was used as collateral for bank borrowings.

### **Good access to funding**

As the most important transportation construction and operation entity in Huizhou City, HTIG has good access to funding from banks and bond market. As of 31 March 2024, bank loan accounted for 73.4% of its total debt, with an average financing cost around of 3.7%. The Company has sufficient standby liquidity. As of 31 March 2024, it had obtained total credit facilities of RMB96.9 billion, with available amount of RMB61.7 billion. The Company also has good recognition in onshore debt capital markets. In 2024, the Company issued two private corporate bonds with total issuance amount of RMB2.0 billion and low coupon rate of 2.6%. Non-standard financing accounted for 15.5% of its total debt, such as debt investment plan, with reasonable average financing cost of around 4.2%. Considering its important status in Huizhou City, we expect the Company to maintain access to stable funding and retain good refinancing capabilities.

### **Medium contingent risks arising from external guarantee**

The Company has medium contingent liability risk, which may increase its repayment obligations given its magnitude of external guarantees. As of 31 March 2024, the Company had outstanding external guarantees of

RMB3.2 billion, accounting for 12.7% of its net assets. However, most of the external guarantee amount was provided to privately owned expressway construction enterprises in which the Company has equity participation. Given the importance of the Company and social impact of the relevant expressways in Huizhou City, we believe the government will likely to provide necessary support if certain credit event occurs.

## ESG Considerations

HTIG assumes environmental risks through its infrastructure construction projects such as high-speed railway and expressway construction. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social awareness, HTIG has played a crucial role in the social welfare of Huizhou City by involving in transportation construction and operations in Huizhou City.

In terms of corporate governance, HTIG's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity. In 2024, several key personnel of the Company have been investigated and removed by the regulatory authority. According to our assessment, such matter has no material impact on the Company's credit quality. Meanwhile, the corporate governance of the Company is yet to be improved.

## 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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