

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

Hong Kong, 28 March, 2024 – 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>, 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.

### **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.

### **Rating Rationale**

#### **Credit Strengths**

**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.

**Ongoing support from the local government.** HADH has received ongoing support from the local government including capital injections, project payments, and financial subsidies. 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.

#### Credit Challenges

**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.

**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 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. Moreover, HADH's asset liquidity is moderate which mainly comprised of inventories and other receivables.

**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. The Company's funding channels mainly include bank loans, direct financing and non-standard financing products.

**High exposure to contingent liabilities.** HADH's credit profile is constrained by its external non-operating guarantees, which could potentially increase its repayment obligations. All of the guarantees were provided to local state-owned companies. 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.

#### Rating Outlook

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.

#### 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.

### **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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