

CCXAP upgrades Huai'an Traffic Holding Group Co., Ltd.'s long-term credit rating to BBB_g+, with stable outlook.

Hong Kong, 26 June, 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has upgraded the long-term credit rating of Huai'an Traffic Holding Group Co., Ltd. (“HATH” or the “Company”) to BBB_g+ from BBB_g, reflecting the enhancing regional strength of Huai'an City and the Company's strategic position in local transportation infrastructure construction and operation in Huai'an City. At the same time, CCXAP has upgraded its senior unsecured debt rating to BBB_g+

The BBB_g+ long-term credit rating of HATH 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 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 counterparty and concentration risks; (2) relatively high refinancing pressure; and (3) moderate exposure to contingent liabilities from external guarantees to local state-owned enterprises.

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 commodity 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 Joint Investment & Development Group Co., Ltd. (“SJID”), which is the most important LIIFC in Huai'an City and wholly owned by Huai'an Municipal Government. As of 31 December 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.

Rating Rationale

Credit Strengths

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. 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.

High importance in the transportation-related public services. The Company engaged in transportation logistics businesses such as city bus transportation service, port logistics, railroad operations and management, tram operations as well as road toll operations and services. Overall, we believe HATH's regional position in transportation-related business will remain strong, given its strong functional positioning and resource utilization in Huai'an City.

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

Credit Challenges

Medium exposure to commercial activities with certain counterparty and concentration 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 counterparty and concentration risks 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.

Relatively high refinancing pressure. HATH still has relatively large debt burden although its total debt has recorded moderate growth in recent years. At of 31 December 2023, the Company showed a relatively high short-term refinancing pressure with the short-term debt accounting for 49.0% of its total debt and 61.4% of its short-term debt consisted of bond financing. However, given the stringent regulatory policy on China's local infrastructure investment and financing companies, the Company's refinancing situation may be subject to certain restrictions in the capital market.

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 31 December 2023, the Company had outstanding external guarantees of RMB7.7 billion and all of them were provided to local state-owned enterprises ("SOEs"), representing 35.2% of its net assets. Large exposure to guarantees will increase the Company's contingent liability risk.

Rating Outlook

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.

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, enhanced financing ability or 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.

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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