

Credit Opinion

26 June 2024

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

Summary

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.

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.

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
- Good track record of 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, 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.

Key Indicators

	2021FY	2022FY	2023FY
Total Asset (RMB billion)	53.4	55.4	58.7
Total Equity (RMB billion)	22.6	22.9	24.8
Total Revenue (RMB billion)	2.9	3.2	3.3
Total Debt/Total Capital (%)	57.8	58.6	59.4

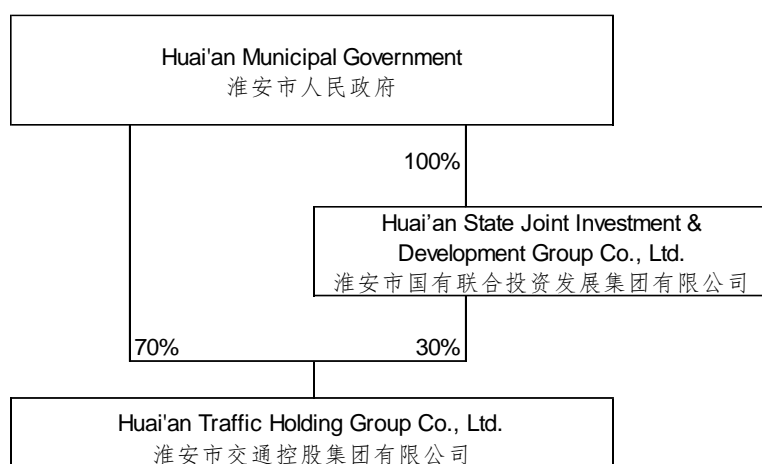
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

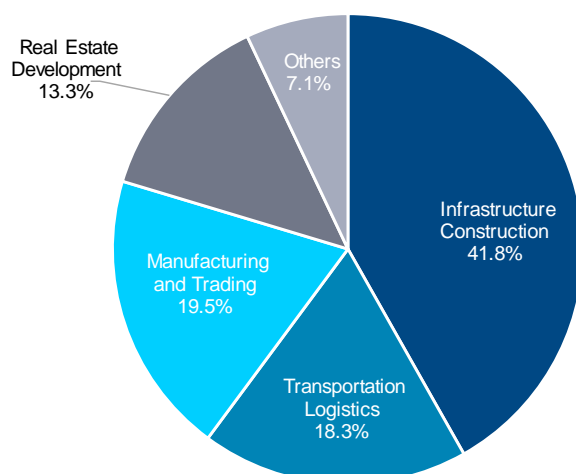
Founded in 2003, HATH acts as an important local infrastructure investment and financing company ("LIIFC") in Huai'an City. It is mainly responsible for the investment, financing, construction and operation of transportation infrastructure as well as the shantytown renovation and affordable housing projects. The Company also engages in transportation logistics businesses such as transportation services, port logistics, as well as other commercial activities including 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.

Exhibit 1. Shareholding chart as of 31 December 2023



Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



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, chemicals, and textiles. 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 GRP per capita for the same period was RMB150,487, ranking first among all provinces in China.

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's

fixed asset investment above designated size increased by 10.4% from 2022 and growth rate ranked second in Jiangsu Province. Meanwhile, the infrastructure investment of Huai'an City increased by 96.7%, ranking first in Jiangsu Province. In 2023, there was 312 enterprises in Huai'an City was approved as national high-tech enterprises and the output value of high-tech industries accounted for 31.9% of Huai'an City's industrial output value.

In 2023, Huai'an City recorded a GRP of RMB501.5 billion and achieved a YoY increase of 7.8%, ranking 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. Tax revenue represented a large proportion of its general budgetary revenue, accounting for 75.2% on average over the past three years, indicating good fiscal quality. 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 outstanding 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

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. Since its establishment, the Company has undertaken a number of major transportation infrastructure construction projects in Huai'an City, such as roads, bridges, bus stations and ports.

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. However, the cash collection from the completed shantytown projects is relatively lagging behind. As of 31 December 2023, the shantytown redevelopment project has been completed, and the Company received RMB648 million from the government for the two shantytown redevelopment projects.

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 December 2023, there were 21 key projects under construction with total contracted amount of RMB4.0 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 enhancement of transportation-related 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 Huai'an Port and Xingang Railway. Huai'an Port is an important inland river port in Jiangsu Province and an important hub of the comprehensive transportation system in northern Jiangsu Province. As of 31 December 2023, the Company had 2 projects under construction, with gross investment of RMB2.4 billion and uninvested amount of RMB1.5 billion. These two projects are the Huai'an Port Phase III Upgrading Project (Automated Terminal Project) and the Suhuai High-tech Zone Hazardous Chemicals Terminal Project, which are expected to improve the operation capacity of Huai'an Port and provide the Company with recurring income after completion. The two projects received a total of around RMB1.5 billion in government special bond funds, alleviating the Company's capital expenditure pressure. At the same time, the Company had 1 project under planning, namely the Xingang Railway Expansion Project, with an estimated total investment amount of RMB607 million.

The urban public transport business mainly includes city bus and tram operations. As of end-2023, the Company has 1,651 buses, 102 operating lines, and more than 2,600 stations, with a total line length of 1,879.7 kilometers, covering the main urban area of Huai'an City; and 26 trams, with a maximum daily passenger flow of 40,500. 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 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. In 2023, the Company continued to receive various types of financial subsidies of approximately

RMB283 million, including operating subsidies for city bus transportation service, port logistics, tram operations and grain reserves. In addition, the Company received the special refinancing funds of RMB724 million from the local government to repay the debts over the same period. From the perspective of repayments of its infrastructure construction projects, the Company continued to receive management fees of RMB195 million from the local government in 2023. However, we expect that the direct payment from government will be reduced in the future since the Company no longer undertakes new infrastructure construction and shantytown renovation projects through agency construction model.

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.

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.

HATH engages in real estate development through its subsidiaries. As of 31 December 2023, the Company had 6 property projects under construction, with an estimated total investment amount of RMB3.5 billion and an uninvested amount of RMB822 million. The Company funds these projects with self-raised funds and is expected to achieve fund balance through leasing and sales of the properties. However, the property sales business is highly subject to the economic condition and the local real estate market. The Chinese property market has remained volatile in recent years, which may exert uncertainty on the Company's sales progress and payment collection.

HATH also participates in trading business through its subsidiaries, including the sales of building materials, agricultural products, small household appliances, and automobiles. Apart from that, the Company principally participates in producing and selling plastic pipes and fittings. The revenue from manufacturing and trading business has shown relatively high volatility, which increased by 45.9% YoY to RMB644.9 million in 2023. In addition, the Company faced certain concentration risk with a relatively high proportion of top 5 suppliers and customers. Moreover, the manufacturing trading business may subject to certain payment collection risk as some of the customers are paid by credit.

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 December 2023, the Company's total debt (including perpetual bonds) increased to RMB31.9 billion from RMB29.9 billion at end-2022. Meanwhile, the Company had relatively high debt leverage, and its total capitalization ratio maintained a high level of 59.4% at end-2023. At the same time, 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. The cash to short-term debt ratio decreased to 0.3x at end-2023 from 0.4x at end-2022. However, considering the ongoing investment in projects under construction, we expect the Company may rely on external financing and its debt leverage will be maintained at a high level in the next 12 to 18 months.

Nevertheless, HATH has access to diversified funding channels which could partially mitigate the Company's refinancing pressure. From 2021 to 2023, its average financing costs were around 5.5%, 4.8%, and 4.7%, respectively, showing a downward trend. Bond issuances and bank loans accounted for the majority of its total debt. The Company maintains a good relationship with joint-stock commercial banks and large domestic banks. As of 31 December 2023, the Company had total bank facilities of RMB15.4 billion and the available portion amounted to RMB7.2 billion. HATH has good track record of issuing different bond instruments in the onshore debt markets such as SCPs, MTNs and PPNs. From January 2023 to May 2024, the Company raised nearly RMB16 billion from several tranches of domestic bonds with coupon rates ranging from 2.4% to 4.28%. Additionally, HATH had limited non-standard financing exposure, which accounted for around 10% of its total debts as of 31 December 2023.

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. Nevertheless, we believe that the credit risk of these guarantees is manageable, as all of them are provided to local SOEs and directed by the Huai'an Municipal 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 \(July 2022\)](#).

Appendix

Exhibit 4. Peer comparison

	Huai'an Traffic Holding Group Co., Ltd.	Huai'an Development Holdings Co., Ltd.
Long-Term Credit Rating	BBB _g +	BBB _g
Shareholder	Huai'an Municipal Government (70%) and Huai'an State Joint Investment & Development Group Co., Ltd. (30%)	Huai'an Municipal Government (100%)
Positioning	Key entity in transportation infrastructure construction and transportation-related public services in Huai'an City	Key entity in infrastructure construction, state-owned assets management, and capital operation in the Huai'an Economic and Technological Development Zone
Total Asset (RMB billion)	58.7	104.4
Total Equity (RMB billion)	24.8	45.9
Total Revenue (RMB billion)	3.3	4.4

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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