

Credit Opinion

24 January 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
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_g+, 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_g+

from BBB_g, reflecting the steady development of Huai'an Economic and Technological Development Zone ("Huai'an ETDZ") in regional economy and investment attraction, as well as the Company's important position in the region's construction and industrial development.

The BBB_g 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 strength 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 major infrastructure constructor in Huai'an ETDZ; and (2) ongoing support from the local government. However, the rating is constrained by the Company's (1) medium exposure to commercial activities; (2) moderate debt management with certain short-term debt pressure; (3) moderate financing ability; 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 major infrastructure constructor in Huai'an ETDZ
- Ongoing support from the local government
- Medium exposure to commercial activities
- Moderate debt management with certain short-term debt pressure
- Moderate financing ability
- 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 the local government's willingness to provide support, such as enhanced regional and operational importance, improved debt management and financing capability.

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

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	101.5	102.5	104.4	105.6
Total Equity (RMB billion)	43.9	44.6	45.9	46.0
Total Revenue (RMB billion)	3.9	3.9	4.4	1.8
Total Debt/Total Capital (%)	54.2	53.5	53.0	53.4

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

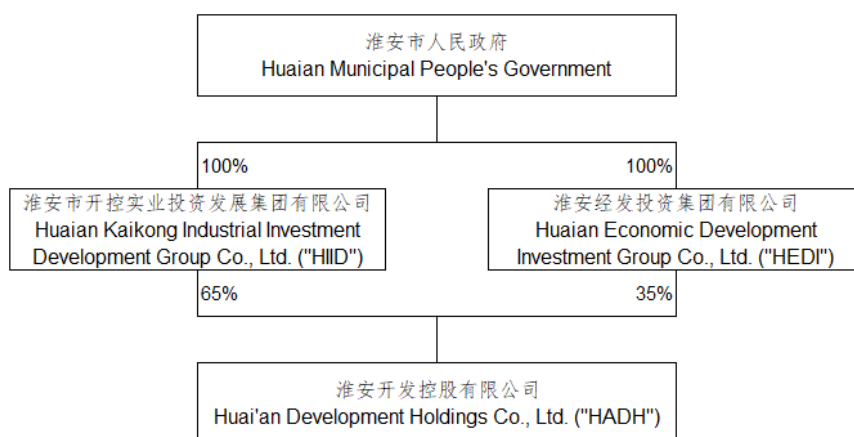
Source: Company data, CCXAP research

Corporate Profile

Founded in 2005, HADH is one of the most important local infrastructure investment and financing companies ("LIIFCs") 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 takes part in diversified commercial activities consisting of property development, property leasing, and financial services.

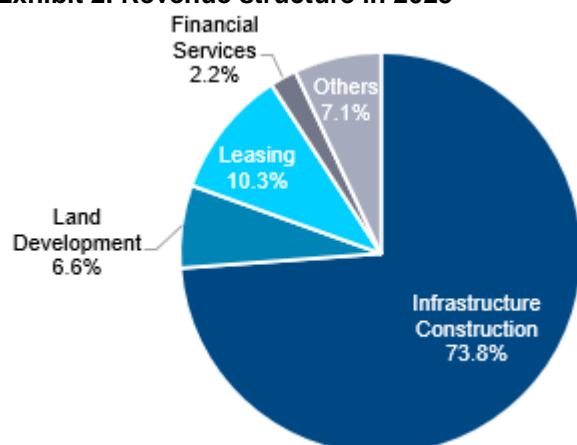
In 2024, in order to deepen the reform of state-owned enterprises, the Huai'an Municipal People's Government transferred its equity in HADH to Huai'an Kaikong Industrial Investment Development Group Co., Ltd. ("HIID") and Huai'an Economic Development Investment Group Co., Ltd. ("HEDI"), both of which are wholly-owned by the Huai'an Municipal Government. As of 30 September 2024, HIID and HEDI held 65.0% and 35.0% of the Company's equity respectively, and the Huai'an Municipal People's Government remained the actual controller. After the equity change, the Company's main business and positioning remained unchanged.

Exhibit 1. Shareholding chart as of 30 September 2024



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. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, an increase of 5.7% YoY.

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%, the growth rate ranked 2nd in Jiangsu Province; and in the first nine months of 2024, the GRP of Huai'an City amounted to RMB371.1 billion, with a YoY growth rate of 7.0%. 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 stable source of its general budgetary revenue, accounting for 75.3% on average over the past three years. However, its fiscal self-balance was relatively weak, with a ratio (general budgetary revenue/general budgetary expenditure) 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.

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 actual jurisdiction area of 128 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 among districts in Huai'an City. In the 2024 evaluation of the comprehensive development level of national-level economic and technological development zones released by the Ministry of Commerce, Huai'an ETDZ achieved a 52-place improvement.

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 major infrastructure constructor

HADH has a clear functional positioning in Huai'an City and is the major state-owned infrastructure constructor and sole land operator in Huai'an ETDZ, which has benefited from the ongoing economic development of

Huai'an ETDZ. Due to the equity transfer in 2024, the Company's direct shareholders have changed, but the Company's main business and its functional importance to the development of Huai'an ETDZ remained unchanged. The Company is mainly responsible for local land operation, resettlement housing construction, and infrastructure construction in Huai'an ETDZ. 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 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 by installments, with a 10%-15% markup on the total cost. Meanwhile, the Company takes part in infrastructure construction in Xuyi Economic Development Zone ("Xuyi EDZ") through its subsidiary under the agency construction model. The Management Committee of Xuyi EDZ pays the Company construction costs plus a 10% within 6 years markup after the audit of completed projects.

As of 30 September 2024, HADH has completed a series of resettlement housing, infrastructure construction and comprehensive projects with a total investment of RMB20.0 billion and an accumulated received payment amount of RMB10.3 billion. The Company's infrastructure projects included public libraries, school campuses, parks, exhibition centers, bridges, and roads, with high public-policy goals. However, the Company's project settlement is slow and the repurchase period usually lasts 3-7 years after the completion of the project. Meanwhile, the Company had a number of key projects under construction and planning, with an outstanding investment of RMB2.6 billion and RMB1.6 billion, respectively.

HADH is also responsible for land operations designated by the local government in Huai'an ETDZ. Coordinating with the local government, HADH returned the land previously acquired through auction to the Land Reserve Centre for sale. Upon the completion of the sale of those land, the Management Committee of Huai'an ETDZ pays the Company with the land purchasing and funds costs, along with certain profits. As of 30 September 2024, the Company had 1.7 million square meters of land to be developed, with a book value of RMB8.8 billion, mainly including commercial and residential land. However, the Company's business volatility, as well as payments from the local government, are affected by the changes in regional land-use planning and local land market condition.

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 RMB192.0 million in cash to the Company to increase its paid-in capital. In 2023, the local government continued to transfer assets, such as civil defense assets, to the Company, increasing its capital reserve by RMB1.0 billion. From 2023 to 2024Q3, the Company has received operating financial subsidies of RMB353.0 million from the local government. In addition, as of 30 September 2024, the Company had received a total of RMB9.7 billion for completed infrastructure construction projects, covering around 51.7% of the investment. Given the Company's strategic importance in Huai'an ETDZ, we believe that the local government will provide HADH with operational and financial support if needed.

Moderate 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 development, property leasing, financial services, car sales, and hotel services. We

consider HADH's commercial risk to be moderate, accounting for around 15%-20% of the total assets. Most of these businesses are carried out to promote regional investment and enterprise development. However, these types of businesses will bring more operational risks to the Company than to its public activities.

HADH's self-operated property development business includes the construction of residential, industrial, and commercial properties which is expected to achieve fund balancing through sales and rental. The majority of the Company's previously completed projects have already been sold or leased, whereas two recently completed residential and commercial projects are still in the decommissioning process. Meanwhile, the Company had one industrial property under construction and one commercial property under planning, with an outstanding investment of RMB3.3 billion and RMB2.0 billion, respectively. The sales and the rental of the properties depend on the recovery of the economy and the progress of local investment attraction, which might cause financial and business risks to the Company.

Property leasing has also been an important revenue source of HADH during the past three years. The Company takes responsibility for the industrial development of Huai'an EDTZ through the construction and operation of the leasable assets, which are mandated by the local government. The expansion of leasable assets and a good operation environment 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 2023 and the first three quarters of 2024, the Company generated income from the leasing of RMB451.5 million and RMB283.4 million, a YoY increase of 12.7% and 20.5%, respectively.

In order to facilitate financing for local business entities, HADH also provides different types of financial services through its subsidiary, which is transferred from the local government. Financial services include financial leasing, guarantees, small loans, pawn broking, venture capital, and distressed asset acquisition. Revenue from the financial services business was small but relatively stable. The Company recorded RMB94.2 million and RMB69.8 million in 2023 and the first three quarters of 2024 respectively, both accounting for less than 4.0% of the total revenue. However, a notable proportion of the Company's clients are local small and medium-sized private-owned companies that have relatively higher operating risk. As of 30 September 2024, the Company had an outstanding guarantee balance of RMB3.0 billion, with a balance of RMB16.6 million in compensation that has not yet been recovered. These credit exposures may bring credit risk and asset quality risk to the Company in the future, in our view.

Moderate debt management with certain short-term debt pressure

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 2024, the Company's total debt increased slightly to RMB52.6 billion from RMB51.4 billion as of end-2022; and the total capitalization ratio (total debt/ total capital) remained high at 53.4%. Moreover, the short-term debt burden was maintained to be high with a portion of 39.3% of total debt. The Company's cash-to-short-term debt ratio was 0.2x, indicating that its cash balance is unable to cover short-term debt. Meanwhile, the Company had 7 key construction projects under construction and planning, with an estimated uninvested amount of RMB9.4 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. Key projects under construction and planning as of 30 September 2024

Project type	No. of projects	Budgeted	Invested	Outstanding
		amount (RMB billion)	amount (RMB billion)	amount (RMB billion)
<i>Project Under Construction</i>				
Resettlement housing	4	5.8	3.2	2.6
Property development	1	5.0	1.7	3.3
<i>Project Under Planning</i>				
Resettlement housing	1	1.5	-	1.5
Property development	1	2.0	-	2.0
Total	7	14.3	4.9	9.4

Source: Company information, CCXAP Research

Moreover, HADH's asset liquidity is moderate, which mainly comprised of low-liquid inventories and other receivables, accounting for 40.0% and 31.6% of its total assets as of 30 September 2024, respectively. The inventories were mainly the construction costs from infrastructure construction and resettlement housing, as well as the lands to be developed; while the other receivables were mainly receivables from the local government and other state-owned enterprises. Meanwhile, HADH's restricted assets accounted for around 6.6% of its total assets as of 30 September 2024, and around 29.9% of the lands were restricted as collateral for loans. The relatively high proportion of assets with low liquidity may cause capital occupation to the Company.

Moderate financing ability

HADH had a relatively high refinancing pressure due to its relatively high short-term debt burden and low cash to short-term ratio. In addition, the Company needs to obtain extra external funding resources 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 48.5% of the total debt as of 30 September 2024, followed by bank loans (36.1%). In 2024, HADH maintained active access to the debt capital market, raising funds of RMB12.1 billion via several tranches of onshore bonds. The coupon rates of bond issuance demonstrated a decreasing trend compared to 2023. However, similar to other LIIFCs, HADH's funding access may be influenced by China's tightening supervision on the bond issuance and debt growth of LIIFCs since 2023. As for the bank loans, the Company had moderate available credit facilities of around RMB4.4 billion as of 30 September 2024. Meanwhile, HADH also had moderate non-standard financing exposure, which accounted for around 15.3% 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 large external non-operating guarantees, which could potentially increase its repayment obligations. As of 30 September 2024, the Company had outstanding external guarantees (excluding guarantee business) of RMB22.9 billion, representing 49.8% 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's support, 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Huai'an Investment Holding Group Co., Ltd.	Huai'an Development Holdings Co., Ltd.	Huai'an Traffic Holding Group Co., Ltd.
Long-Term Credit Rating	A _g -	BBB _g +	BBB _g +
Shareholder	Huai'an City Development and Investment Holding Group Co., Ltd. (100%)	Huai'an Kaikong Industrial Investment Development Group Co., Ltd. (65%) and Huai'an Economic Development Investment Group Co., Ltd. (35%)	Huai'an Municipal Government (70%) and Huai'an State Joint Investment & Development Group Co., Ltd. (30%)
Positioning	Key entity in infrastructure construction, land consolidation, regional hydro-environmental governance and resettlement housing in Huai'an City	Important entity in infrastructure construction, state-owned assets management, and capital operation in Huai'an ETDZ	Key entity in transportation infrastructure construction and transportation-related public services in Huai'an City
Total Assets (RMB billion)	304.4	104.4	58.7
Total Equity (RMB billion)	125.6	45.9	24.8
Total Revenue (RMB billion)	16.8	4.4	3.3
Total Debt/Total Capital (%)	54.1	53.0	59.4

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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