

## **Lianhe Global has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Huai’an Traffic Holding Company Limited**

HONG KONG, 17 June 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB’ global scale Long-term Issuer Credit Rating to Huai’an Traffic Holding Company Limited’s (“Huai’an Traffic” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the Huai’an municipal government would provide strong support to Huai’an Traffic if needed, in light of its full ownership of Huai’an Traffic, Huai’an Traffic’s strategic position as the sole LGFV that is responsible for transportation development. There is a strong linkage between the Huai’an municipal government and Huai’an Traffic, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Huai’an municipal government may face significant negative impact on its reputation, business, and financing activities should Huai’an Traffic encounter any operational or financial difficulties.

The Stable Outlook reflects our expectation that Huai’an Traffic’s strategic importance would remain intact while the Huai’an municipal government will continue to ensure Huai’an Traffic’s stable operation.

### **Key Rating Rationales**

***Huai’an Municipal Government’s Full Ownership and Strong Supervision:*** The Huai’an municipal government has 100% ownership of Huai’an Traffic. It also has strong control and supervision over Huai’an Traffic, including control of the board of directors, senior management appointments, major strategic, investment and financing planning.

***High Strategic Importance and Strategic Alignment:*** Huai’an Traffic is the principal investment and construction entity of transportation infrastructures in Huai’an, as well as the primary operator of the city’s public buses and trams. The company’s business operation and development have been aligned with the government’s economic and social policies. In the future planning of the Huai’an municipal government, Huai’an Traffic will continue to be responsible for transportation developments in Huai’an to support the local economy. We expect its scope of business is stable, and there is rigid demand for its services.

***Ongoing Government Support:*** The Huai’an municipal government provided financial subsidies to Huai’an Traffic consistently, which amounted to RMB242 million, RMB369 million, RMB272 million and RMB87 million in 2019, 2020, 2021 and the first three months of 2022, respectively. These subsidies were mainly for supporting the operations of public buses and trams as they are not-for-profit in nature. The government also injected fixed assets such as ship locks, waterways, as well as roads, and transferred the shareholdings of other state-owned enterprises to Huai’an Traffic. However, these assets are mainly not-for-profit.

**Moderate Economic and Fiscal Conditions of Huai'an:** Huai'an's economic growth was relatively high. Its GDP recorded a compound annual growth rate ("CAGR") of 8.4% from 2019 to 2021, which was higher than that of China (7.7%) and comparable to Jiangsu province (8.1%) during the same period. However, Huai'an's GDP and GDP per capita in absolute amount were relatively low among the 13 prefecture-level cities in Jiangsu province. Meanwhile, Huai'an's government debt grew moderately to RMB69.3 billion at end-2021 from RMB56.6 billion at end-2019, with a CAGR of 10.7%, while its budget deficit has exceeded 100% for three straight years since 2019.

**Moderately Weak Financials:** Huai'an Traffic's financial leverage as measured by total liabilities/total assets was stable but relatively high in the past three years, which stayed at c. 57%-58%. Considering the company's scheduled investments, we expect its financial leverage to grow but remain below 65% in the next three years. However, its balance sheet consists of various not-for-profit and hard-to-sell assets injected by the government, as aforementioned. The company reported not-for-profit assets of RMB5 billion at end-March 2022. In addition, the company's cash/short-term debt ratio was only 0.63x at end-March 2022. Having said that, Huai'an Traffic has wide access to financing channels and established relationships with banks, with available credit line of RMB5.85 billion at end-March 2022.

### **Rating Sensitivities**

We would consider downgrading Huai'an Traffic's rating if (1) there is a perceived weakening in support from the Huai'an municipal government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Huai'an municipal government's ownership of Huai'an Traffic, or (3) there is a downgrade in our internal credit assessment on the Huai'an municipal government.

We would consider upgrading Huai'an Traffic's rating if (1) there is strengthened support from the Huai'an municipal government, or (2) there is an upgrade in our internal credit assessment on the Huai'an municipal government.

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this Huai'an Traffic's rating is Lianhe Global's China Local Government Financing Vehicle Criteria published on 31 December 2021, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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