

Huai'an Traffic Holding Group Co., Ltd.

Surveillance Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	12 June 2023

Key Figures of Huai'an and Huai'an Traffic (RMB billion)

	2021	2022
Huai'an		
GDP	455.0	474.2
GDP growth rate (%)	10.0	3.6
Budgetary revenue	29.7	30.0
Government fund	39.7	50.4
Transfer payment	23.0	20.9 ¹
Budgetary expenditure	11.2	13.1
Huai'an Traffic		
Assets	100.6	118.6
Equity	55.1	56.5
Revenue	4.3	4.2

¹ Estimated by Lianhe Global due to insufficient information

Source: Public information, Huai'an Traffic and Lianhe Global's calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB' global scale Long-term Issuer and Issuance Credit Rating of Huai'an Traffic Holding Group Co., Ltd. ("Huai'an Traffic" or "the company"); Issuer Rating Outlook Stable

Summary

The Issuer Credit Rating reflects a high possibility that the Huai'an Municipal People's Government ("the Huai'an 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 an important local investment and development company ("LIDC") that is responsible for transportation investment, construction and operation in Huai'an and the strong linkage between the Huai'an government and Huai'an Traffic including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Huai'an government may face significant negative impact on its reputation and financing activities should Huai'an Traffic encounter any operational or financial difficulties.

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

Rating Rationale

Government's Ownership and Supervision: Huai'an Traffic's linkage with the local government is strong, as the Huai'an government holds 100% of Huai'an Traffic. The Huai'an government is still the actual and ultimate shareholder of Huai'an Traffic and has strong control and supervision over Huai'an Traffic, including control of the board of directors, senior management appointments, and major strategic, investment and financing planning. In addition, the Huai'an government has formulated a performance assessment policy for Huai'an Traffic and regularly appoints auditors to review its operating performance and financial position.

Strategic Importance and Strategic Alignment: Huai'an Traffic is an important LIDC responsible for transportation infrastructures' investment and construction. Its strategic planning and development have been aligned with the local government's economic and social policies. It undertakes various key projects in Huai'an, including Nanjing-Huai'an Intercity Railway project and the extension project of Huai'an's port. The company also operates the city's public buses and trams.

Ongoing Government Support: Huai'an Traffic received ongoing support from the government, such as capital and asset injections and financial subsidies. In 2022, the company received RMB153 million worth of assets and capital injection, mainly project funds for the Nanjing-Huai'an Intercity Railway and state-owned properties. The Huai'an government also provided operational subsidies of RMB261 million in 2022 to support the company's activities in relation to providing public services such as public buses and trams' operations and grain reserves. Given its role and functions, we believe Huai'an Traffic will likely receive timely government support in the form of capital and asset injections as well as operational subsidies in the future.

Huai'an Traffic's Financials and Liquidity Position: Huai'an Traffic's total asset grew steadily between end-2020 and end-March 2023 as the company continued participating in Huai'an's transportation project constructions. It largely relied on borrowings to finance the asset expansion, pushing its financial leverage, as measured by debt/ capitalization, to 55.8% (59.3%, after reallocating perpetual bonds to debt from equity) at end-March 2023 from 53.5% at end-2020.

Huai'an Traffic's asset quality and asset liquidity remained weak. Other non-current assets, mainly including roads, waterways, ship locks, and railways under construction with a large part of not-for-profit public assets, amounted to RMB16.6 billion and contributed to 29.5% of the company's total asset at end-March 2023. Assets related to its transportation projects' construction activities, such as inventories (mainly construction costs) and construction in the process, grew significantly in 2022. Considering the long construction, recognition and cash collection period, these assets could take a long time to monetize.

At end-March 2023, Huai'an Traffic had an unrestricted cash balance and unused credit facilities of RMB5.1 billion and RMB6.9 billion, respectively, compared with its debt due within one year of RMB13.4 billion at the same time. The company needs to roll over its short-term bank borrowing (RMB3.5 billion at end-March 2023) and refinance its coming-due bonds. In addition, timely cash collection from its project construction activities and obtaining government support are important to maintain its liquidity.

Huai'an's Economy and Fiscal Condition: Huai'an's GDP reached RMB474.2 billion in 2022, representing a year-over-year growth rate of 3.6%, down from 10.0% in 2021 due to the Covid's impact. It was relatively lagging in economic development among 13 prefecture-level cities in Jiangsu Province, with aggregate GDP and GDP per capita ranked 11th and 10th, respectively, in 2022.

Due to the value-added tax credit refund policy, the Huai'an government's fiscal revenue only increased by 1% (excluding the influence of value-added tax credit refund: 7.9%) to RMB30.0 billion in 2022, with the tax revenue accounting for 70% of its budgetary revenue, dropped from 80.3% in the previous year. The fiscal self-sufficiency rate of the Huai'an government was weak, and its budget deficit widened further to 170.5% in 2022 from 125.3% in 2021. Nevertheless, Huai'an's government fund income, mainly generated by land sales, rose significantly to RMB50.4 billion in 2022 from RMB39.7 billion in 2021, supporting its aggregate fiscal revenue.

The outstanding debt of the Huai'an government continued to grow. At end-2022, the Huai'an government's outstanding debt reached RMB75.1 billion, representing a year-over-year growth rate of 8.5%. Due to the simultaneous increase in aggregate revenue and government debt, its fiscal debt ratio was largely stable.

Rating Sensitivities

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

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



Company Profile

Huai'an Traffic was established in 2003 and is wholly owned by the Huai'an government. The Huai'an State-owned Assets Supervision and Administration Commission is authorized to exercise the rights as a shareholder. Huai'an Traffic carries out the directions and policies of transportation development designated by the Huai'an government to support the local economy.

Full List of Issuance Rating

A full list of issuance rating is included below. Any rating action on Huai'an Traffic's rating would result in a similar rating action on the USD bonds:

- USD300 million 5.5% senior unsecured Bonds due 2025 affirmed at 'BBB'

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