

## Huai'an Traffic Holding Group Co., Ltd.

### Surveillance Report

Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded global scale Long-term Issuer and Issuance Credit Rating of Huai'an Traffic Holding Group Co., Ltd. (“Huai'an Traffic” or “the company”) to ‘BBB+’ from ‘BBB’; Issuer Rating Outlook Stable

### Summary

The Issuer Credit Rating upgrade reflects an upgrade in our internal credit assessment on Jiangsu's Huai'an Municipal People's Government (“the Huai'an government”), and the expectation of continuing of a high possibility that the Huai'an government would provide strong support to Huai'an Traffic if needed, in light of its indirect 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.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD bonds issued by Huai'an Traffic to ‘BBB+’ from “BBB” at the same time. A full list of Issuance Rating is included in this report.

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

### Rating Rationale

**Huai'an Government's Ownership and Supervision:** Huai'an Traffic's linkage with the local government is strong. Huai'an government directly holds 70% shares of Huai'an Traffic; the remaining 30% has been owned by Huai'an Traffic to Huai'an SJID Group Co., Ltd., a LIDC wholly owned by the Huai'an government, since an equity transfer in 2023. The Huai'an government still is 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 to Huai'an and Strategic Alignment:** Huai'an Traffic is an important LIDC undertake major transportation infrastructure development projects, such as roads and bridges, railway and ports in Huai'an. It also operates the city's public transportation system (bus and tram). Huai'an Traffic plays an important role in improving Huai'an's transportation infrastructure, and its strategic development plan has been aligned with the local government's economic and social policies.

**Ongoing Government Support:** Huai'an Traffic continued to receive operational and financial support from the local government. Between 2021 and 2023, the company received operational subsidies in relation to providing public services, amounting to RMB662 million.

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	18 June 2024

### Key Figures of Huai'an and Huai'an Traffic

(RMB billion)

Huai'an	2022	2023
GDP	474.2	501.5
GDP growth rate (%)	3.6	7.8
Budgetary revenue	30.0	31.7
Government fund	50.4	43.6
Transfer payment	29.8	25.8 <sup>1</sup>
Budgetary expenditure	66.0	71.7
Huai'an Traffic	2023	2024.3
Asset	58.7	56.2
Equity	24.8	24.6
Revenue	3.3	0.6

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

<sup>1</sup>Estimated by Lianhe Global due to insufficient information

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### Applicable Criteria

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

In addition, the Huai'an government provided debt relieving funds and project funds to support the company's debt repayment and project development. 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.

**Economy and Fiscal Condition of Huai'an:** Huai'an's GDP reached RMB501.5 billion in 2023, representing a year-over-year growth rate of 7.8%, up from 3.6% in 2022. Its budgetary revenue also increased to RMB31.7 billion in 2023 from RMB30.0 billion in 2022. Both indicated a strong rebound after Covid. However, the fiscal self-sufficiency rate of the Huai'an government remained weak, and its budget deficit widened further to 126.6% in 2023 from 120.1% in 2022. Meanwhile, Huai'an's government fund income, mainly generated by land sales, slumped to RMB43.6 billion in 2023 from RMB50.4 billion in 2022, owing to the weak property market.

The outstanding debt of the Huai'an government continued to grow. At end-2023, the Huai'an government's outstanding debt reached RMB83.3 billion, representing a year-over-year growth rate of 10.8%. The debt ratio, as measured by the total government debt/aggregate revenue increased to 79.6% at-end 2023 from 67.0% at end-2022, mainly due to the large increase in special debt to support public projects.

**Huai'an Traffic's Financial and Liquidity Position:** Huai'an Traffic's total asset grew from RMB55.4 billion at end-2022 to RMB58.7 billion at end-2023, but dropped to RMB56.2 billion at end-March 2024, mainly due to the decrease in cash and account receivables. Huai'an Traffic's total debt decreased by 7.3% to RMB26.1 billion at end-March 2024, compared with RMB28.1 billion at end-2022 (both excluding perpetual bonds). Its financial leverage, as measured by debt/ capitalization, was reduced to 46.6% from 55.1% over the same period.

However, Huai'an Traffic's asset quality and asset liquidity remained weak. Assets related to its transportation projects' construction activities, such as inventories (mainly construction costs) and construction in process grew significantly in recent years and added up to RMB18.2 billion at end-March 2024, representing 32.4% of the company's total asset. Considering the long construction, recognition and cash collection period, these assets could take a long time to monetize. In addition, not-for-profit public assets, such as roads, waterways, ship locks, contributed a significant parts of the company's total asset.

Huai'an Traffic's short-term debt servicing pressure is moderately high. At end-March 2024, Huai'an Traffic had a cash balance of RMB3.1 billion, compared with its short-term debt due of RMB13.8 billion. Yet the company has access to multiple financing channels, including bank borrowings, bond issuance and non-traditional financing, to support its debt repayment and business operations. At end-March 2024, Huai'an Traffic had unused bank lines of RMB7.2 billion. Still, prompt cash collection from its project construction activities and obtaining government support are important to the company in maintaining its liquidity.

## 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, funded by the Huai'an government. The Huai'an State-owned Assets Supervision and Administration Commission is authorized to exercise the rights as a shareholder.

In 2023, the Huai'an government transferred 30% of its stake in the company to Huai'an SJID Group Co., Ltd., another government wholly owned LIDC in Huai'an. The Huai'an government still is the actual and ultimate shareholder of Huai'an Traffic.

Huai'an Traffic mainly carries out the directions and policies of transportation development and operation designated by the Huai'an government to support the local economy. The company also participates in property sales and trading businesses.

## 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 upgraded to 'BBB+' from 'BBB'

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