

CCXAP assigns first-time long-term credit rating of BBB_g- to Huai'an Development Holdings Co., Ltd., with stable outlook

Hong Kong, 2 March 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to Huai'an Development Holdings Co., Ltd. (“HADH” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of HADH is underpinned by the Company's (1) good business sustainability as the sole primary land developer and largest infrastructure constructor in the Huai'an Economic and Technological Development Zone (“Huai'an ETDZ”); and (2) recurring income sources from its asset leasing business.

However, the rating is constrained by the Company's (1) large funding gap due to slow cash collection and abundant construction pipelines; (2) relatively weak liquidity buffers.

The rating also incorporates our expectation that HADH is likely to receive support from the Huai'an Municipal Government in times of need, given the Company's (1) high strategic importance to Huai'an ETDZ and Huai'an City; (2) close relationship with the local government; and (3) good track record of receiving government support.

Corporate Profile

Founded in 2005 and formerly known as Huai'an Economic and Technological Development Zone Real Estate Development Co., Ltd., HADH is one of the important local state-owned enterprises in Huai'an ETDZ and Huan'an City. The Company is mainly responsible for infrastructure investment and financing, state-owned assets management, and capital operation in the Huai'an ETDZ. HADH is the only primary land developer in the Huai'an ETDZ. The Company is also engaged in infrastructure and resettlement housing construction, real estate development, asset leasing and financial services. It is wholly owned by the Huai'an Municipal Government and directly supervised by the Huai'an ETDZ Management Committee. The Company's paid-in capital was RMB14.2 billion as of 30 June 2021.

Rating Rationale

Credit Strengths

Likely to receive support from the local government in times of need. HADH is wholly owned by the Huai'an Municipal Government and is directly supervised by the Huai'an ETDZ Management Committee. HADH has received ongoing support from the Huai'an government including capital injections, asset transfers, project grants, and financial subsidies. HADH has a clear functional positioning in Huai'an City as the largest state-owned infrastructure constructor in the Huai'an ETDZ. It also plays an important role supporting local economic development and industry diversification.

Good business sustainability in local infrastructure construction. HADH is the sole primary land developer and largest infrastructure constructor in Huai'an ETDZ. With the

support of its strong market position in local infrastructure construction, HADH can easily obtain policy mandates to undertake public projects, thereby enhancing the sustainability of its business development and future revenue.

Recurring income sources from its asset leasing business. The Company continues to expand its asset leasing business, which will enhance the stability of its recurring income source. It has a large asset leasing portfolio, including offices, apartments, government buildings, industrial parks and utility facilities, generating stable and recurring rental income of RMB326 million in 2020, increasing 28.9% YoY.

Credit Challenges

Large funding gap due to slow cash collection and extensive construction pipelines. As of 30 June 2021, the Company had 4 resettlement housing projects and 1 real estate project under development, with gross investment of around RMB4.4 billion and invested amount of RMB1.3 billion. Furthermore, the Company had 4 infrastructure construction and resettlement housing projects under planning, with an outstanding investment amount of RMB1.7 billion. HADH has high debt leverage due to its debt-driven business expansion. Its capitalization ratio, measured by total debt to total capital, was 53.9% at end-2020.

Relatively weak liquidity buffers. HADH's balance-sheet liquidity position was moderate. The Company held cash and cash equivalents of RMB6.5 billion, which was unable to cover its short-term debt of RMB25.0 billion at mid-2021. In addition, the Company has limited available credit facilities of only RMB2.5 billion, posing certain pressure on capital needs.

High level of external debt guarantees. HADH's credit profile is also constrained by its external guarantees, which could potentially increase its repayment obligations. As of 30 June 2021, the Company had outstanding external guarantees (excluding guarantee business) of RMB17.8 billion, representing 41.6% of its net assets.

Rating Outlook

The stable outlook on HADH's rating reflects our expectation that the Company will maintain its strategic role in Huai'an ETDZ and Huai'an City, and that it will continue to receive government support over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the economic and fiscal performance of Huai'an ETDZ and Huai'an City materially improves; (2) HADH demonstrates a stronger role in Huai'an City, with an increasing likelihood of government support; and (3) the Company's stand-alone credit profile improves significantly, such as improved business sustainability and strengthened profitability.

What could downgrade the rating?



The rating could be downgraded if (1) the economic and fiscal performance of Huai'an ETDZ and Huai'an City significantly deteriorate; (2) the likelihood of government support for the Company decreases; or (3) the Company's stand-alone credit profile weakens significantly, such as deteriorated operating performance or heightened refinancing risk.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(May 2020\)](#).

Regulatory Disclosures

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