

CCXAP assigns first-time long-term credit rating of BBB_g+ to Nanyang Transportation Holding Group Co., Ltd., with stable outlook.

Hong Kong, 31 July 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time long-term credit rating of BBB_g+ to Nanyang Transportation Holding Group Co., Ltd. (“NTHG” or the “Company”), with stable outlook.

The BBB_g+ long-term credit rating of Nanyang Transportation Holding Group Co., Ltd. (“NTHG” or the “Company”) reflects (1) Nanyang Municipal Government’s very strong capacity to provide support, and (2) very high willingness to provide support, based on our assessment of the Company’s characteristics. Our assessment of Nanyang Municipal Government’s capacity to provide support reflects Nanyang City’s gross regional production (“GRP”) ranking 3rd among the prefecture-level cities in Henan Province over the years, underpinned by its geographic advantage with rich agricultural, mineral and water resources.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) important role in transportation infrastructure construction and operation of Nanyang City; (2) recurring income generation from toll road business; and (3) track record of receiving government support. However, the rating is constrained by the Company’s (1) increasing debt burden; (2) moderate asset liquidity; and (3) moderate level of contingent risk.

Corporate Profile

Established in 2019, NTHG is an important infrastructure construction and operation entity in Nanyang City. It is primarily responsible for infrastructure construction in Nanyang City, mainly transportation-related infrastructure such as the construction of municipal roads, highways and bridges. In addition, the Company also engages in commercial activities including highway operations, trading and logistics. As of 31 March 2024, the Finance Bureau of Nanyang City is the ultimate controller of the Company, directly holding 65% shares of the Company and indirectly holding the remaining 35% through Nanyang Industrial Investment Group Co., Ltd. (“NYII”).

Rating Rationale

Credit Strengths

Important role in transportation infrastructure construction and operation of Nanyang City. NTHG is entrusted by the local government to undertake major infrastructure construction projects in Nanyang City, mainly in Wolong District, Xixia County and Fangcheng County. Considering the Company’s important role in transportation infrastructure construction and operation of Nanyang City, we believe that the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

Recurring income generation from toll road business. NTHG participates in highway operations business and is responsible for operating and managing two highways with franchise rights and toll collection rights. The two highways have provided stable income to the Company, generating an annual income of more than RMB800 million over the past three years, accounting for more than 10% of the Company's total revenue.

Track record of receiving government support. NTHG has a proven track record of receiving ongoing support from the Nanyang Municipal Government, including capital injection, equity transfers and government subsidies. Given the Company's public policy role in transportation infrastructure construction and operation of Nanyang City, we expect NTHG will continue to receive support from the local government in the future.

Credit Challenges

Increasing debt burden. NTHG's total debt continued to increase in the past few years due to its ongoing investment needs in infrastructure construction projects. Meanwhile, the Company has a relatively high short-term debt burden. Given the Company's large capital expenditure pressure in infrastructure construction, we expect the Company may rely on external financing and its debt level will gradually increase over the next 12-18 months.

Moderate asset liquidity. NTHG has moderate asset liquidity, which may undermine its financing flexibility. As of 31 December 2023, the Company's total asset mainly consists of inventories, receivables, fixed assets and construction in progress, totally accounting for around 67.2% of total assets, all of which are considered to have low liquidity.

Moderate level of contingent risk. NTHG's credit profile is constrained by a relatively large number of external guarantees, which could potentially increase its repayment obligations. However, we believe that the credit risk of the guarantees is moderately controllable, considering the local government's support to some of these local state-owned enterprises.

Rating Outlook

The stable outlook on NTHG's rating reflects our expectation that the Nanyang Municipal Government's capacity to support will remain stable, and the Company will maintain its important role in transportation infrastructure construction and operation of Nanyang City over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) the local government's capacity to provide 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 strategic significance or weakened refinancing capacity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:

http://www.ccxap.com/en/rating_services/category/6/

This rating is solicited. Please refer to CCXAP's Policy for designating and assigning Solicited and Unsolicited Credit Ratings available on its website at:

http://www.ccxap.com/en/rating_services/category/9/

The rating has been disclosed to the rated entity or its related party prior to publication, and issued with no amendment resulting from that disclosure.

CCXAP considers a rated entity or its related party to be participating when it maintains an overall relationship with CCXAP. Unless specifically noted in the Regulatory Disclosures as a non-participating entity, the rated entity or its related party is participating and the rated entity or its related party generally provides CCXAP with information for the purposes of its rating process.

Regulatory disclosures contained here apply to press release, rating report, and if applicable, the related rating outlook or rating review.

CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means.

The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Christy Liu

Credit Analyst

+852-2860 7130

christy_liu@ccxap.com

Elle Hu

Executive Director of Credit Ratings

+852-2860 7120

elle_hu@ccxap.com

Client Services: +852-2860 7111



Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656