

CCXAP assigns first-time long-term credit rating of Ag to Huizhou Transportation Investment Group Co., Ltd., with stable outlook.

Hong Kong, 23 September 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned the long-term credit rating of Huizhou Transportation Investment Group Co., Ltd. (“HTIG” or the “Company”) at Ag, with stable outlook.

The Ag long-term credit rating of HTIG reflects Huizhou Municipal Government’s (1) 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 Huizhou Municipal Government’s capacity to provide support reflects Huizhou City’s good geographic advantage and strong industrial development, with ongoing economic growth.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in transportation construction and operation of Huizhou City; (2) high sustainability in local public activities; and (3) track record of receiving government payments. However, the rating is constrained by the Company’s (1) high debt growth and leverage; (2) moderate asset liquidity; (3) medium exposure to commercial activities.

Corporate Profile

Established in 2012, HTIG is the most important local infrastructure investment and financing companies (“LIIFCs”) for transportation infrastructure construction and operation in Huizhou City. The Company is mainly engaged in toll road construction and operation, engineering construction and public transportation operation. In addition, the Company is also engaged in commercial businesses including freightage transportation and sandstone sales. As of 31 March 2024, the State-owned Assets Supervision and Administration Commission of Huizhou Municipal Government (“Huizhou SASAC”) held 90% equity interests of HTIG, while Guangdong Provincial Department of Finance held the remaining 10%. Huizhou SASAC is the ultimate shareholder of the Company.

Rating Rationale

Credit Strengths

Dominant role as the most important transportation construction and operation entity in Huizhou City. There are six functional LIIFCs in Huizhou City, with business covering transportation construction and operation, urban construction, water affairs, industrial investment, port construction and investment, and financial services. The Company is the largest municipal state-owned company in Huizhou City in terms of total asset and the most important entity in the investment, construction, operation and management of transportation infrastructure.

High sustainability in local public activities. The Company’s transportation business has high sustainability given the considerable amount of transportation construction projects in the

pipeline and the strong traffic volume in Huizhou Area. However, the large outstanding investment amount has also exerted large capital expenditure pressure on the Company.

Track record of receiving government payments. As the most important transportation infrastructure construction and operation entity in Huizhou City, HTIG has a track record of receiving government support in the form of capital injection, asset transfer and financial subsidies. Considering the Company's strategic importance in Huizhou City, we expect the local government will give ongoing support to the Company in the future.

Credit Challenges

Medium exposure to commercial activities. HTIG also engages in commercial businesses including freightage transportation, property development, parking lot operation, and sandstone sales. We consider the Company's exposure to commercial businesses to be medium, accounting for around 25% of its total assets.

High debt growth and leverage. HTIG's total debt has increased in the past three years due to external financing needs, especially from the construction of expressways and quarries. The Company's total debt increased from RMB23.8 billion at end-2021 to RMB48.0 billion as of 31 March 2024, with a high capitalization ratio of 65.4%. Given its continuous investment for expressways and other transportation infrastructure projects, we expect the Company will maintain a high debt growth and high debt leverage in the foreseeable future.

Moderate asset liquidity. The Company's asset liquidity is moderate, which may undermine its financing flexibility. As of 31 March 2024, the Company's total asset mainly consisted of inventories, construction in progress, and intangible assets, accounting for around 62.1% of total assets. The inventories are mainly construction costs and property development projects; the construction in progress is mainly self-owned road assets such as expressways; and intangible assets are mainly expressway toll rights and mining rights, all with weak liquidity. Nevertheless, the toll road assets and sandstone mines can provide stable income and cash flow to the Company.

Rating Outlook

The stable outlook on HTIG's rating reflects our expectation that the local government's capacity to support will remain stable, and the Company will maintain its dominant role in transportation infrastructure construction and operation in Huizhou City.

What could upgrade the rating?

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

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 decrease in its strategic significance; decrease in government payments; or increase in exposure to commercial activities.

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

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