

Credit Opinion

31 July 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g +
Outlook	Stable

Analyst Contacts

Christy Liu +852-2860 7130

Credit Analyst

christy_liu@ccxap.com

Cherry Chau +852-2860 7128

Assistant Credit Analyst

cherry_chau@ccxap.com

Elle Hu +852-2860 7120

Executive Director of Credit Ratings

elle_hu@ccxap.com

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

Client Services

Hong Kong +852-2860 7111

Nanyang Transportation Holding Group Co., Ltd.

Initial credit rating report

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

Summary

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.

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.

Rating Drivers

- Important role in transportation infrastructure construction and operation of Nanyang City
- Low exposure to commercial activities
- Track record of receiving government support
- Increasing debt burden and moderate asset liquidity
- Access to diversified funding channels
- Moderate level of contingent risk

Rating Sensitivities

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.

Key Indicators

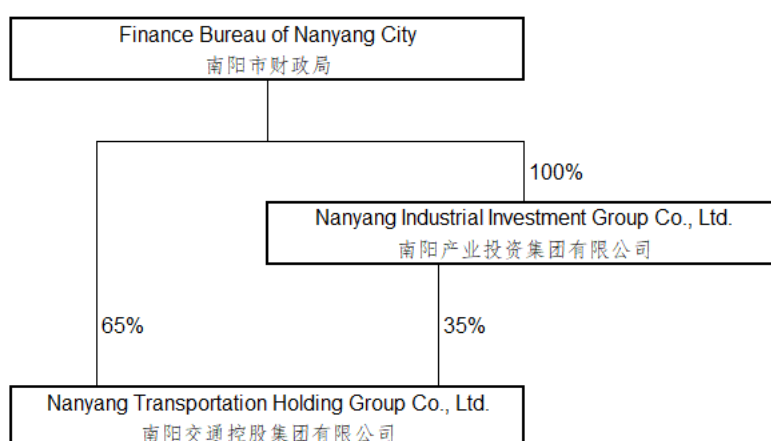
	2021FY	2022FY	2023FY
Total Asset (RMB billion)	36.0	38.5	43.2
Total Equity (RMB billion)	18.0	18.1	18.2
Total Revenue (RMB billion)	7.5	8.2	5.6
Total Debt/Total Capital (%)	38.8	43.5	51.5

All ratios and figures are calculated using CCXAP's adjustments.

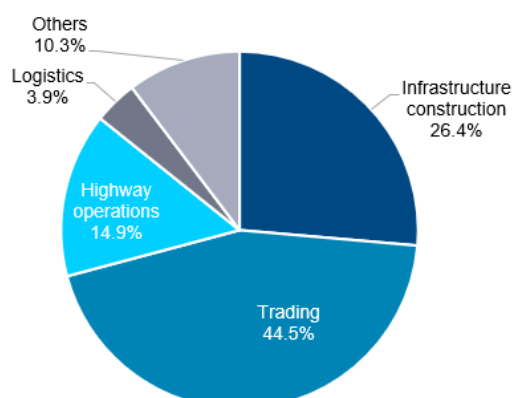
Source: Company data, CCXAP research

Corporate Profile

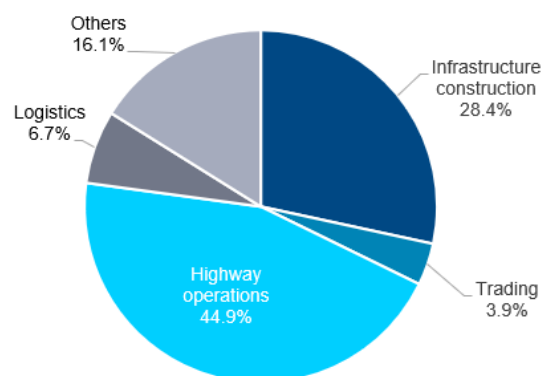
Established in 2019, NTHG is an important infrastructure construction and operation entity in Nanyang City. It is primarily responsible for infrastructure construction in Nanyang City, mainly transportation-related infrastructure such as the construction of municipal roads, highways and bridges. In addition, 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").

Exhibit 1. Shareholding chart as of 31 March 2024

Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023

Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023**Rating Considerations****Government Capacity to Provide Support**

We believe that the Nanyang Municipal Government has very strong capacity to provide support given Nanyang City's GRP has been ranking 3rd among all the municipal-level cities in Henan Province over the years. It also has rich agricultural, mineral and water resources. However, Nanyang Municipal Government's fiscal metrics are moderate.

Henan Province is a leading economic province and is recognized as one of the most developed provinces in China. It is located at the junction of the three major regions in China, including eastern, central and western regions. It has a strategic position as an important transportation and communication hub, and a material distribution center in China. With the good transportation and location advantages, Henan Province's gross regional product ("GRP") ranked 6th among all provinces in China in 2023 with a GRP of RMB5.9 trillion and growth rate of 4.1% year-on-year ("YoY"). Meanwhile, its general budgetary revenue increased to RMB451.2 billion, an increase of 6.2% YoY.

Located in the southwestern part of Henan Province, Nanyang City is the largest municipal-level city in Henan Province in terms of total area. It has 2 administrative districts, 4 development zones and 11 counties under its

jurisdiction, covering a total area of around 26,600 square kilometers. Nanyang City is an important transportation hub in the central region of China and a regional central city in the border area of Henan, Hubei and Shaanxi Provinces. With rich agricultural, mineral and water resources, it has several national commodity grain bases as well as the national high-quality cotton bases. Nanyang City focuses on the transformation and upgrading of traditional and supporting industries such as textile and oil alkali chemical, equipment manufacturing, green food, metallurgy and building materials, as well as the development of new industries including digital optoelectronics, biomedicine, new materials, new energy industries.

From 2021 to 2023, Nanyang City's economic strength improved steadily with GRP increasing from RMB434.2 billion to RMB457.2 billion, ranking 3rd among 18 prefecture-level cities in Henan Province over the past few years. Nanyang Municipal Government's general budgetary revenue has also increased for consecutive years. In 2023, its general budgetary revenue grew to RMB28.9 billion, of which tax income accounted for 68.2%, indicating a relatively good fiscal quality. However, the fiscal sufficiency of Nanyang Municipal Government was relatively weak. The fiscal balance ratios (general budgetary revenue/general budgetary expenditure) were less than 40% over the past three years, indicating high reliance on fiscal support from high-tier governments. The governmental fund revenue is an important supplement to the financial resources of the Nanyang Municipal Government. However, it is highly depended on the performance of land sales market, the government fund revenue has been decreasing over the past three years. The local government's outstanding debt amounted to RMB123.5 billion as of the end of 2023, accounting for about 27.0% of GRP.

Exhibit 4. Key economic and fiscal indicators of Nanyang City

	2021FY	2022FY	2023FY
GRP (RMB billion)	434.2	455.5	457.2
GRP Growth (%)	9.0	4.8	4.8
General Budgetary Revenue (RMB billion)	22.5	25.7	28.9
General Budgetary Expenditure (RMB billion)	69.2	77.1	82.1
Local Government Debt (RMB billion)	83.6	107.8	123.5

Source: Statistics Bureau of Nanyang City, CCXAP research

Government Willingness to Provide Support

Important role in transportation infrastructure construction and operation of Nanyang City

There are three main local infrastructure investment and financing companies ("LIIFCs") in Nanyang City under the control of the Nanyang Municipal Government, which are NYII, Nanyang Investment Group Co., Ltd. ("NYIG"), and NTHG, respectively. Their responsibilities are well-defined with clear functional positioning. NYII is positioned as an industrial investment platform in Nanyang City, mainly focusing on industrial transformation and industrial upgrading, while NYIG is positioned as an urban infrastructure investment and construction entity, focusing on shantytown renovation and urban infrastructure construction. NTHG is positioned as the transportation infrastructure construction and operation entity in Nanyang City. 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.

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. Since its establishment, the Company has successfully delivered a series of large-scale infrastructure and public welfare projects, including roads, highways, and rural upgrading projects, which are crucial to local economic and urban development. The Company conducts infrastructure construction projects through agency construction model and public-private

partnership (“PPP”) model. Under agency construction model, the Company would receive project repayment based on the actual costs plus a certain markup in return. As of 31 December 2023, the Company had 2 agency construction projects under construction, with an uninvested amount of RMB115.7 million, and no projects under planning. Meanwhile, the Company had 3 PPP projects under construction, with a total investment amount of RMB4.5 billion and an outstanding amount of RMB1.9 billion.

Moreover, NTHG has several infrastructure construction projects adopting self-operated model. The Company carries out projects through self-raised funds, government special bonds and bank loans. The Company is expected to achieve funding balance through future operating income, such as toll income and rental income. As of 31 December 2023, the Company had 3 self-operated projects under construction, with a total investment amount of RMB15.6 billion and an uninvested amount of RMB4.8 billion, including highway, shipping project and health care project. For instance, the construction of a highway connecting the Fangcheng to Tanghe section of the Jiaozuo to Tanghe. The Company also had one self-operated logistics park under planning, with a total investment of RMB2.5 billion as of the same date. Meanwhile, the Company is expected to undertake the construction of more highways in the future. However, the large investment needs in self-operated projects bring certain capital expenditure pressure to the Company.

In addition, NTHG participates in highway operations business and is responsible for operating and managing two highways with franchise rights and toll collection rights, namely the Nanyang to Dengzhou Expressway (“Nandeng Expressway”) and the Neixiang to Dengzhou Expressway (“Neideng Expressway”), which have 10 toll booths in total with a total length of 180.2 kilometers. These 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. After the completion of the highway connecting Fangcheng to Tanghe section of the Jiaozuo to Tanghe Expressway, we expect that this business segment may contribute more to the Company’s total revenue in the future.

Low exposure to commercial activities

In addition to public activities, NTHG also engages in other commercial activities such as trading, logistics and self-operated projects. We consider the Company’s exposure to commercial activities to be low, as its market-driven businesses account for less than 15% of its total assets.

NTHG is involved in trading business through its subsidiaries, which is the most significant contributor to its total revenue. In 2023, the trading business recorded a revenue of RMB2.5 billion, contributing 44.5% to the total revenue of NTHG. Trading products mainly include fuels, coals, alloys and auxiliary materials. The Company adopts demand-on-purchase mode, which means orders to upstream suppliers would be placed only when the sale contracts are signed with downstream customers. Although this segment can provide the Company with additional income, the Company is exposed to relatively high concentration risk as the Company has a high reliance on its top 5 customers and suppliers. The top 5 customers and suppliers accounted for more than 95% and more than 70% of the total sales and total procurement in 2023, respectively. Moreover, the gross profit margin is relatively low at 1.6%.

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. In 2021, the Nanyang Municipal Government provided cash injection of RMB10.1 million to the Company, increasing its paid-in capital. In 2023, the local government transferred 90% shares of Nanyang Transportation Construction Investment Group Co.,

Ltd. to the Company. In addition, the Company received operating subsidies from the local government totaling RMB876.6 million from 2021 to 2023, supporting its operations. NTHG also received special funding from the local government to support its transportation infrastructure construction projects. For instance, the Company received RMB4.0 billion in government special bonds for the Jiaozuo to Tanghe Expressway Fangcheng to Tanghe Section Project. 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.

Increasing debt burden and moderate asset liquidity

NTHG's total debt continued to increase in the past few years due to its ongoing investment needs in infrastructure construction projects. As of 31 December 2023, the Company's total debt increased to RMB19.3 billion from RMB11.4 billion as of end-2021, while its capitalization ratio (total debt/total capital) increased to 51.5% from 38.8% over the same period. Meanwhile, the Company has a relatively high short-term debt burden, with the short-term debt accounting for 43.3% of its total debt as of same date. The cash to short-term debt ratio was around 0.2x, indicating the Company's cash was insufficient to cover its short-term debt. 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.

Furthermore, the Company 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. Inventories are mainly land use rights and construction costs, and receivables are mainly unreceived payments from the government or other state-owned companies, all of which are considered to have low liquidity.

Access to diversified funding channels

As an important LIIFC in Nanyang City, NTHG has access to different sources of funding, including bank loans, bond issuances and non-standard financing products, which may partially release its capital expenditure pressure. Bank loans are the main source of funding for NTHG, accounting for more than half of its total debt. The Company maintains good relationships with large domestic banks, policy banks as well as large joint-stock commercial banks. As of 31 December 2023, NTHG had obtained total credit facilities of RMB15.9 billion with an available portion of RMB6.6 billion. In addition, NTHG has a track record of fund-raising activities in the debt capital market. For instance, from January 2022 to June 2024, the Company have issued four tranches of corporate bonds through its subsidiaries, raising RMB1.5 billion through the domestic bond market. In addition, the Company has certain exposure to non-standard financing, such as financial lease and trust, accounting for 15%-20% of the total debt.

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. As of 31 December 2023, the total amount of external guarantees of the Company was approximately RMB2.9 billion, representing around 16.0% of net assets, most of which were provided to local state-owned enterprises ("SOEs") within Nanyang City, including county-level SOEs and public institutions under its jurisdiction. If a credit event occurs in the region, the Company may face certain contingent liability risks. 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. Moreover, the Company provided guarantees to some private-owned companies without counter-guarantee measures, accounting for

around 20.5% of the total external guarantees, which may bring certain contingent risk to the Company.

ESG Considerations

NTHG faces environmental risks through its infrastructure construction projects in Nanyang City. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close monitoring during the construction phase.

NTHG bears social risks as it implements public policy initiatives by undertaking infrastructure construction in Nanyang City. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company. Such risks could be moderated by active communication with stakeholders throughout the project lifecycle.

In terms of corporate governance, NTHG's governance considerations are also material as the Company is subject to local government oversight and reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Rating Methodology

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

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