

Credit Opinion

6 December 2024

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

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Huai'an Investment Holding Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g- to Huai'an Investment Holding Group Co., Ltd., with stable outlook.

Summary

The A_g- long-term credit rating of Huai'an Investment Holding Group Co., Ltd. ("HAIH" or the "Company") reflects (1) the Huai'an Municipal Government's very strong capacity to provide support; and (2) the local government's very high willingness to provide support, based on our assessment of the Company's characteristics.

Our assessment of Huai'an Municipal Government's capacity to provide support reflects Huai'an City's relatively strong economic condition and fiscal strengths as well as sustainable industrial development.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) strong position in state-owned assets operation and water conservancy infrastructure construction in Huai'an City; (2) high importance in public activities with sufficient project pipelines; and (3) good track record of receiving government support.

However, the Company's rating is constrained by its (1) moderate risk exposure to commercial activities, especially in property development business; (2) relatively weak asset liquidity and large debt burden; and (3) medium level of contingent risk.

The stable outlook on HAIH's rating reflects our expectation that Huai'an Municipal Government's capacity to provide support will be stable, and that the Company will maintain its strong strategic role in the economic and social development of Huai'an City over the next 12 to 18 months.

Rating Drivers

- Strong position in state-owned assets operation and water conservancy infrastructure construction in Huai'an City
- High importance in public activities with sufficient project pipelines
- Moderate risk exposure to commercial activities
- Relatively weak asset liquidity and large debt burden
- Access to different financing channels
- Good track record of receiving government support
- Medium level of contingent risk

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Huai'an Municipal Government's capacity to 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, material decrease in external guarantees or reduced exposure to risky commercial activities.

What could downgrade the rating?

The rating could be downgraded if (1) Huai'an Municipal Government's capacity to 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, increased exposure to commercial activities or deteriorated refinancing ability.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	266.2	276.7	304.4	288.0
Total Equity (RMB billion)	113.1	119.6	125.6	118.7
Total Revenue (RMB billion)	18.0	16.7	16.8	12.0
Total Debt/Total Capital (%)	54.1	53.5	54.1	51.5

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

Source: Company data, CCXAP research

Corporate Profile

Founded in 2002, HAIH is the key entity for infrastructure investment and financing as well as state-owned asset management in Huai'an City. Through the holding of multiple local state-owned enterprises in districts/counties under the jurisdiction of Huai'an City, the Company is engaged in the infrastructure construction, resettlement housing and land consolidation in Huai'an City and districts/counties under the jurisdiction of Huai'an City including Huai'an Ecological New City, Huai'an District, Huaiyin District and Qingjiangpu District. The Company is also the sole operating entity carrying out water conservancy infrastructure construction and water environment improvement business in Huai'an City. In December 2022, Huai'an Municipal Government transferred 100% of the Company's equity to Huai'an Urban Development Investment Holding Group Co., Ltd. ("HAUD"), which is wholly owned by Huai'an Municipal Government. As of 30 September 2024, the Company

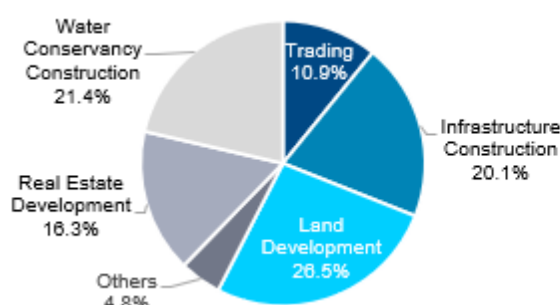
was a core wholly-owned subsidiary of HAUD and Huai'an Municipal Government remained as the ultimate controller.

Exhibit 1. Shareholding chart as of 30 September 2024



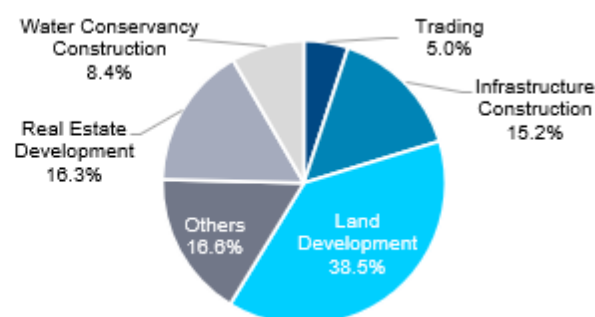
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023



Rating Considerations

Government's Capacity to Provide Support

We believe the Huai'an Municipal Government has a very strong capacity to provide support given its relatively strong economic condition and good industrial base.

Jiangsu Province is one of the leading and well-developed provinces in China. It is home to many of the world leading enterprises of electronic equipment, chemicals, and textiles. Jiangsu Province is the second largest province in China by gross regional product ("GRP"), after Guangdong Province. In 2023, its total GRP amounted to RMB12.8 trillion, a year-over-year ("YoY") increase of 5.8%. The GRP per capita for the same period was RMB150,487, ranking first among all provinces in China. In the first nine months of 2024, Jiangsu Province realized a GRP of RMB9.8 trillion, up 5.7% YoY.

Located in the eastern part of the Jianghuai Plain, Huai'an City is a prefecture-level city administrated under Jiangsu Province and is the central city of the northern region of Jiangsu Province, with a total area of 10,030 square kilometers. Huai'an City has a national economic and technological development zone and a national high-tech industrial development zone. It has currently formed four leading industries, including green food, new generation of electronic information, high-end equipment manufacturing, and textiles. In 2023, Huai'an City's

fixed asset investment above the designated size increased by 10.4% from 2022 and the growth rate ranked second in Jiangsu Province. Meanwhile, the infrastructure investment of Huai'an City increased by 96.7%, ranking first in Jiangsu Province. In 2023, there were 312 enterprises in Huai'an City approved as national high-tech enterprises and the output value of high-tech industries accounted for 31.9% of Huai'an City's industrial output value.

In 2023, Huai'an City recorded a GRP of RMB501.5 billion and achieved a YoY increase of 7.8%, the growth rate ranked 2nd in Jiangsu Province; and in the first nine months of 2024, the GRP of Huai'an City amounted to RMB371.1 billion, with a YoY growth rate of 7.0%. With the continuous economic growth and industrial optimization, Huai'an City's fiscal strength also maintained a stable growth trend. In 2023, it reported a general budgetary revenue of RMB31.7 billion, increasing by 5.3% from 2022. Tax revenue represented a stable source of its general budgetary revenue, accounting for 75.3% on average over the past three years. However, its fiscal self-balance was relatively weak, with a ratio (general budgetary revenue/general budgetary expenditure) of 46.1% on average. Huai'an Municipal Government relies on transfer income and government debt issuance to achieve balance. As of the end of 2023, the outstanding direct debt of Huai'an Municipal Government amounted to RMB83.3 billion, accounting for 16.6% of GRP.

Exhibit 4. Key economic and fiscal indicators of Huai'an City

	2021FY	2022FY	2023FY
GRP (RMB billion)	455.0	474.2	501.5
GRP Growth (%)	10.0	3.6	7.8
General Budgetary Revenue (RMB billion)	29.7	30.0	31.7
General Budgetary Expenditure (RMB billion)	61.3	65.9	71.7
Local Government Debt (RMB billion)	69.3	75.1	83.3

Source: Huai'an Municipal Government, CCXAP research

Government's Willingness to Provide Support

Strong position in state-owned assets operation and water conservancy infrastructure construction in Huai'an City

Huai'an Municipal Government has established five major municipal enterprises focusing on individual divisions since 2021. HAIH is one of five major municipal enterprises in Huai'an City and is primarily responsible for infrastructure construction, land consolidation, engineering construction and resettlement housing construction in Huai'an City. In addition, the Company is the sole operating entity carrying out water conservancy infrastructure construction and water environment improvement business in Huai'an City. In 2023, the holding of the Company was transferred to HAUD, making the Company the core subsidiary of HAUD. In September 2024, the Company's shareholding of Huai'an Xingsheng Construction Investment Co., Ltd. ("Xingsheng") was transferred to another local state-owned enterprise ("SOE") without compensation according to the arrangement of Huai'an Municipal Government. As of the end of 2023, the total assets and net assets of Xingsheng were RMB17.9 billion and RMB6.0 billion, accounting for 5.9% of HAIH's total assets and 4.8% of HAIH's net assets, respectively. We expected that the influence of asset transfer and shareholding changes to HAIH would be limited due to its unchanged position. As of 30 September 2024, HAIH's total assets and net assets amounted to around RMB288.0 billion and RMB118.3 billion, remaining one of the largest state-owned enterprises ("SOEs") in Huai'an City. The failure of HAIH, in our view, may lead to reputation risk for the local government and adversely affect the financing environment in Huai'an City.

High importance in public activities with sufficient project pipelines

HAIH plays an important role in public activities including undertaking infrastructure construction, land consolidation and resettlement housing construction in Huai'an City. Benefiting from the ongoing economic development of Huai'an City, the Company's public welfare projects on hand are large, which in turn supports the stability and sustainability of its business. In addition, the Company has a dominant market position in water conservancy construction in Huai'an City and has experience in taking part in major hydraulic projects on behalf of the government such as the South-to-North Water Diversion, Huaihe River management, irrigation district renovation and reservoir reinforcement in Huai'an City.

In terms of infrastructure construction, HAIH's projects operate across the majority of the city, including Huai'an Ecological New City, Huai'an District, Qingjiangpu District and Huaiyin District. The infrastructure construction projects include roads, schools, industrial parks and landscaping, are conducted mainly under the agency construction model through the Company's subsidiaries in Huai'an City. Under the agency construction model, HAIH is responsible for the financing and investment of these entrusted construction projects and recognizes a markup on total cost as revenue after examinations of projects. Over the past several years, HAIH has completed a number of key infrastructure construction projects with a total investment of RMB6.9 billion and a total repayment of RMB6.5 billion. As of 31 March 2024, the Company had 12 key infrastructure projects under construction and 5 key projects under planning, with an expected total investment amount of around RMB1.1 billion and around RMB4.2 billion, respectively. These projects mainly include the construction of roads, greening projects and other public facilities. Sufficient projects on hand support the good continuity and stability of HAIH's infrastructure construction business.

HAIH carries out land consolidation business under the planning of the local government. The Company performs the tasks of land acquisition, demolition and land preparation through self-financing, and then sells the land through auction after the land reaches the standard. The Company offsets the cost by the net proceeds from land premium. Over the past three years, the Company's cumulative total investment in land consolidation has been RMB12.9 billion, with a total repayment of RMB10.4 billion. The cash collection from the completed land consolidation projects is relatively lagging behind. As of 31 March 2024, the Company has five major land parcels under consolidation and three land parcels to be consolidated, with a total investment of RMB 5.1 billion yet to be incurred. Overall, the sustainability of the Company's land consolidation business is relatively good; however, the Company's land grant revenue recognition and cash collection are susceptible to the influence of local land market conditions and the arrangement for the allocation of financial resources.

In terms of affordable housing, HAIH's projects include public rental housing, low-cost housing, affordable housing, limit-price housing and urban shantytown renovation within the main urban areas of Huai'an City. The Company is entrusted by the Huai'an Municipal Government or other government-related parties for the fundraising and construction of such housing. Upon completion, the project will be repurchased by clients based on construction cost incurred plus a premium, usually 12%, or will be sold to targeted households by the Company on behalf of Huai'an Municipal Government. As of 31 March 2024, the Company has completed 24 resettlement housing projects with a total investment of RMB10.3 billion and a total repayment of RMB12.0 billion. At the same time, the Company had 8 key projects under construction, with a total investment of RMB7.6 billion and an outstanding amount of RMB744 million. The resettlement housing projects under construction have a total sellable area of 1,189.5 thousand square meters and the average sales progress has reached around 82.4%.

Moderate risk exposure to commercial activities

The Company also engaged in commercial activities that mainly include water conservancy construction, real

estate development and trading business. Based on our assessment, HAIH's exposure to commercial activities was moderate, with assets accounting for around 20%-25% of its total assets. Although these types of commercial activities expand and diversify the Company's revenue, they are highly subject to market conditions and might bring considerable counterparty and operational risks to the Company.

Jiangsu Huaiyin Water Conservancy Construction Co., Ltd. ("HYWC") is the main operating entity of HAIH for the water conservancy construction business. HYWC is the most competitive constructor and operator in water conservancy construction and water environment management in Huai'an City with a high market share. It has competitive professional qualifications including Level One Water Conservancy and Hydropower Project Construction General Contracting Qualification and Level One Navigation Structure Construction Professional Contracting Qualification. The Company has expanded its business out of Jiangsu Province. The Company acquires general contracting contracts through public bidding and then constructs itself or subcontracts the construction tasks to other builders. From 2021 to 2023, the revenue from water conservancy construction grew from RMB2.0 billion to RMB2.8 billion, with the gross margins increasing from 2.7% to 4.0%. At the same time, HYWC has completed 149 water conservancy project construction projects in the past three years, with a total contract amount of RMB9.5 billion and a recovery of RMB7.3 billion. As of 31 March 2024, the Company had 42 major water conservancy construction projects under construction with a contract amount of RMB7.1 billion and has completed RMB3.1 billion amount of work. At the same time, the Company had 9 major water conservancy construction projects under planning, with a total investment amount of RMB1.7 billion. These projects mainly include environmental improvement, marina construction and integrated river management. Although the sufficient project reserve can support the sustainability of the water conservancy construction business, it brings a degree of payment collection risk and certain capital expenditure pressure to HAIH.

HAIH is engaged in real estate development through self-development and co-development with other experienced real estate developers in the form of equity partnerships. Under the self-development model, the Company acquires the land for projects through tender and auction, and then selects the construction contractor through bidding. As of 31 March 2024, the Company had 11 major completed property projects with a total investment of RMB5.4 billion, most of which have been sold out. At the same time, the Company had 8 key property projects under construction, with an estimated total investment amount of RMB9.5 billion and an uninvested amount of RMB2.9 billion. The property sales business is highly subject to the counterparty operation, economic conditions and the local real estate market. The Chinese property market has remained depressed in recent years, which may exert uncertainty on the Company's sales progress and payment collection.

HAIH also participates in trading business through its subsidiaries, including the sales of hydraulic materials such as steel, cement and mineral powder. 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. The customer and supplier concentration risks were medium as the procurements from the top 5 suppliers accounted for less than half of its total procurement in 2023, as does the sales side of customers. The revenue from the trading business declined in 2022 due to the impact of the property market downturn and risk considerations for the reduction of receivables. In 2023, the Company's revenue from trading stabilized, which increased by 1.1% YoY to RMB1.8 billion. Moreover, the trading business may be subject to certain payment collection risks, given a long payback period for orders from downstream customers.

Good track record of receiving government support

HAIH has received ongoing support from the Huai'an Municipal Government, including capital injections, asset transfers, government subsidies and payments for previous construction projects. Since 2012, the Company

continued to receive equity injection in various local SOEs from the local government, which became the important subsidiaries of the Company to carry out its main business. In addition, the Company received the several physical assets, such as rights of land use, hydraulic facilities and municipal water pipes, from the local government. The Company also continues receiving repayments from the local government in terms of the infrastructure construction and land consolidation businesses, despite a long collection period. Overall, given the Company's key role in the development and operation of land assets and infrastructure construction, we believe that HAIH will receive ongoing government support to support its business operations.

Relatively weak asset liquidity and large debt burden

HAIH has relatively large debt burden with the development of its debt-driven businesses. As of 31 December 2023, the Company's total debt (including perpetual bonds) increased to RMB146.8 billion from RMB130.7 billion at end-2021. As of 30 September 2024, the Company's total debt declined to RMB126.1 billion mainly due to equity transfer of subsidiaries Xingsheng. Meanwhile, the Company had relatively high debt leverage, measured by the total capitalization ratio (total debt/total capital). As of 30 September 2024, the Company's total capitalization ratio was 51.5%. The Company also had a short-term debt burden with the short-term debt accounting for 43.7% of its total debt. The cash to short-term debt ratio was low at 0.3x as of 30 September 2024. Considering the ongoing investment in projects under construction and the Company's reliance on external financing, we expect the Company's debt leverage will be maintained at a high level in the next 12 to 18 months.

Exhibit 5. Key projects under construction and planning as of 31 March 2024

Exhibit 3: Key projects under construction and planning as of 31 March 2024

Project types	No. of projects	Budgeted	Invested	Outstanding
		amount	amount	amount
		(RMB billion)	(RMB billion)	(RMB billion)
Projects Under Construction				
Infrastructure Construction	12	6.5	5.5	1.0
Land Consolidation	5	21.1	16.2	4.9
Affordable Housing	8	7.6	6.8	0.8
Water Conservancy Construction	42	7.1	3.1	4.0
Real Estate Development	8	9.5	6.7	2.8
Project Under Planning				
Infrastructure Construction	5	4.2	-	4.2
Land Consolidation	3	0.3	-	0.3
Water Conservancy Construction	9	1.7	-	1.7
Total	92	58.0	38.3	19.7

Source: Company information, CCXAP research

Besides, HAIH's asset liquidity was moderate as its assets were comprised mainly of receivables, inventories from project settlement with local SOEs and government units, which accounted for 14.9% of its total assets and formed a drain on the Company's fund. On top of that, the Company's inventories were relatively sizable, accounting for around 37.2% of its total assets. The inventories represent development costs of infrastructure construction, land consolidation and real estate projects, as well as land reserves with moderate liquidity. The Company's investment in the construction of projects has led to an increase in the size of the inventories year by year, where a large amount of funds is deposited, affecting the liquidity of assets. In addition, the Company's other non-current assets accounted for around 22.0% of its total assets, the majority of which comprise engineering sites, canal channels and hydroelectric equipment injected from the local government, with low

liquidity and limited profitability.

Access to different financing channels

HAIH has access to diversified funding channels which could partially mitigate the Company's refinancing pressure. Bond issuances and bank loans accounted for the majority of its total debt. The Company maintains a good relationship with joint-stock commercial banks and large domestic banks such as China Development Bank, China Minsheng Bank Corporation Limited and Bank of Jiangsu Co., Ltd. As of 30 September 2024, the Company had total bank facilities of RMB86.4 billion and the available portion amounted to RMB27.0 billion. HAIH has good track record of issuing different bond instruments in the onshore debt markets such as corporate bonds, MTNs and PPNs. From January 2023 to November 2024, HAIH raised nearly RMB12.5 billion from 13 tranches of domestic bonds with coupon rates ranging from 2.18% to 4.95%. The Company also has record of offshore bond issuance at the corporate level. In February 2022, it issued one offshore bond of USD300.0 million for refinancing at a coupon rate of 3.3%. Additionally, HAIH had moderate non-standard financing exposure, which accounted for around 17.3% of its total debts as of 30 September 2024. Overall, we expect the Company's refinancing risk to be relatively manageable over the next 12-18 months.

Medium level of contingent risk

HAIH bears moderate contingent risk resulting from the relatively large external guarantees. As of 30 September 2024, the Company had outstanding external guarantees of RMB42.3 billion and all of them were provided to local SOEs, representing 35.6% of its net assets. Large exposure to guarantees will increase the Company's contingent liability risk. Nevertheless, we believe that the credit risk of these guarantees is manageable, as all of them are provided to local SOEs and directed by the Huai'an Municipal Government. However, the Company's contingent liabilities are subject to regional risks due to the mutual guarantee situation. In case a credit event occurs in the region, the Company may face certain contingent liability risks, which could negatively impact its credit quality.

ESG Considerations

HAIH assumes environmental risks through its major infrastructure construction and water conservancy construction projects. Such risks could be moderated by conducting environmental studies and planning prior to the start of the projects, and close supervision during the construction phase.

HAIH bears social risks as it implements public policy initiatives by constructing infrastructure projects and providing hydro-environmental governance services in Huai'an 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.

HAIH's governance considerations are also material as the Company is subject to oversight by Huai'an Municipal Government and has to meet several 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 \(July 2022\)](#).

Appendix

Exhibit 6. Peer comparison

	Huai'an Investment Holding Group Co., Ltd.	Huai'an Traffic Holding Group Co., Ltd.
Long-Term Credit Rating	A _g -	BBB _g +
Shareholder	Huai'an City Development and Investment Holding Group Co., Ltd. (100%)	Huai'an Municipal Government (70%) and Huai'an State Joint Investment & Development Group Co., Ltd. (30%)
Positioning	Key entity in infrastructure construction, land consolidation, regional hydro-environmental governance and resettlement housing in Huai'an City	Key entity in transportation infrastructure construction and transportation-related public services in Huai'an City
Total Asset (RMB billion)	304.4	58.7
Total Equity (RMB billion)	125.6	24.8
Total Revenue (RMB billion)	16.8	3.3

All ratios and figures are calculated using CCXAP's adjustments based on financial data in 2023.

Source: Company information, CCXAP research

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