

Rating Action: Moody's assigns first-time A2 rating to Henan Railway Investment Co.,Ltd.

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Hong Kong, October 05, 2021 -- Moody's Investors Service has assigned a first-time A2 issuer rating to Henan Railway Investment Co.,Ltd.

The outlook is stable.

RATINGS RATIONALE

"Henan Railway's A2 issuer rating reflects its high strategic importance and close linkage with the Henan provincial government, given the company's role as the sole rail provincial investment platform," said Cedric Lai, a Moody's Vice President and Senior Analyst. "These credit strengths are evident in its record of receiving substantial government fund injection under a predictable mechanism."

Henan Railway's A2 issuer rating is based on (1) the Henan government's capacity to support (GCS) score of a2, and (2) Moody's assessment of how the company's characteristics affect the Henan government's propensity to support, resulting in a zero-notch downward adjustment.

Moody's assessment of Henan's GCS score reflects (1) Henan's status as a province in China (A1 stable) with direct reporting lines to the central government; (2) its modest level of development, smaller debt burdens and operating deficits, and (3) moderate state-owned enterprise (SOE) liabilities and banking risks.

Henan Railway's A2 rating also reflects the Henan government's propensity to support the company, given (1) the Henan government's 100% ownership of the company; (2) the company's strategic role in investing and owning the province's railway projects; (3) its track record of receiving subsidies and capital injections from the Henan government, which totaled RMB20.6 billion in 2018-20; and (4) its strong access to funding.

Henan Railway is highly strategically important to the Henan government, given its role in providing rail transport. National rail expansion is a high priority under China's long-term development plan, and Henan is located along key interconnecting rail lines. By the end of 2020, Henan Railway had invested in 23 rail projects with 3,716 kilometers of rail lines in Henan.

Nevertheless, the company's credit strengths are constrained by its debt growth to support its massive investment programs.

The rating also considers the following environmental, social and governance (ESG) factors.

Henan Railway's exposure to environmental risks is low, reflecting the important role that passenger transport plays in reducing carbon emissions. The company's invested projects could expose it to environmental risks during the construction phase. Still, the feasibility and environmental studies it had conducted before construction should identify and mitigate the associated risks.

Henan Railway bears high social risks as it is required to invest and own essential public infrastructure. Demographic changes, public awareness and social priorities shape the government's targets for Henan Railway and could affect the provincial government's propensity to support the company.

Governance considerations are also material to the rating as Henan Railway is subject to oversight by the Henan government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity. In particular, the rating considers Henan Railway's governance oversight by the Henan government through the company's investments in national rail projects.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Henan Railway's stable outlook reflects (1) the stable outlook on China's sovereign rating; (2) Moody's expectation that the Henan government's GCS score will remain stable; and (3) Moody's assumption that the Henan government's control and oversight of the company will remain largely unchanged over the next 12-18

months.

Moody's could upgrade the rating if China's sovereign rating is upgraded and Henan's GCS strengthens, which could arise from a significant strengthening in Henan's economic or financial profile or its ability to coordinate timely support.

Moody's could downgrade the rating if (1) China's sovereign rating is downgraded or Henan's GCS score weakens, which could arise from a significant weakening in Henan's economic or financial strength or its ability to coordinate timely support; (2) changes in Chinese government's policies prohibit RLGs from providing financial support to LGFVs; or (3) Henan Railway's characteristics change in a way that weakens the Henan government's propensity to support, such as:

- Its core businesses undergo material changes, including a substantial expansion into commercial activities that result in substantial losses or at the cost of public services
- Its debt and leverage rapidly increase without a corresponding rise in government payments, leaving the company reliant on high-cost financing, including through non-standard channels
- Its loans, guarantees or other credit exposures to external parties materially increase
- It is used to support and bail out other entities, resulting in a deterioration of its financial strength and business profile

Established in 2009, Henan Railway is 100%-owned by Henan government. The company reported total assets of RMB73 billion and a total revenue of RMB555 million for 2020.

Henan Railway is the sole entity responsible for railway project investment and construction in the Henan province on behalf of the Henan provincial government. Apart from railway investment, the company also engages in primary land development, property development, transportation, equipment rental and more.

The principal methodology used in these ratings was Local Government Financing Vehicles in China Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1216254. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The local market analyst for these ratings is Yan Li, +86 (106) 319-6572.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288435.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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

Cedric Lai
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Gary Lau
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong

China (Hong Kong S.A.R.)
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077



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