



Announcement: Moody's: Limited credit impact on Yuexiu Transport from Lanwei acquisition and GNSR expansion plan

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Hong Kong, October 19, 2022 – Moody's Investors Service ("Moody's") says that Yuexiu Transport Infrastructure Limited's (Yuexiu Transport) announcements on 17 October 2022 related to acquisition of 100% interest in Lanwei Expressway for RMB1,098 million and land expropriation arrangement for a major expansion plan of GNSR Expressway will have limited impact on the company's credit profile.

"Although the increased capital spending from acquisition and expansion project will weaken Yuexiu Transport's projected metrics, they will remain within their credit profile in the near term," said Ivy Poon, a Moody's Vice President and Senior Credit Officer.

"The transactions will enhance Yuexiu Transport's asset quality, as they will strengthen its road networks in Henan province and the Greater Bay Area, replenish its road portfolio after the spin-off of Hanxiao Expressway and enhance its business sustainability in the long term," adds Poon.

Assuming the two transactions are executed as planned, Moody's estimates that Yuexiu Transport's leverage, as measured by funds from operations/debt, will be in the range of 13%-15% in 2022-24, which remains within its current Baa2 rating. The projected metrics have considered the company's indicated financing plan for the Lanwei acquisition, Moody's expectation of total capital spending for GNSR Expressway over the construction period, and relatively limited traffic disruptions during the construction works. However, the company's financial headroom within the current rating will likely reduce when it accelerates its investment in the expansion project after 2024.

Lanwei Expressway is a 61-kilometer toll road in Henan province that has operated since 2005. As of the end of 2021, Lanwei Expressway's total asset amounted to RMB2.5 billion, equivalent to 7% of Yuexiu Transport's total asset. The project is currently wholly owned by Guangzhou Yue Xiu Holdings Limited (Yuexiu Group), the parent company of Yuexiu Transport.

Yuexiu Transport expects to finance the RMB1.1 billion acquisition using 60% debt and 40% internal resources. The transaction will also bring approximately RMB1.4 billion project debt to be consolidated into the company upon the acquisition's completion. The acquisition cost is estimated to be around 1.1x of Lanwei Expressway's equity at end July of 2022. Yuexiu Group paid RMB2.5 billion to acquire the toll collection right of Lanwei Expressway in a Judicial Auction in late 2020.

The proposed acquisition is earning accretive, given Lanwei Expressway's established operating track record. The project addition will strengthen Yuexiu Transport's road networks in Henan province, in addition to its Weixu Expressway. Lanwei Expressway is an important part of Lannan Expressway (Lankao-Nanyang Expressway), connecting the hinterland in the central region with the coastal areas in Shandong province. Upon the completion of the acquisition, Yuexiu Transport's operating mileage from its controlled project will increase to 556 km, up 12% from last year. The transaction has also demonstrated Yuexiu Group's support for Yuexiu Transport, as

part of the parent's strategy to inject assets into Yuexiu Transport after the incubation period.

Meanwhile, GNSR Expressway is a core revenue contributor to Yuexiu Transport, accounting for one-third of consolidated revenue in 2021. Yuexiu Transport plans to expand the expressway to 10-12 lanes from six, which will translate into RMB17 billion capital spending (included around RMB2 billion capital contribution from minority shareholder). The construction period will likely span from 2022 to 2028. The announced land expropriation arrangement is the preliminary works for the expansion plan. The proposal is subject to the necessary approvals from government and Yuexiu Transport's shareholders, if applicable.

The expansion project carries high strategic importance to the Greater Bay Area's road networks. GNSR Expressway is a key part of Guangzhou Ring Expressway and forms part of the Shenyang-Haikou Expressway and the Beijing-Hong Kong and Macau Expressway. As a result, the expansion has been included in the State Council's, the provincial's and the municipal's 14th Five Year Plans (2021-25). The project is also crucial to Yuexiu Transport's long-term development, as GNSR Expressway's toll collection right will expire in January 2032. If the project is approved, the concession life will likely be extended by 25 years upon expanded GNSR Expressway opens for traffic, thus improving Yuexiu Transport's overall asset quality. [1]

REFERENCES/CITATIONS

[1] Hong Kong Stock Exchange Filings 17-October-2022

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