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S&P Global
China Ratings

Credit Analysis of China's Toll Road Operators

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ANALYSTS

Lei Wang, CFA, FRM
Beijing
+86-10-6516 6038
Lei.wang@spgchinaratings.cn

Zhelun Lu, CFA
Beijing
+86-10-6516 6046
Bruce.lu@spgchinaratings.cn

Key Takeaways

- Expressways are regarded as important transportation infrastructure for local economic development. Typically, a local government would set up only one or a limited number of expressway operators in its jurisdiction. For the majority of provincial- and city-level SOEs in our sample, we usually expect that they can obtain a critical level of local government support. As such, we view the sampled expressway operators as having solid indicative issuer credit quality in general, with operators in Beijing, Shanghai, Guangdong, Jiangsu, Zhejiang and Shandong ranking among the best.
- In our view the business risk profiles of toll road operators vary due to the differences in economic development of their catchment areas, the market share and irreplaceability of their network in the regions they cover, and the scale and efficiency of their own road networks.
- However, companies in this sector have similar financial risk profiles, most of which are at aggressive or highly leveraged levels, due to heavy capital investment, long payback periods and large ongoing capital expenditure. Notwithstanding that, their refinancing pressures are limited.
- Amid continuous economic recovery in the second half of 2023, we expect the expressway vehicle traffic to rise considerably, alongside significant improvement in revenue and cash flow for the industry. Despite the overall high financial leverage facing toll road operators going forward due to their large-scale capital expenditures, they enjoy good refinancing capacity and would maintain stable credit quality, thanks to strong support from local governments.

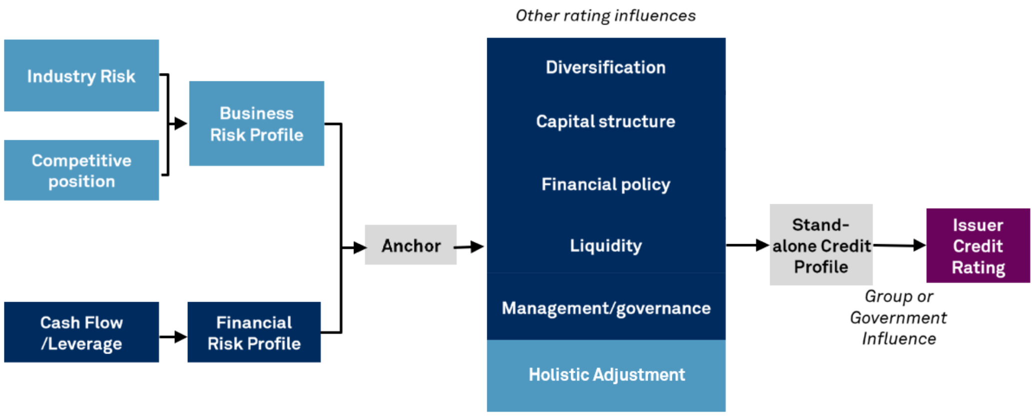
Overview

By applying our corporate methodology, we have carried out a desktop analysis of 53 companies, based on public information. We have formed our views on the relative ranking of each company's "indicative issuer credit quality" (see chart 1 below). These 53 companies cover most provincial administrative regions and a few prefecture-level expressway companies. Please refer to the appendix for the names and abbreviations of the sampled enterprises.

Given the strong support from local governments, toll road operators in China have sound indicative issuer credit quality in general, ranking among the best of all non-financial sectors. Particularly, operators in Beijing, Shanghai, Guangdong, Jiangsu, Zhejiang and Shandong are at the top of the list, while companies such as Kunming Expressway, Shanxi Communications, Ganzhou Expressway and Chengnan Expressway rank among the weakest.

This report on companies' indicative issuer credit quality uses S&P Global (China) Ratings' corporate methodology. When we analyze the credit quality of non-financials, we usually begin with analysis of the entity's business risk profile, before looking at its financial risk profile and other factors to arrive at its Stand-alone Credit Profile (SACP). We then analyze the external support that companies may obtain, including group or government support, to arrive at the Issuer Credit Rating (ICR).

Chart 1



Source: S&P Global (China) Ratings.

About This Article

S&P Ratings (China) Co., Ltd. (S&P China) has conducted a desktop analysis of a selection of entities, which we have chosen based on their asset sizes, representativeness of most regions and availability of public information. The analysis contained herein has been performed using S&P China Methodologies. S&P China Methodologies and analytical approaches are intended specifically for use in China only, and are distinct from those used by S&P Global Ratings. An S&P China opinion must not be equated with or represented as an opinion by S&P Global Ratings, or relied upon as an S&P Global Ratings opinion.

This desktop analysis has been conducted using publicly available information only, and is based on S&P China's methodologies for corporates. The analysis involves a desktop application of our methodologies to public information to arrive at a potential view of credit quality across sectors. It is important to note that the opinions expressed in this report are based on public information and are not based on any interactive rating exercise with any particular entity. The opinions expressed herein are not and should not be represented as a credit rating, and should not be taken as an indication of a final credit rating on any particular entity, but are initial insights of potential credit quality based on the analysis conducted. This desktop analysis does not involve any surveillance. The opinions expressed herein are not and should not be viewed as recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security.

We have conducted this desktop analysis on individual corporates and present the results contained herein at an aggregate group level. The different sections of this research show the statistics and performance of different groups of entities and the market more broadly against the metrics we generally consider most relevant under our methodologies.

Given the desktop nature of this analysis, and that we have not conducted an interactive review with any particular entity, we may have made certain assumptions in lieu of confirmed information and where relevant we may also have attempted to consider any possibility of parent, group, government or other forms of potential support, to inform our view of potential credit quality. S&P China is not responsible for any losses caused by reliance on the content of this desktop analysis.

Business Risk Profile

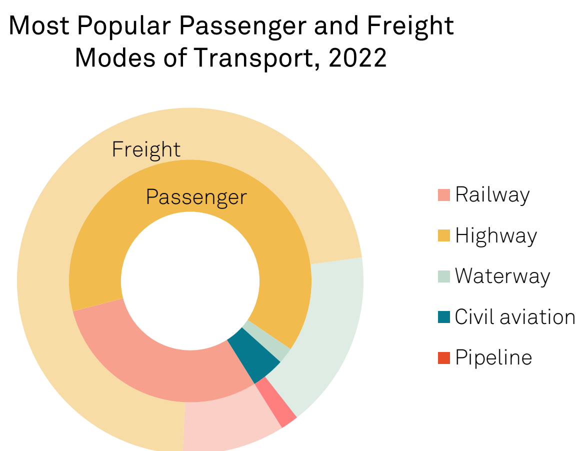
In general, we assess the business risk profile of a company by considering the industry risk of the sector that the company operates in and the competitive position of the company itself.

Industry Risk

In our view, the industry risk for the transportation infrastructure sector (which toll roads belong to) is at a low level, with a risk score of 2 on a scale from 1-6 (the lower the score, the lower the industry risk). We typically derive the level of industry risk from two dimensions: cyclicality and competitive landscape. The expressway industry in China is characterized by its weak cyclicality and stable competitive environment and thus has low industry risk.

We view the competitive landscape of China's expressway industry as stable. As an important part of China's transportation infrastructure, highways play an irreplaceable role in serving cargo and passenger transport for short and medium distances. Although the development of high-speed rail has had an impact on highway passenger traffic, highways still occupy a dominant share in China's overall transportation system, in terms of passenger and cargo transport volume. The rapid development of modernized logistics and express delivery sectors will also support highway freight volume going forward. According to the 2022 National Bureau of Statistics, highway transport accounts for 63.5% of China's passenger traffic and 72.1% of China's cargo traffic.

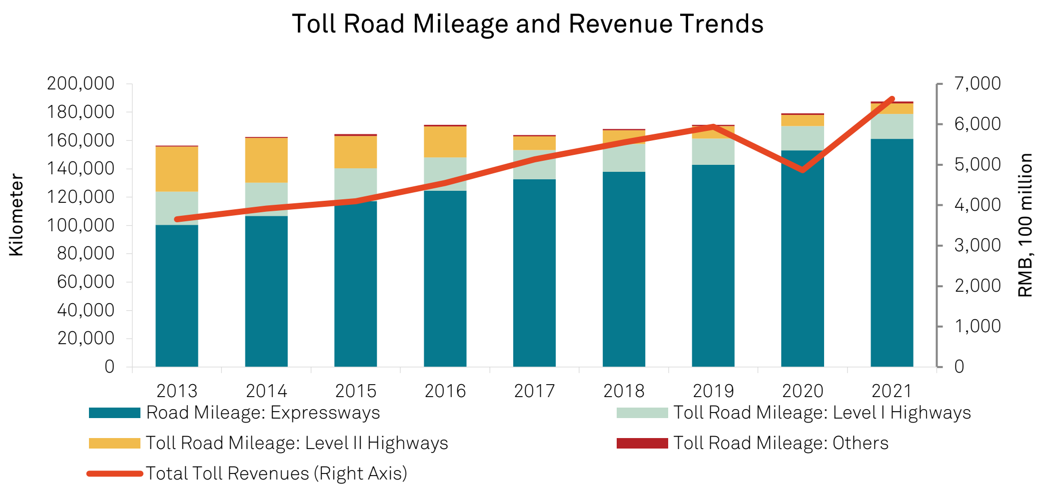
Chart 2



Source:2022 National Economic and Social Development Statistical Bulletin

Compared with railways, waterways and civil aviation, China's highway industry has a broader user base, which underpins its strong resilience through economic cycles with a steady growth trend. In recent years, under policies where only expressways can charge tolls and other normal highways are funded solely by public finance, China has vigorously expanded its expressway network. Except for 2020 when tolls were sharply reduced or exempted due to the impact from the pandemic, the road mileage and toll revenue of expressways nationwide have maintained steady annual growth.

Chart 3



Source: Wind, S&P Global (China) Ratings.

Competitive Position

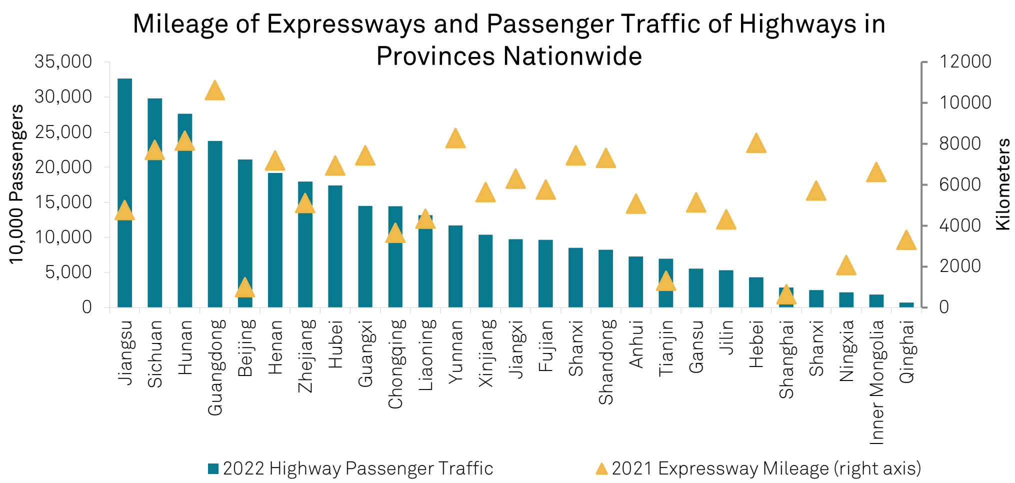
We generally consider the competitive position of entities in this industry from four aspects: competitive advantage, scale, scope and diversity, operating efficiency, and profitability. For toll road operators, policy and regulatory support weaken competitive pressure and provide relatively stable profitability, so we usually pay more attention to firms' competitive advantage, and scale, scope and diversity. In our view, major toll road operators in Beijing, Shanghai, Guangdong, Jiangsu, Shandong, Zhejiang, and Henan have relatively strong competitive position, because of their economically advanced service areas that enjoy long expressway mileage and large traffic volume, and their substantial market shares within their respective region.

Competitive Advantage

The competitive advantages of toll road operators are, in our opinion, mainly reflected in the levels of economic development in the areas they serve, their market share and their irreplaceability in the areas they serve. Companies with strong competitive advantages typically: play an important role in the development of local economy; operate in a vast area with strong economic activities; have a dominant position in the transportation market within their service area; enjoy limited competition from other transportation routes and operators amid a stable competition environment.

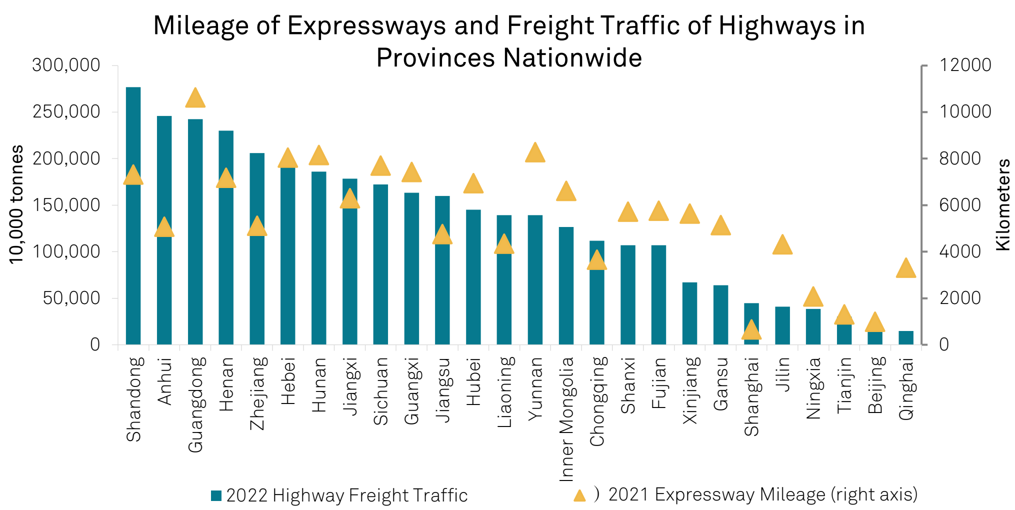
In our view, the scale of expressway networks and traffic volume of each province are key to expressway operators' performance and competitive advantage, given that expressway operators are mostly founded by provincial governments. Among all the provinces, Guangdong has the longest expressway mileage and top-ranking passenger and freight traffic. Although the expressway mileage of Jiangsu rank in the middle of the country, the province has significant advantage in terms of passenger traffic. Sichuan and Henan have satisfactory mileage scales and freight (passenger) traffic, due to continuous heavy investment, geographical advantage and rapid industrial development. We believe that the vehicle traffic in those regions is supported by the economic environment in the hinterlands of those regions. On the other hand, due to limited economic activity, freight (passenger) traffic of highways in Gansu, Inner Mongolia, Jilin, Qinghai, and Ningxia ranks lower compared to the rest of the country.

Chart 4



Note: No data disclosed for some provinces.
Source: Wind, S&P Global (China) Ratings.

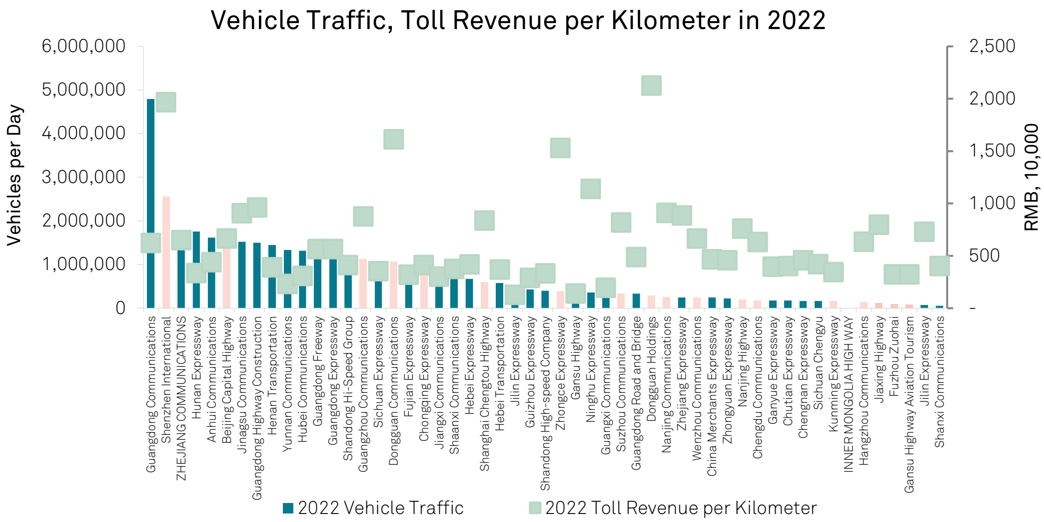
Chart 5



Note: No data disclosed for some provinces.
Source: Wind, S&P Global (China) Ratings.

Typically, toll road operators' competitive advantage is reflected by their regional vehicle traffic and toll revenue per kilometer. The operating performance of expressways is closely related to local economic development, which greatly affects return on investment and future growth potential for expressways. Economically developed regions usually enjoy higher transport activity and large vehicle traffic, laying the foundation for toll revenue growth for local expressway networks. The chart below shows operators whose major toll road networks are concentrated in developed regions have larger vehicle traffic and stellar toll revenues per kilometer. Toll road operators in developed provinces and cities situated in the regions of Yangtze River Delta, Pearl River Delta, and Beijing-Tianjin-Hebei delivered better performance.

Chart 6



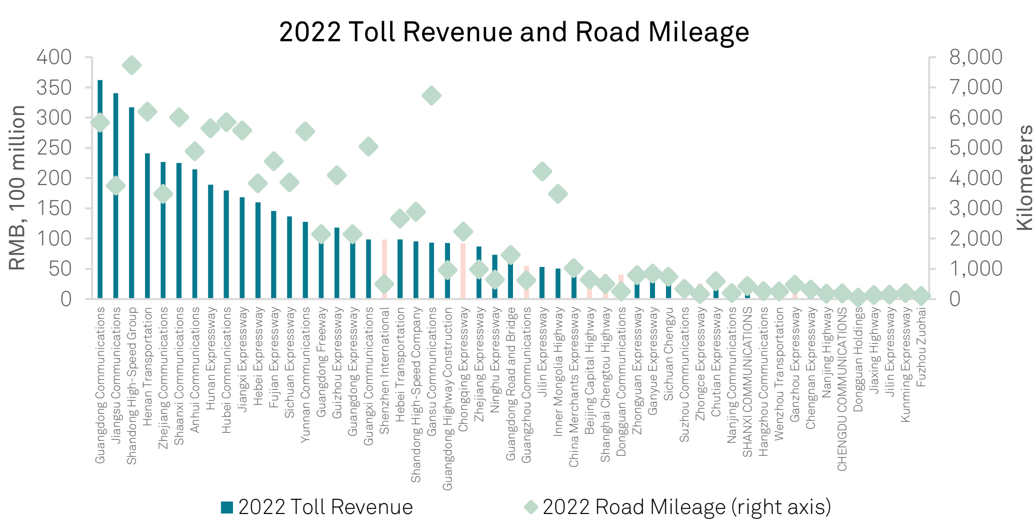
Note: 2021 traffic data applied for Hebei Communications, Yunnan Communications and Gansu Highway as they didn't release 2022 data. 2. Pink column represents highway companies under municipalities/prefecture-level cities.
Source:Company announcements, compiled by S&P Global (China) Ratings。

Scale, Scope and Diversity

When considering the scale, scope, and diversity of expressway operators, we typically focus on toll revenue drivers, including periods when tolls apply and toll collection methods, the geographical coverage of their road network, and the scale, diversity and maturity of the local transportation market.

The operating and asset scale of a toll road operator is typically driven by its toll revenue and operating mileage. As can be seen in the chart below, Guangdong Communications and Jiangsu Communications have the largest toll revenues together with significant road network mileages, but on the other hand in areas with less developed economy, the large scale of network mileages are tempered by lower vehicle traffic, resulting in disproportionately lower toll revenue for expressway operators in Inner Mongolia, Gansu, Guangxi, Jilin, etc.

Chart 7



Source:Company announcements, compiled by S&P Global (China) Ratings

Operating Efficiency and Profitability

For the operating efficiency and profitability of expressway operators, we typically consider maintenance costs, operational costs, EBITDA margin and return on capital (ROC).

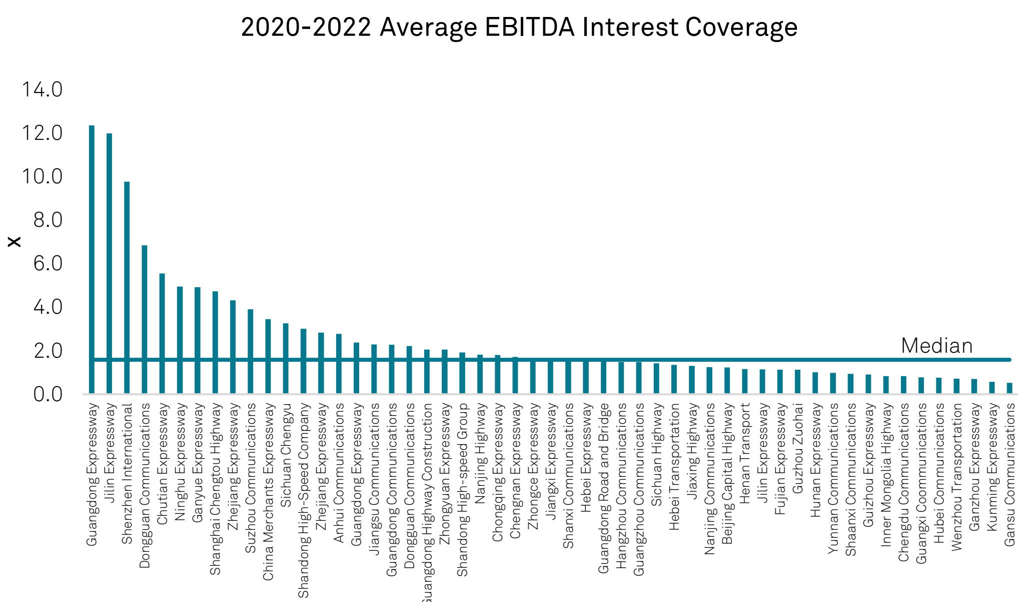
However, in the expressway industry, due to the natural monopoly that the government has over assets and tolls, we don't see obvious differences in the operating efficiency and profitability of most expressway operators, and they generally perform at the industry average level. Only a few companies have above average profitability due to good cost management through industry cycles and limited future capital expenditure needs as their road networks are at a mature stage.

Financial Risk Profile

Our analysis of the financial risk profiles of expressway operators typically focuses on cash flow-based credit metrics. We usually focus more on the entities' interest coverage given that they tend to have good access to refinancing. This is because the expressway industry typically enjoys a higher level of government support, and most entities are provincial-level state-owned entities with public welfare attributes.

We observe that the overall financial risk profile of this industry is aggressive, but refinancing pressure is small. As the industry can be characterized by its weak cyclicality and instant cash collection, expressway operators usually enjoy strong and stable operating cash flows. On the other hand, the expressway industry requires large initial investment during the development stage and has a long payback period, resulting in a higher debt burden and higher debt/EBITDA ratio. The interest coverage ratios of most entities are however at a modest level. Entities with established road networks, good profitability and limited future capital expenditure such as Guangdong Expressway, Shenzhen International Holdings, etc. tend to have better interest coverage. Meanwhile, some enterprises' EBITDA interest coverage ratios may be under pressure due to limited vehicle traffic, low toll revenue and continuously increasing capital expenditure. Notwithstanding that, we don't expect these operators to face high refinancing risk due to support from banks and refinancing through government special bonds.

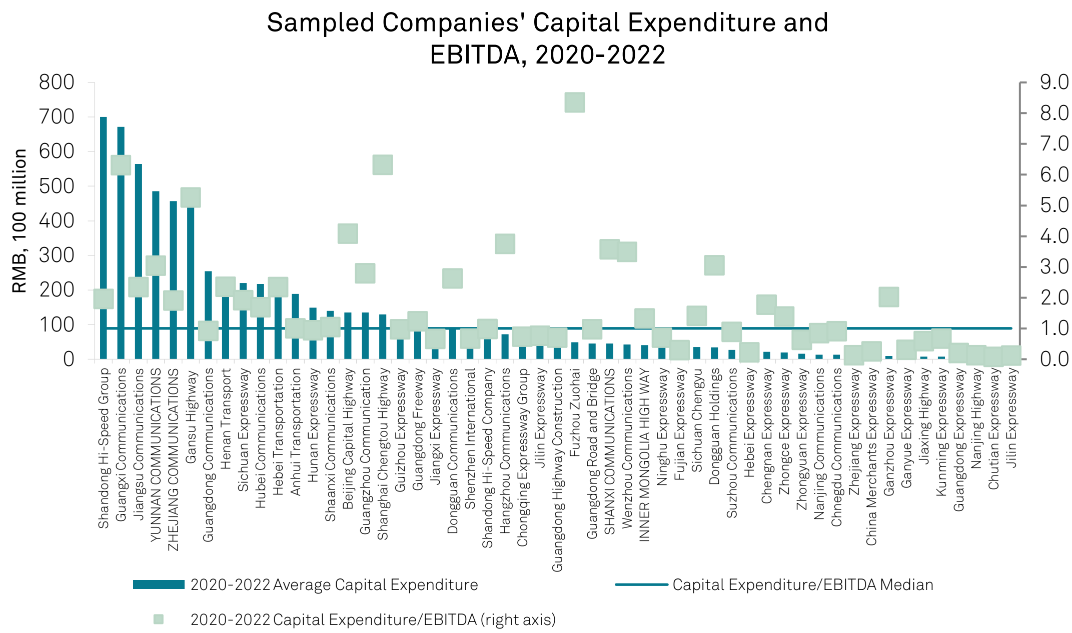
Chart 8



Note: 1. Interest coverage multiple = EBITDA/total interest expense; 2. The data of Zhejiang Communications, Shandong High-Speed Group and Zhejiang Expressway are adjusted after excluding financial business related income and expenses.
Source: Company announcements, compiled by S&P Global (China) Ratings

Due to the high funding requirements for toll road construction, companies with several toll roads being built at the same time need to make large capital expenditures, which can’t be sufficiently covered by their EBITDA. Therefore, they may rely heavily on external funding sources. On the other hand, for companies seeing no large-scale toll roads under construction in the short term, their capital expenditures are relatively small and can be comfortably covered by EBITDA, leading to more stable cash flows.

Chart 9



Source:Public information, compiled by S&P Global (China) Ratings

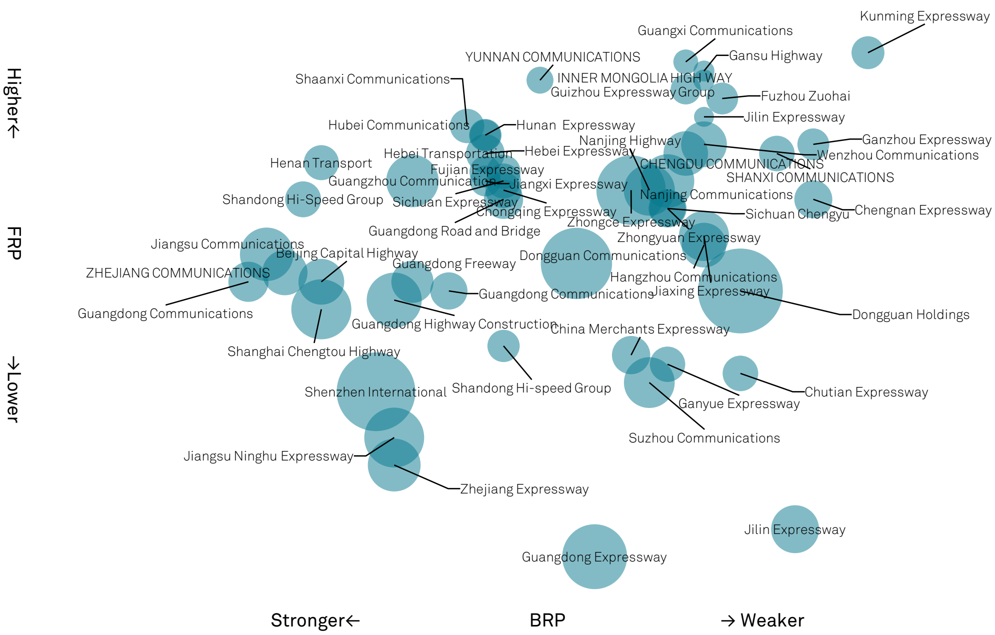
Distribution of Indicative Business and Financial Risk Profiles

Based on the above analysis, we have obtained the indicative business risk profiles and financial risk profiles of the 53 sampled companies, as shown in the chart below. Through combining the business and financial risk profiles, we can generally form a benchmark to assess the indicative credit quality of an entity. Beyond that, we typically also consider industry diversification, capital structure, financial policy, management and governance, liquidity, and other holistic factors to arrive at our evaluation of the firm’s SACP.

In the chart below, we can see that Guangdong Communications, Shandong Hi-Speed Group, Zhejiang Communications and Beijing Capital Highway have the best indicative business risk profiles in the industry, thanks to their above-average road networks and economically advanced catchment areas. Entities like Guangdong Expressway and Jilin Expressway have relatively mature road networks with limited capital expenditure needs in the future, resulting in a stronger financial risk profile in the industry. Entities such as Kunming Expressway, Gansu Communications and Inner Mongolia Expressway suffer from lower vehicle traffic, lower toll revenues and larger pressure to expand, which lead to them having weaker indicative business and financial risk profiles compared to other operators, despite their relatively large road networks.

Chart 10

Business Risk and Financial Risk Profiles of Sampled Companies



Note: Bubble size represents toll revenue per kilometer.
Source: S&P Global (China) Ratings.

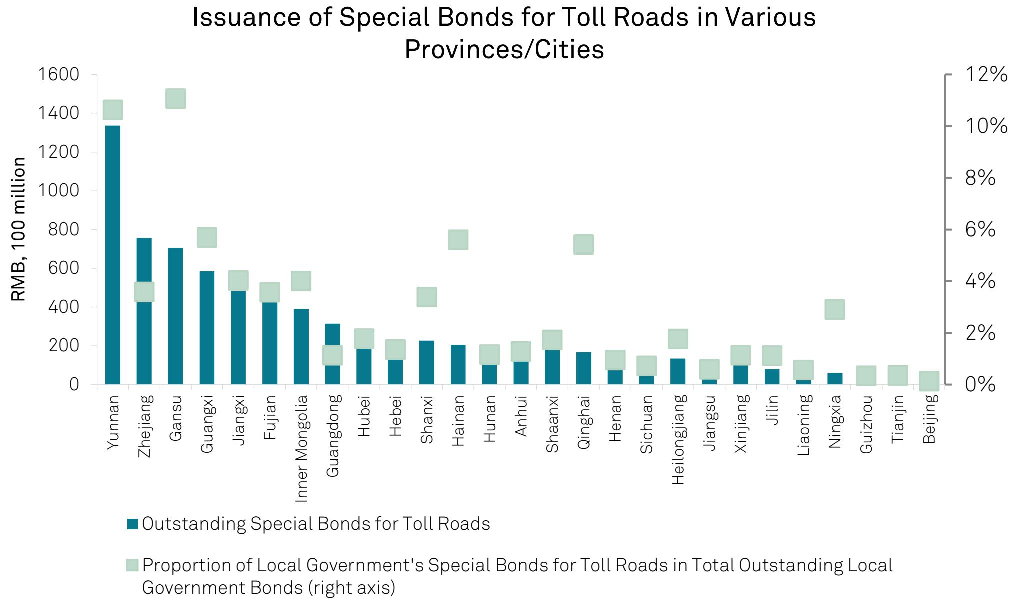
External Support

After arriving at the indicative stand-alone credit quality of an entity, we then consider the impact of government or group support on the credit quality of the enterprise. China's expressway operators are all state-owned. We believe that they are typically of critical importance to local governments, as the expressway industry is often regarded as important transportation infrastructure that can support local economic development. Importance is further elevated by there typically being only one or a limited number of expressway operators in the same region.

For the majority of local SOEs in our sample, we usually expect that they can obtain a critical level of local government support. In our analysis, we typically consider the government's ability and willingness to support. In our opinion, due to differentiated economic and fiscal performance as well as different debt levels, the indicative support capacity of local governments can diverge to some degree, which can have a significant effect on the indicative issuer credit quality of our sampled companies. We view the local governments of Beijing, Shanghai, Guangdong, Zhejiang, Jiangsu and Shandong as having stronger indicative support capacity. On the other hand, due to the important role played by local expressway SOEs in the field of transportation infrastructure, we believe that the willingness of local governments to support their respective expressway enterprises is typically strong.

As mentioned above, high debt leverage in the sector is generally caused by large capital expenditure in the initial development stage of constructing an expressway and long payback period. At present, local governments have issued toll road special bonds for road construction to alleviate the debt pressure of expressway operators. It can be seen in the chart below that in provinces where expressway companies need large capital expenditure, like Yunnan, Zhejiang and Gansu, the volume of outstanding toll road special bonds are significant.

Chart 11



Note: Data as of June 30, 2023.
Source: Wind, S&P Global (China) Ratings

Appendix

List of Sampled Entities

	Full Name	Abbreviated Name	Entity Type
1	Anhui Transportation Holding Group Co., Ltd.	Anhui Transportation	Regional SOE
2	Beijing Capital Highway Development Group Co., Ltd.	Beijing Capital Highway	Regional SOE
3	CHENGDU COMMUNICATIONS INVESTMENT GROUP CO., LTD.	CHENGDU COMMUNICATIONS	Regional SOE
4	Chongqing Expressway Group Co., Ltd.	Chongqing Expressway	Regional SOE
5	Dongguan Development Holdings Co., Ltd.	Dongguan Holdings	Regional SOE
6	Dongguan Communications Investment Group Co., Ltd.	Dongguan Communications	Regional SOE
7	Foshan Zhongce Expressway Investment Co., Ltd.	Zhongce Expressway	Regional SOE
8	Fujian Expressway Group Co., Ltd.	Fujian Expressway	Regional SOE
9	Fuzhou Zuohai Holdings Group Co., Ltd.	Fuzhou Zuohai	Regional SOE
10	Gansu Provincial Highway Aviation Tourism Investment Group Co., Ltd	Gansu Highway	Regional SOE
11	Ganzhou Expressway Co., Ltd.	Ganzhou Expressway	Regional SOE
12	Guangdong Provincial Freeway Co., Ltd.	Guangdong Freeway	Regional SOE
13	Guangdong Provincial Expressway Development Co., Ltd.	Guangdong Expressway	Regional SOE
14	Guangdong Provincial Highway Construction Co., Ltd.	Guangdong Highway Construction	Regional SOE
15	Guangdong Provincial Communications Group Co., Ltd	Guangdong Communications	Regional SOE
16	Guangdong Road and Bridge Construction Co., Ltd.	Guangdong Road and Bridge	Regional SOE
17	Guangxi Communications Investment Group Co., Ltd	Guangxi Communications	Regional SOE
18	Guangzhou Communication Investment Group Co., Ltd	Guangzhou Communication	Regional SOE
19	Guizhou Expressway Group Co., Ltd.	Guizhou Expressway	Regional SOE
20	Hangzhou Communications Investment Group Co., Ltd.	Hangzhou Communications	Regional SOE
21	Hebei Expressway Group Limited	Hebei Expressway	Regional SOE
22	Hebei Transportation Investment Group Corporation	Hebei Transportation	Regional SOE
23	Henan Transport Investment Group Co., Ltd	Henan Transport	Regional SOE
24	Henan Zhongyuan Expressway Co., Ltd.	Zhongyuan Expressway	Regional SOE
25	Hubei Chutian Smart Communications Co., Ltd.	Chutian Expressway	Regional SOE
26	Hubei Provincial Communications Investment Co., Ltd.	Hubei Communications	Regional SOE
27	Hunan Provincial Expressway Group Co., Ltd	Hunan Expressway	Regional SOE

28	Jiangsu Communications Holding Co., Ltd	Jiangsu Communications	Regional SOE
29	Jiangsu Ninghu Expressway Company Limited	Jiangsu Ninghu Expressway	Regional SOE
30	Jiangxi Ganyue Expressway Co., Ltd.	Ganyue Expressway	Regional SOE
31	Jiangxi Communications Investment Group Co., Ltd.	Jiangxi Communications	Regional SOE
32	Jiaxing High-grade Highway Investment Co., Ltd.	Jiaxing Highway	Regional SOE
33	Jilin Expressway Co., Ltd.	Jilin Expressway	Regional SOE
34	Jilin Provincial Expressway Group Co. Ltd	Jilin Expressway	Regional SOE
35	Kunming Expressway Construction and Development Co., Ltd.	Kunming Expressway	Regional SOE
36	Nanjing Communications Construction and Communication Holdings (Group) Co., Ltd.	Nanjing Communications	Regional SOE
37	Nanjing Highway Development (Group) Co., Ltd.	Nanjing Highway	Regional SOE
38	INNER MONGOLIA HIGH-GRADE HIGHWAY CONSTRUCTION AND DEVELOPMENT COMPANY LTD.	INNER MONGOLIA HIGHWAY	Regional SOE
39	Shaanxi Transportation Holdings Group Co., Ltd.	Shaanxi Transportation	Regional SOE
40	Shandong High-Speed Company Limited	Shandong High-Speed Company	Regional SOE
41	Shandong Hi-Speed Group Co., Ltd	Shandong Hi-Speed Group	Regional SOE
42	Shanghai Chengtou Highway Group Co., Ltd.	Shanghai Chengtou Highway	Regional SOE
43	SHANXI COMMUNICATIONS DEVELOPMENT AND INVESTMENT GROUP Co. Ltd.	SHANXI COMMUNICATIONS	Regional SOE
44	Shenzhen International Holdings Limited	Shenzhen International	Regional SOE
45	Sichuan Chengnan Expressway Limited	Chengnan Expressway	Regional SOE
46	Sichuan Expressway Company Limited	Sichuan Chengyu	Regional SOE
47	Sichuan Expressway Construction and Development Group Co., Ltd.	Sichuan Expressway	Regional SOE
48	Suzhou Communications Investment Group Co., Ltd.	Suzhou Communications	Regional SOE
49	Wenzhou Transportation Development Group Co., Ltd.	Wenzhou Transportation	Regional SOE
50	YUNNAN COMMUNICATIONS INVESTMENT & CONSTRUCTION GROUP CO., LTD.	YUNNAN COMMUNICATIONS	Regional SOE
51	China Merchants Expressway Network Technology Holdings Co., Ltd.	China Merchants Expressway	Central SOE
52	Zhejiang Expressway Co., Ltd.	Zhejiang Expressway	Regional SOE
53	ZHEJIANG COMMUNICATIONS INVESTMENT GROUP CO., LTD.	ZHEJIANG COMMUNICATIONS	Regional SOE

Note: The above enterprises are sorted by pinyin.

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