聯合評級國際
Lianhe Ratings Global

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Lianhe Global has assigned 'BB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Pujiang International Group Limited

HONG KONG, 28 June 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BB-' global scale Long-term Issuer Credit Rating to Pujiang International Group Limited (2060.HK) ("Pujiang" or "the company"). The Outlook is Stable.

The Issuer Rating reflects Pujiang's established track record and leading position in the bridge cables and pre-stressed materials markets, and its stable margins. However, the rating is constrained by Pujiang's limited operating scale and working capital intensive business model with a moderately weak liquidity profile.

The Stable Outlook reflects our expectation that Pujiang will continue to maintain its market position and revenue growth, especially with successfully bidding of key large projects, while remaining prudent on its expansion pace with demonstrated efforts to manage its working capital needs and improve its financial leverage.

Rating Rationales

Leading Bridge Cables and Major Pre-stressed Materials Manufacturer in China: Pujiang is a leading bridge cables and major pre-stressed steel materials manufacturer in China with 30 years of experience. It is the largest supplier of bridge cables for the construction of super-long-span bridges in China. The presence of high entry barriers due to the requirement of operating track record, technological know-hows and capital investments characterize the nature of the bridge cables industry with only a few key players dominating the market. The contribution from the bridge cables segment accounted for 38%, 49% and 53% of Pujiang's revenue and 58%, 66% and 68% of Pujiang's gross profit in 2018, 2019 and 2020, respectively. We expect the company to maintain its competition market position, despite its limited operating scale.

We expect Pujiang to have moderate growth opportunities and prospects in the next 12-18 months with a revenue growth of c. 20-25% per annum given the Chinese government's initiatives to boost infrastructure investments and the need to maintain and replace bridge cables. The company will tender for a few large bridge and building projects in 2021 and 2022, which, if successful, could boost the company's revenue scale in the next two years. We believe Pujiang stands a decent chance to win a few of those projects, given the track record, technology and specifications required.

However, Pujiang's business is subject to project delays, as shown during the COVID-19 pandemic in 2020. The delays in construction and hence revenue recognition schedule would affect the stability of the company's financial and operation performance, given the lesser buffer that the company has with a limited scale.

Working Capital Intensive Model and Capital Expenditure Spending Plan Weighs on Cash Flow: Pujiang has high working capital requirements as the company needs to prepay its key suppliers in its bridge cables and pre-stressed materials business, and to provide deposit guarantees for its projects. The deposit guarantees are normally recoverable within two years after project completion. At end-2019 and end-2020, prepayments amounted to RMB1.09 billion and RMB1.36 billion, and accounted for c. 29.3% and c. 29.6% of its total assets, respectively. Pujiang's key suppliers and customers are primarily large or state-owned companies, which present relatively lower counterparty risk. However, Pujiang will need to constantly finance its working capital in order to secure its operation which inherently puts pressure on its operating cash flow.

Pujiang plans to upgrade and expand its production facilities, and invests in building its research and development centres, in the next 2-3 years. We expect capex to be c. RMB150-210 million per annum. Its galvanized pre-stressed materials production capacity is expected to be doubled to 60,000 tons per annum by end-2022, which we believe could aid Pujiang's growth given the currently high demand for such product in China.

Increase in Financial Leverage to Peak in the Near-term; Moderately Weak Liquidity Profile with Reliance Mainly on Short-term Financings: Pujiang's financial leverage, as measured by its total debt/EBITDA, increased sharply from 3.8x at end-2019 to 5.3x at end-2020. The increase in total debt from RMB950 million at end-2019 to RMB1.6 billion (68% increase) at end-2020 was primarily due to the financing for the company's investment in Shanghai International Superconductor Technology Co. Ltd. and preparation of its proposed privatization of its NASDAQ-listed subsidiary Ossen Innovation Co., Ltd.. Pujiang also has 23.4% equity interest in Shanghai Push Medical Device Co., Limited, a medical equipment company. We do not expect these investments to bring in immediate EBITDA impact to the company's financial performance, although there could be opportunities to monetize such investments in 2-3 years.

We expect Pujiang to gradually reduce its financial leverage via containing its debt growth, while improving its EBITDA, in the next 12-18 months. With the fair growth prospect and the company's ability to maintain stable margins (gross margin of c. 25-27% and EBITDA margin of c. 14-16%, on a blended basis), we expect Pujiang's EBITDA to grow in tandem with its revenue growth, and its total debt/EBITDA ratio to gradually come down to 4.0-4.5x in the next 18-24 months.

Pujiang mainly relies on short-term borrowings, which accounted for c. 63% of the company's total debt at end-2020, to finance its operations. The company has established relationship with key banks and has demonstrated track record of rolling over its short-term borrowings. Pujiang's liquidity profile is moderately weak. At end-2020, the company had c. RMB1.1 billion of cash on hand (c. RMB891 million unrestricted) and unutilized credit lines of c. RMB0.6 billion to cover its short-term debt of c. RMB1 billion.

Rating Sensitivities

We would consider downgrading Pujiang's rating if it were to (1) increase to its financial leverage as measured by its EBITDA interest coverage consistently below 2.0x or debt over EBITDA leverage consistently above 5.5x, or (2) it suffers a significant deterioration in operating performance in terms of revenue, margin or cash flow generation, or its liquidity is worsened.

We would consider upgrading Pujiang's rating if it were to significantly improve its operating scale, while continue to demonstrate prudent financial management and maintain its financial leverage as measured by its EBITDA interest coverage consistently above 3.5x and debt over EBITDA leverage consistently below 3.5x, and improve its liquidity position.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this Pujiang's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer Credit Rating is solicited at the request of the rated entity or a related third party.

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