

Lianhe Global has affirmed ‘BB+’ global scale Long-term Issuer and Issuance Credit Ratings of China Hongqiao Group Limited; Issuer Rating Outlook remains Positive

HONG KONG, 27 April 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BB+’ global scale Long-term Issuer Credit Rating of China Hongqiao Group Limited (1378.HK) (“China Hongqiao”). The Outlook remains Positive.

Lianhe Global has also affirmed “BB+” global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by China Hongqiao at the same time. A full list of issuance ratings is included in this press release.

Key Rating Rationales

The Issuer Rating reflects China Hongqiao’s established leading market position, cost advantage backed by its vertically integrated production platform and economy of scale, as well as the solid financial performance supported by the prevailing high aluminum prices. However, China Hongqiao’s rating is constrained by the cyclical nature of the aluminum industry and its regulation and concentration risks.

The Positive Outlook reflects our expectation that China Hongqiao will maintain its operating performance and improve its operating efficiency, given its strong cash generation capability and its advanced cost advantage. Moreover, the production volume of migrated capacity in Yunnan Province is expected to ramp up smoothly without compromising China Hongqiao’s operating efficiency.

Rating Sensitivities

We would consider downgrading China Hongqiao’s rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage consistently below 4.0x or debt over EBITDA leverage consistently above 4.0x, or (2) it suffers a significant deterioration in operating performance in terms of revenue, margin or cash flow generation, or its liquidity is materially worsened.

We would consider upgrading China Hongqiao’s rating if (1) it maintains its operating performance, and (2) it migrates its production capacity to Yunnan province smoothly without compromising its operation efficiency, reducing its production and sales volume, and (3) it continues to demonstrate prudent financial management and maintain its financial leverage as measured by its EBITDA interest coverage and debt over EBITDA leverage consistently.

Any rating action on China Hongqiao’s rating would result in a similar rating action on the USD notes.

Full List of Issuance Ratings

- USD200 million 7.375% senior unsecured notes due 2023 affirmed at 'BB+'
- USD500 million 6.25% senior unsecured notes due 2024 affirmed at 'BB+'

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 China Hongqiao's rating is Lianhe Global's General Corporate Rating Criteria published on 31 December 2021 which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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