

Lianhe Global has assigned ‘BB’ global scale Long-term Issuer and Issuance Credit Rating to China Hongqiao Group Limited and its proposed USD notes; the Issuer Rating’s Outlook is Positive

HONG KONG, 15 July 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB’ global scale Long-term Issuer Credit Rating to China Hongqiao Group Limited (“China Hongqiao”). The Outlook is Positive.

At the same time, Lianhe Global has assigned ‘BB’ global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD notes (“the USD notes”) to be issued by China Hongqiao.

China Hongqiao intends to apply the net proceeds from this offering for refinancing certain existing indebtedness with the remainder for general corporate purposes.

Key Rating Rationales

The USD notes are rated at the same level as China Hongqiao’s global scale Long-term Issuer Credit Rating of ‘BB’ as they constitute China Hongqiao’s senior and unsecured obligations. China Hongqiao’s obligations for the USD notes shall at all times rank pari passu with all its other present and future unsubordinated and unsecured obligations.

The Issuer Rating reflects China Hongqiao’s leading market position, economy of scale, vertically integrated production platform, highly self-sufficient production, and high operating efficiency. However, China Hongqiao’s rating is constrained by its relatively flat revenue growth, capacity constraints, concentration of clients and moderately high financial leverage.

The Issuer Rating’s Positive Outlook reflects our expectation that China Hongqiao has competitive advantages in terms of investing in the (1) overseas alumina production which is likely to boost its revenue in 2022 or earlier and (2) emission reduction technologies ahead of the implementation of the stricter emission standards in 2021.

Leading Market Position: China Hongqiao is the largest aluminum smelter in the world with an annual production of 6.46 million tons. It has 8 aluminum production plants along with captive power plants in Shandong China and one alumina plant in Indonesia. China Hongqiao has signed long-term contracts with its upstream raw material suppliers and it has also established long-term business relationships with its downstream clients.

Vertically Integrated Production Platform: China Hongqiao has established a vertically integrated production platform comprising stable supply of bauxite, refinery plants (of bauxite), the world’s largest alumina smelters with captive power plants, as well as aluminum fabrication plants etc. The vertically integrated production platform enables China Hongqiao to keep costs under control to stay competitive.

Highly Self-sufficient: China Hongqiao is able to source over 80% of its raw material (i.e. bauxite) and electricity consumption via its vertically integrated production platform. This platform insulates China Hongqiao from market price gyrations of the two major cost components of aluminum production: raw material (i.e. bauxite) and electricity. This high degree of self-sufficiency enables China Hongqiao to keep costs under control to stay competitive.

High Operating Efficiency: China Hongqiao operates its plants on a 24-hours-a-day and 7-days-a-week schedule throughout the year. The company only shuts down parts of the modules for maintenance. Its utilization rate of 98.5% in 2018 was improved from 94.9% in 2017 and 96.5% in 2016 which we view favorably. We expect China Hongqiao to maintain a high operating efficiency in the next 2-3 years.

Sufficient Liquidity: China Hongqiao has sufficient liquidity as it had RMB42.1 billion cash on hand at end-1Q2019 to cover its remaining RMB 21.73 billion debt due in 2019. The company had RMB 10.54 billion restricted assets at end-2018, of which RMB 1.26 billion was restricted cash and the remaining RMB 9.28 billion were PP&E. The company had RMB 176.73 billion total assets at end-2018.

China Hongqiao had a credit line totalled RMB 58 billion, of which RMB 44.6 billion had been used at end-1Q2019. It also has a USD 500 million offshore bond issuance quota available.

Rating Sensitivities

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

We would consider downgrading China Hongqiao's rating if it were to increase to its financial leverage as measured by its EBITDA interest coverage consistently below 3x or debt over EBITDA leverage consistently above 5.5x, or it suffers a significant deterioration in EBITDA margin below 20% consistently.

We would consider upgrading China Hongqiao's rating if it were to successfully execute its alumina projects in Guinea and Indonesia which results in revenue growth consistently and maintain its current financial leverage as measured by its EBITDA interest coverage and debt over EBITDA leverage commensurate with the 'BB' rating category.

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 China Hongqiao'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/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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