

Rating Action: Moody's affirms Sinochem Hong Kong's A3 issuer rating and Baa1 subordinated debt rating; outlook stable

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Hong Kong, December 09, 2021 -- Moody's Investors Service has affirmed Sinochem Hong Kong (Group) Company Limited's (Sinochem HK) A3 issuer rating.

At the same time, Moody's has also affirmed the following ratings:

- (1) The provisional (P)A3 -- local currency rating of the backed senior unsecured medium-term note (MTN) program of Sinochem Offshore Capital Company Limited and guaranteed by Sinochem HK; and the A3 backed senior unsecured debt ratings on the notes issued under the MTN program;
- (2) The provisional (P)Baa1 local and foreign currency rating of the backed subordinate medium-term note (MTN) program of Sinochem Offshore Capital Company Limited and guaranteed by Sinochem HK; and the Baa1 backed subordinated debt rating on the perpetual bonds issued under the MTN program;
- (3) The A3 backed senior unsecured rating on the notes issued by Sinochem Overseas Capital Company Limited and guaranteed by Sinochem HK.

Moody's has also assigned a provisional (P)A3 -- foreign currency senior unsecured rating to the MTN program of Sinochem Offshore Capital Company Limited and guaranteed by Sinochem HK.

The outlook on these ratings remains stable.

"The affirmation of the ratings reflects Moody's expectation that the standalone financial profile of Sinochem HK will be largely stable and its credit profile will remain closely linked with that of its ultimate parent, Sinochem Holdings Corporation Ltd.," says Chenyi Lu, a Moody's Vice President and Senior Credit Officer, and also the Lead Analyst for Sinochem HK.

RATINGS RATIONALE

Sinochem HK's A3 issuer rating considers its standalone credit profile and a four-notch uplift reflecting Moody's expectation of a likelihood of support from the Government of China (A1 stable) through the company's ultimate parent, Sinochem Holdings Corporation Ltd., when needed.

On 16 September 2021, Sinochem Group and China National Chemical Corporation Limited (ChemChina, Baa2 stable) completed a share transfer to Sinochem Holdings, which is fully owned by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council of China. Consequently, Sinochem HK has become ultimately 100%-owned by and managed as an integral part of Sinochem Holdings.

The four-notch uplift reflects Sinochem HK's status as the overseas treasury center of Sinochem Holdings. Sinochem HK plays an important role in raising offshore funding for the group and holds Sinochem Holdings' equity interests in its listed real estate subsidiary, China Jinmao Holdings Group Limited (Baa3 stable). Moody's views that Sinochem HK's credit profile is closely linked with that of Sinochem Holdings, and that Sinochem HK will continue to receive strong support from its ultimate parent.

Sinochem Holdings has a strong capacity to provide support, reflecting its solid standalone credit profile and Moody's expectation of very high support from the Chinese government if needed. The company is one of the largest comprehensive chemical enterprises globally in terms of revenue and is the only central state-owned enterprise (SOE) in China's chemical industry, with operations spanning over 150 countries. It has a diversified business portfolio, including life science, material science, basic chemical industry, environmental science, rubber & tires, machinery equipment, urban operation, and industrial finance. Pro forma the 2020 annual results of Sinochem Group and ChemChina, Moody's estimates that Sinochem Holdings had total assets of around RMB1.5 trillion, revenue of about RMB1 trillion, and operating profits of about RMB40 billion.

Moody's expectation of very high support from the Chinese government to Sinochem Holdings takes into

consideration the company's 100% ownership by the central SASAC; its unique strategic positioning and policy functions in agriculture, chemical and energy industries among central SOEs; and the financial and policy support from the Chinese government.

Sinochem Holdings also has a solid standalone credit profile, reflecting its very large business scale, strong market positions and diversified business portfolio, and Moody's expectation of management focus to deleverage in the next 2-3 years. These strengths are offset partially by its still weak credit metrics due to Sinochem Holdings consolidating ChemChina's leveraged balance sheet.

Moody's expects Sinochem Holdings' leverage to improve in the next 2~3 years through earnings expansion, business integration and restructuring, the execution of subsidiaries' IPOs, and measured capital and acquisition spending.

Sinochem HK's standalone credit profile reflects the company's competitive position in its property businesses through China Jinmao, and the low counterparty risk of the intercompany loans from Sinochem HK to its parent. As of the end of 2020, Sinochem HK's net intercompany lending to its parent amounted to HKD11 billion, accounting for around 8% of its total reported debt.

At the same time, Sinochem HK's standalone credit profile is constrained by its moderate debt leverage, reflecting the financing needs of its property businesses and the offshore borrowings on behalf of its parent.

Moody's estimates that Sinochem HK's leverage, as measured by debt/EBITDA and after adjustments for the net lending to the company's parent, rose to 6.1x in 2020 from 5.2x in 2019, driven by higher debt from the property segment. Moody's forecasts the company's leverage will decline to 5.0x-5.5x over the next 12-18 months, supported by likely faster revenue recognition and moderating land acquisitions from China Jinmao. Such leverage level will be consistent with Sinochem HK's standalone credit profile.

Sinochem HK's issuer rating also considers the following environmental, social and governance (ESG) risks.

Sinochem HK's property businesses have limited exposure to environmental and social risks. In terms of governance considerations, Sinochem HK's ownership is concentrated in its ultimate parent company Sinochem Holdings, which fully owned the company as of the end of November 2021. However, this risk is mitigated by the close supervision by the central SASAC through its parent parent, Sinochem Holdings. In addition, Sinochem HK has adequate information disclosure as an active bond issuer, and its key listed subsidiary, China Jinmao, also enhances its information transparency at the subsidiary level.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The stable outlook reflects Moody's expectation that Sinochem HK's importance to Sinochem Holdings will remain intact and that its debt leverage will remain stable over the next 12-18 months.

Moody's could upgrade Sinochem HK's rating if Sinochem HK and Sinochem Holdings improve their financial profiles on a sustained basis while managing growth prudently, without any material change in Moody's assessment of support from Sinochem Holdings to Sinochem HK.

Credit metrics indicative of an upgrade of Sinochem HK's rating include adjusted debt/EBITDA dropping below 5.5-6.0x for Sinochem Holdings and below 4.0x for Sinochem HK, both on a sustained basis.

Moody's could downgrade Sinochem HK's rating if Sinochem Holdings' and Sinochem HK's business or financial profile materially deteriorate, without any material changes in Moody's assessment of support from Sinochem Holdings to Sinochem HK.

Credit metrics indicative of a downgrade of Sinochem HK's rating include adjusted debt/EBITDA rising above 7.5-8.0x for Sinochem Holdings and above 6.0x for Sinochem HK, both on a sustained basis, without any prospect of deleveraging.

In addition, Sinochem HK's rating could be downgraded if Moody's expects a weakening in parental support, including a material decline in the government's ownership in Sinochem Holdings or the group's ownership in Sinochem HK, or a reduction in the strategic importance of Sinochem HK to Sinochem Holdings.

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in January 2018 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1108031. Alternatively, please see the Rating Methodologies page on www.moody.com for a

copy of this methodology.

Sinochem Hong Kong (Group) Company Limited (Sinochem HK) is the overseas treasury center and investment vehicle of Sinochem Holdings, a state-owned enterprise (SOE) wholly owned by the Chinese government. It is responsible for financing in overseas markets for its parent's businesses and holds investment assets on behalf of the parent group.

As of the end of November 2021, Sinochem HK was ultimately 100% owned by Sinochem Holdings Corporation Ltd. According to its audited financial statements, Sinochem HK reported total revenue of HKD67.8 billion and total assets of HKD498.5 billion in 2020.

The local market analyst for these ratings is Jin Wu, +86 (212) 057-4021.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

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