

20 OCT 2021

Fitch Affirms Sinochem HK at 'A'; Outlook Stable

Fitch Ratings - Hong Kong/Beijing - 20 Oct 2021: Fitch Ratings has affirmed Sinochem Hong Kong (Group) Company Limited's (Sinochem HK) Long-Term Issuer Default Rating and senior unsecured rating at 'A'. The Outlook is Stable. Fitch has also affirmed the ratings on Sinochem HK's debt instruments. A full list of rating actions is at the end of this commentary.

Sinochem HK's ratings are derived from Fitch's internal assessment of the creditworthiness of its direct parent, Sinochem Corporation (Sinochem Corp), under our Parent and Subsidiary Linkage (PSL) Rating Criteria due to their strong operational and strategic linkages.

Sinochem Corp's creditworthiness is derived from Fitch's internal assessment of its parent, Sinochem Holdings Corporation Ltd. (Sinochem Holdings), under Fitch's PSL criteria in light of their strong operational and strategic linkages. Sinochem Corp, which is indirectly wholly owned by Sinochem Holdings via Sinochem Group, accounted for 40%-50% of Sinochem Holdings' revenue and assets.

Sinochem Holdings, which is wholly owned by China's State-owned Assets Supervision and Administration Commission of the State Council, is assessed on a top-down approach from the Chinese sovereign (A+/Stable) under Fitch's Government-Related Entities (GRE) Rating Criteria.

The Stable Outlook reflects Fitch's expectation that linkages between Sinochem Holdings, Sinochem Corp and Sinochem HK will remain strong.

Key Rating Drivers

'Strong' State Control and Support: Sinochem Holdings was formed through the state-orchestrated merger of Sinochem Group and China National Chemical Corporation Limited (ChemChina, A-/Rating Watch Positive). Fitch assesses Sinochem Holdings' status, ownership and control by the Chinese state as 'Strong' because the government fully owns the company, effectively controls the board and key senior management, and has a strong influence over its major strategies and investment decisions.

We assess Sinochem Holdings' support record as 'Strong'. Sinochem Holdings and its predecessors consistently received government policy and financial support. Fitch expects Sinochem Holdings to continue receiving support from the state due to its strategic importance to China's agricultural industry and food security as well as the development of the chemical industry.

'Very Strong' Socio-Political Impact: Fitch assesses the socio-political implications of a default by Sinochem Holdings as 'Very Strong'. Sinochem Holdings plays a pivotal role in China's supply of chemicals for the agricultural industry, and is responsible for the R&D of the country's seed and fertiliser sector, as well as enhancing the stability of seed and food supplies and the prosperity of

China's rural regions. A Sinochem Holdings default would disrupt the government's agriculture modernisation plan and damage China's agriculture and food security.

'Strong' Financial Implications of Default: Fitch assesses the financial implications of a Sinochem Holdings default as 'Strong'. Financial distress at Sinochem Holdings would adversely affect funding for other state-owned enterprises in China because the company and its subsidiaries are active domestic and offshore bond issuers.

Strategic Importance to Agricultural Sector: Sinochem Holdings is the largest supplier and distributor of seeds, crop-protection and crop-nutrition products in China. It is China's main channel for importing potash fertilisers. The company is mandated to maintain China's national strategic reserve of seeds and potash fertilisers. Sinochem Holdings has established the largest distribution network of seeds, crop-protection and crop-nutrition products across China, covering more than 98% of counties and townships in the country's rural areas.

Parental Linkages Drive Ratings: Sinochem HK is highly integral to Sinochem Holdings' financing and international strategy. Fitch assesses Sinochem HK's legal ties with Sinochem Corp as moderate as the parent provided credit enhancement to Sinochem HK's medium-term note programme through letters of support.

Sinochem HK's operational and strategic linkages with Sinochem Corp are assessed as strong because Sinochem HK's key management overlaps with that of Sinochem Corp and Sinochem Holdings. Sinochem HK is positioned as the parents' sole financing platform and a key overseas asset holding company. Sinochem HK's debt issued under its medium-term note programme is mostly used to support Sinochem Holdings and its subsidiaries' operations. In addition, Sinochem HK can potentially access the parent's treasury for liquidity needs.

Derivation Summary

Sinochem HK's ratings are the same as that of COFCO (Hong Kong) Limited (A/Stable), which is owned by COFCO Corporation, as both companies act as the sole financing platform of their parents.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue growth of 13%-35% during 2021-2024
- EBITDA margin of 10%-17% during 2021-2024
- No M&A or further divestment of Sinochem HK's stake in China Jinmao Holdings Group Limited (Jinmao, BBB-/Stable)

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action on the Chinese sovereign
- Increased likelihood of state support to Sinochem Holdings

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Negative rating action on the Chinese sovereign
- Decreased likelihood of state support to Sinochem Holdings
- Weakening linkages between Sinochem Holdings and Sinochem Corp, and/or Sinochem Corp and Sinochem HK

In addition, we published an Exposure Draft (ED) for the PSL criteria in October 2021. We expect no rating change if the PSL ED is converted to the final criteria using the methodology drafted.

For the sovereign rating of China, the following sensitivities were outlined by Fitch in a rating action commentary on 28 June 2021:

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Structural features: A further rise in macro-financial risks, for example through failure to maintain credit growth close to or below nominal GDP growth over the next few years.
- Public finances: A sustained upward trend in government debt/GDP, or a crystallisation of contingent liabilities that leads to a sharp rise in government debt relative to 'A' peers.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Structural features: A material reduction in macro-financial risks and associated contingent liabilities facing the sovereign, for example, by maintaining credit growth below nominal GDP growth over a multi-year period, which would cause the removal of the -1 qualitative overlay notch on structural features.
- External finances: Evidence of widespread adoption of the Chinese yuan as a global reserve currency, as reflected in a substantial increase in the share of yuan-denominated claims in the IMF's currency composition of official foreign-exchange reserves (COFER) database.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case

scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Adequate Liquidity: Sinochem HK had about HKD49 billion in readily available cash as of end-2020, which can fully cover its short-term debt of HKD39 billion. In addition, Sinochem HK has access to its parent's treasury and ample bank facilities to support its funding needs.

Issuer Profile

Sinochem HK is indirectly wholly owned by Sinochem Holdings, which has positioned the subsidiary as its sole offshore financing platform and an important overseas asset holding company. Sinochem HK controls all of Sinochem Holdings' property-development businesses through its 35% stake in Jinmao.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

Sinochem HK is rated under Fitch's PSL criteria given its linkages with Sinochem Corp. Its rating is derived from Fitch's internal assessment of the creditworthiness of parents Sinochem Corp and Sinochem Holdings, which are assessed internally in accordance with the agency's PSL and GRE rating criteria, respectively.

Fitch Ratings Analysts

Charles Zhang

Director

Primary Rating Analyst

+852 2263 9994

Fitch (Hong Kong) Limited 19/F Man Yee Building 60-68 Des Voeux Road Central Hong Kong

Louise Liu, CFA

Associate Director

Secondary Rating Analyst

+86 10 5957 0989

Laura Zhai

Senior Director

Committee Chairperson

+852 2263 9974

Media Contacts

Alanis Ko



Hong Kong

+852 2263 9953
alanis.ko@thefitchgroup.com

Wai Lun Wan

Hong Kong
+852 2263 9935
wailun.wan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR	
Sinochem Hong Kong (Group) Company Limited	LT IDR	A 	Affirmed	A 	
		• senior unsecured ^{LT}	A	Affirmed	A
Sinochem Overseas Capital Company Limited					
		• senior unsecured ^{LT}	A	Affirmed	A
Sinochem Offshore Capital Company Limited					

ENTITY/DEBT	RATING	RECOVERY	PRIOR
• senior unsecured ^{LT}	A	Affirmed	A
• subordinated	BBB+	Affirmed	BBB+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria \(pub.12 Nov 2020\)](#)

[Corporate Rating Criteria \(pub.15 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.26 Aug 2020\)](#)

[Sector Navigators - Addendum to the Corporate Rating Criteria \(pub.15 Oct 2021\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Sinochem Hong Kong (Group) Company Limited	EU Endorsed, UK Endorsed
Sinochem Offshore Capital Company Limited	EU Endorsed, UK Endorsed
Sinochem Overseas Capital Company Limited	EU Endorsed, UK Endorsed

Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S) FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and

practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days

earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.