



## RATING ACTION COMMENTARY

# Fitch Affirms Sinochem HK at 'A'; Outlook Stable

Tue 30 Aug, 2022 - 11:18 PM ET

Fitch Ratings - Hong Kong/Beijing - 30 Aug 2022: 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.

Fitch rates Sinochem HK on a top-down basis under our Parent and Subsidiary Linkage (PSL) Rating Criteria. This reflects our assessment of the 'Low' legal, 'High' strategic and 'High' operational incentives for the ultimate parent, Sinochem Holdings Corporation Ltd. (Sinochem Holdings), to provide support through Sinochem HK's intermediate parents, Sinochem Group Co., Ltd. (Sinochem Group) and Sinochem Corporation (Sinochem Corp).

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

The Stable Outlook reflects our expectation that linkages between Sinochem Holdings and Sinochem HK, via Sinochem Group and Sinochem Corp, will remain intact.

## KEY RATING DRIVERS

**State Control, Support of Parent:** We assesses Sinochem Holdings' status, ownership and control by the Chinese state as 'Strong', as the government fully owns and controls the

company. We assess Sinochem Holdings' support record as 'Strong'. The company and its predecessors have consistently received government policy and financial support. We expect Sinochem Holdings to continue receiving state support, given its strategic importance to China's agricultural industry and food security as well as the development of the chemical industry.

**Parent Crucial for Agriculture:** We assess the socio-political implications of a default by Sinochem Holdings as 'Very Strong', as the company is pivotal in China's supply of chemicals for agriculture and food security. We assess the financial implications of a default as 'Strong'. Financial distress at Sinochem Holdings would limit funding for other state-owned enterprises, as the company and its subsidiaries are active domestic and offshore bond issuers.

**Parental Linkages Underpin Rating:** Sinochem HK's ratings are derived from our internal assessment of the creditworthiness of Sinochem Holdings under our PSL criteria where Sinochem Holdings is the stronger parent. Sinochem HK is 100% indirectly owned by Sinochem Holdings via Sinochem Group and Sinochem Corp, which are wholly owned subsidiaries of Sinochem Holdings. We deem Sinochem Group and Sinochem Corp intermediate entities and expect support to Sinochem HK to flow directly from the ultimate parent, Sinochem Holdings.

**'High' Operational Support Incentive:** Sinochem Holdings is the ultimate controlling shareholder of Sinochem HK. Sinochem Holdings and its relevant offices oversee, monitor and approve Sinochem HK's key operational, investment and financial decisions. Sinochem HK's key management overlaps with that of Sinochem Corp, Sinochem Group and Sinochem Holdings.

Sinochem HK is highly integral to Sinochem Holdings' financing strategy and treasury management. Sinochem HK is positioned as the parents' sole offshore financing platform and overseas treasury centre. Sinochem HK's debt issued under its medium-term note programme is primarily used to support Sinochem Holdings and its subsidiaries' operations.

**'High' Strategic Support Incentive:** Sinochem HK makes substantial financial contributions to Sinochem Holdings, accounting for around 30% of the parent's total assets. In addition to its financing role, Sinochem HK is a key overseas asset holding company of Sinochem Holdings. Sinochem HK controls the property business of Sinochem Holdings via its 35% shareholding in China Jinmao Holdings Group Limited (BBB-/Stable), which is Sinochem Holdings' core city operation platform.

**'Low' Legal Incentive:** We assess the legal incentive to support Sinochem HK as 'Low' because of the absence of legal ties between Sinochem HK and Sinochem Holdings in the form of guarantees and cross-defaults. On the other hand, Sinochem Holdings will be providing credit enhancement to Sinochem HK's medium-term note programme through letters of support in 2022. The letters were previously provided by Sinochem Group.

## **DERIVATION SUMMARY**

Sinochem HK's PSL assessment is similar to that of COFCO (Hong Kong) Limited (A/Stable), which is owned by COFCO Corporation, as both companies act as their parents' primary financing platforms.

## **KEY ASSUMPTIONS**

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

- Revenue growth of -0.3% to 9.4% during 2022-2025
- EBITDA margin of 11.2%-13.8% during 2022-2025
- No M&A or further divestment of Sinochem HK's stake in Jinmao

## **RATING SENSITIVITIES**

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

- Positive rating action on the Chinese sovereign and/or increased likelihood of state support to Sinochem Holdings, provided the linkages between Sinochem HK and Sinochem Holdings remain intact.

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

- Negative rating action on the Chinese sovereign and/or decreased likelihood of state support to Sinochem Holdings, provided the linkages between Sinochem HK and Sinochem Holdings remain intact.
- Weakening linkages between Sinochem HK and Sinochem Holdings.

For the sovereign rating of China, the following sensitivities were outlined by Fitch in our rating action commentary of 2 June 2022:

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

- Structural Features: A continued rise in macro-financial risks, for example through failure to maintain credit growth at a level close to nominal GDP growth over the next few years.
- Public Finances: A sharp upward trend in government debt/GDP or a crystallisation of contingent liabilities that leads to a significant rise in government debt relative to 'A' peers.
- External Finances: Sustained capital outflows sufficient to erode China's external balance-sheet strengths relative to 'A' peers, which would cause the removal of the +1 Qualitative Overlay (QO) notch on External Finances.

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 QO notch on Structural Features.
- External Finances: Widespread adoption of the Chinese yuan as a 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 short-term debt of around HKD42 billion at end-2021, which can be covered by its readily available cash of HKD38 billion and around USD6

billion of unused credit facilities. 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. Sinochem HK is positioned as Sinochem Holdings' sole offshore financing platform and a primary 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 Holdings via Sinochem Group and Sinochem Corp. Its rating is derived from Fitch's internal assessment of the creditworthiness of its ultimate parent, Sinochem Holdings, which is assessed internally in accordance with the agency's GRE rating criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

ENTITY / DEBT ⇅	RATING ⇅		PRIOR ⇅
Sinochem Hong Kong (Group) Company Limited	LT IDR	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		

senior unsecured	LT	A	Affirmed	A
Sinochem Overseas Capital Company Limited				
senior unsecured	LT	A	Affirmed	A
Sinochem Offshore Capital Company Limited				
senior unsecured	LT	A	Affirmed	A
subordinated	LT	BBB+	Affirmed	BBB+

[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

[Government-Related Entities Rating Criteria \(pub. 30 Sep 2020\)](#)

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

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

[Corporate Rating Criteria \(pub. 16 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 01 Dec 2021\)](#)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub. 16 Jul 2022\)](#)

## APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 ([1](#))

## ADDITIONAL DISCLOSURES

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## 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

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