S&P Global Ratings

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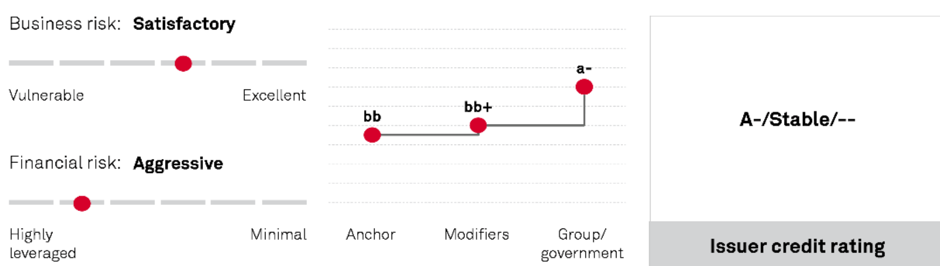
Sinochem Hong Kong (Group) Co. Ltd.

November 21, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Integral to Sinochem Holdings Corp. Ltd. as a direct extension of the group. Benefits from parent support for refinancing.	Profitability and turnover pressure on Sinochem Hong Kong's property development business from China's property downturn.
Sinochem Holdings has a very high likelihood of receiving extraordinary support from Chinese government, if needed.	Sinochem Holdings still has very high leverage after taking over hefty debt from China National Chemical Corp. Ltd. (ChemChina) in 2021.
Sinochem Holdings has global leading market positions in agriculture, animal nutrition, and silicone material businesses.	Earnings of Sinochem Holdings fluctuate with energy and chemical product prices.

Sinochem Hong Kong (Group) Co. Ltd. will benefit from support from Sinochem Holdings and indirectly from the Chinese government, in our view. The company's creditworthiness is driven by that of its parent. The company is a direct extension of Sinochem Holdings. It is fully integrated with the group strategically, operationally, and financially.

Sinochem Hong Kong is the key offshore investment and financing platform of Sinochem Holdings. The company is distinct from the other financing and investment subsidiaries of Sinochem Holdings, in that it directly acts on behalf of the parent for high-level, strategic initiatives.

Sinochem Holdings has a very high likelihood of receiving government support in case of financial stress. This is because the group plays a very important role in promoting the modernization of China's agricultural industry. It also operates the national strategic reserves of important materials such as oil and natural rubber. As the only chemical state-owned enterprise (SOE) under the central State-owned Assets Supervision and Administration Commission (SASAC), Sinochem Holdings also takes an active part in setting industry benchmarks and regulations for the domestic market.

Financial leverage for Sinochem Holdings will improve in 2022 and edge up slightly in 2023. In our view, the group's debt-to-EBITDA ratio will be 6.5x-7.5x in 2022-2023, down from 8.0x in 2021. 2021 was the year it took over hefty debts from ChemChina.

The group's EBITDA interest coverage ratio should also improve to 3.5x-4.2x over the period from 3.3x. The good financial performances of its specialty chemical and agrochemical businesses will drive this improvement. We forecast group debt will be largely stable as management is committed to achieving its deleverage plan by 2025. It will not engage in any large debt-funded acquisitions.

Leverage for Sinochem Hong Kong will stay high over the next two years. The company's key subsidiary, China Jinmao Holdings Group Ltd. (Jinmao), is the main driver of its financial leverage. Sinochem Hong Kong's debt-to-EBITDA ratio will likely remain high at 9.5x-10.5x in 2022-2023 versus 9.0x in 2021.

Jinmao's contracted sales declined by 37% in the first nine months of 2022. This was amid a difficult real estate market in China. The company's property development margin also declined. Its weak contracted sales will affect future revenue recognition and leverage.

Jinmao will likely control debt by scaling down land acquisitions. In our estimation, land acquisitions will form about 40% of the company's attributable contracted sales over the next two years, down from 70-80% in 2018-2019.

Outlook

The stable outlook reflects our view that Sinochem Hong Kong will be a core subsidiary of Sinochem Holdings. We expect Sinochem Holdings to remain a leading chemical company globally, with geographical and product diversity.

Sinochem Holdings' debt-to-EBITDA ratio will likely remain high at above 6.5x over the next 24 months. We assess Sinochem Holdings as having a very high likelihood of receiving extraordinary government support in case of financial stress.

Downside scenario

We may lower our ratings on Sinochem Hong Kong if:

- The EBITDA interest coverage ratio of Sinochem Holdings falls below 2.0x on a sustained basis due to a prolonged industry downturn or large capital spending or debt-funded acquisitions; or
- Material asset disposals, divestments, or restructuring weaken the status of Sinochem Hong Kong within the Sinochem Holdings group.

Upside scenario

We may raise our ratings on Sinochem Hong Kong if:

- Sinochem Holdings substantially reduces its debt from stronger operating cash flow, equity injections, or asset disposals, such that its debt-to-EBITDA ratio falls below 4.0x on a sustained basis; or
- The importance of Sinochem Holdings to the Chinese government strengthens, including having a larger revenue share and a rising market share in China's agricultural sector, such that we view the likelihood of the company receiving extraordinary government support has increased.

Our Base-Case Scenario

Assumptions

- Sinochem Holdings to remain the key driver of Sinochem Hong Kong's credit profile. The financial risks of Sinochem Hong Kong are reflected in the consolidated financial ratios of Sinochem Holdings because the subsidiary is integral to the group.
- Brent crude oil prices to average US$100 per barrel for the rest of this year, US$85 per barrel in 2023, and US$55 per barrel in 2024.
- Chemical prices and spreads to soften in 2023-2024 in tandem with lower oil prices.

Key metrics

Sinochem Hong Kong (Group) Corp. Ltd. & Sinochem Holdings Corp. Ltd.--Key Metrics*

Sinochem Hong Kong (Group) Corp. Ltd.--Key Metrics*

Mil. HK$	2020a	2021a	2022e	2023f	2024f
Revenue growth (%)	36.6	60.6	(2.5) – (3.0)	(10.5) – (11.5)	(2.5) – (3.0)
EBITDA margin (%)	24.0	20.5	19.0-19.5	21.0-22.0	21.0-22.0
Capital expenditure	1,341	1,287	2,475	2,533	2,734
Debt to EBITDA (x)	8.5	9.0	9.5-10.0	10.0-10.5	10.0-10.5
FFO to debt (%)	(0.6)	4.2	4.0-4.5	4.0-4.5	4.0-4.5
EBITDA interest coverage (x)	1.6	2.4	2.0-2.5	2.0-2.5	2.0-2.5
FFO interest coverage (x)	0.9	2.0	1.5-2.0	1.5-2.0	1.5-2.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. HK$--Hong Kong dollars.

Sinochem Holdings Corp. Ltd.—Key Metrics*

Mil. RMB	2020a	2021a	2022e	2023f	2024f
Revenue growth (%)	(15.3)	29.8	11.0-11.5	(4.5) - (5.5)	(5.0) – (5.5)
EBITDA margin (%)	8.7	8.8	9.5-10.0	9.0-9.5	9.5-10.0
Capital expenditure	35,645	42,970	45,000	45,000	45,000
Debt to EBITDA (x)	10.2	8.0	6.5-7.0	7.0-7.5	7.0-7.5
FFO to debt (%)	4.0	8.4	9.0-9.5	8.0-8.5	8.0-8.5
EBITDA interest coverage (x)	2.2	3.3	3.8-4.2	3.5-4.0	3.5-4.0
FFO interest coverage (x)	1.9	3.0	3.2-3.6	3.0-3.5	3.0-3.5

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. RMB--Chinese renminbi.

Revenue for Sinochem Holdings will likely improve by 11.0%-11.5% in 2022, before dropping by 4.5%-5.5% in 2023-2024 (from a 29.8% increase in 2021). Higher product prices in its agriculture and energy businesses due to high raw material costs will drive the

2022 improvement. Higher sales volumes in agriculture and specialty chemicals will also contribute to the increase. However, as crude oil and chemical product prices normalize from 2023 onward, sales could decline in 2023-2024.

Sinochem Holdings will spend about Chinese renminbi (RMB) 45 billion a year in 2022-2024, from RMB43 billion in 2021. The parent company will likely maintain investments to expand capacity and product diversification for its agrochemical, fine-chemical, and commodity-chemical businesses. It is unlikely to pursue large M&As over the next two years.

EBITDA margins for Sinochem Hong Kong could decline in 2022, before stabilizing in 2023-2024. Gross margins for land development and secondary property development will likely drop in 2022. This is due to falling demand for land and properties. As a state-owned and state-backed developer, Jinmao maintains access to funding channels for construction. This will allow the company to deliver projects on schedule.

Company Description

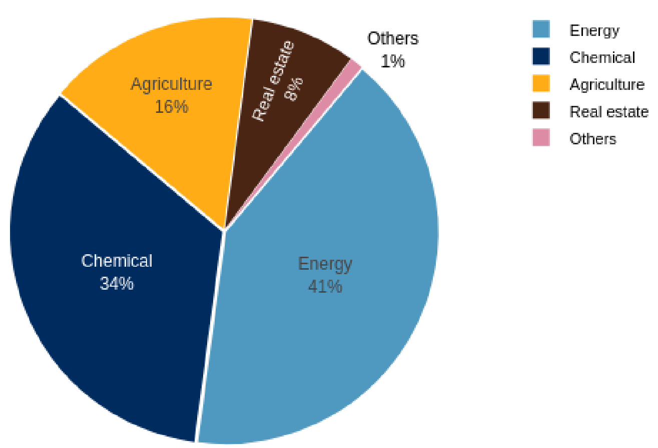
Sinochem Hong Kong is wholly owned by Sinochem Holdings. The company is the group's key offshore platform for investments and offshore funding. It owns 35.2% of Jinmao, a Hong Kong listed company. Jinmao operates the group's property segment.

Sinochem Hong Kong reported revenue of HK$108.9 billion in 2021, the bulk from Jinmao.

Sinochem Holdings is the only Chinese SOE that the central SASAC wholly owns. The group was established in May 2021 through a combination of Sinochem Group Co. Ltd. and ChemChina.

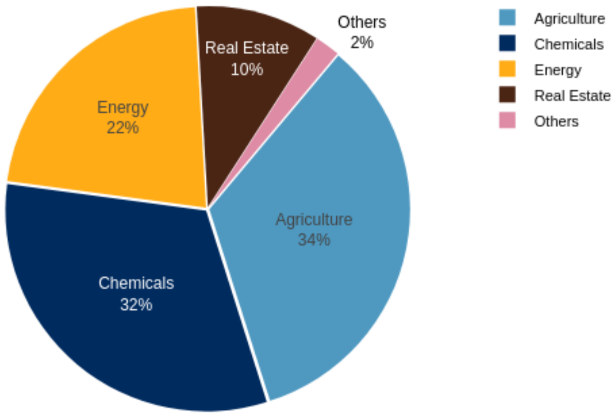
Sinochem Holdings has businesses in chemicals, agriculture, tires, real estate, financial services, and others. In 2021, the group generated RMB1.1 trillion of revenue and an adjusted EBITDA of RMB97.6 billion.

Sinochem Holdings' Segmental Revenue Distribution In 2021



S&P Global Ratings.

Sinochem Holdings Segmental Gross Profit Distribution In 2021



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Peer Comparison

Sinochem Holdings has no direct peers. This is given the group's diversified businesses. Therefore, we have chosen peers with chemical businesses such as Bayer AG and BASF SE. We have also chosen Longfor Group Holdings Ltd. and Poly Development Holding Group Co. Ltd. as peers for Sinochem Hong Kong's real-estate business.

Bayer AG is a Germany-headquartered company with a global presence in crop science, pharmaceuticals, and consumer-health products. In 2021, pharmaceuticals accounted for about 50% of the company's EBITDA, agricultural products 40%, and consumer-health products, 10%.

BASF is also headquartered in Germany. The company is one of the world's largest diversified chemical groups. It has businesses in chemicals, materials, coatings, industrial solutions, surface technologies, nutrition and care, and agricultural products.

A very high likelihood of extraordinary government support in case of financial stress underpins the creditworthiness of Sinochem Holdings. Bayer AG and BASF are not government-related entities. Hence, they do not benefit from such an uplift.

On a stand-alone basis, Sinochem Holdings has substantially higher financial leverage than Bayer and BASF. We anticipate a debt-to-EBITDA ratio of above 3.2x-3.4x for Bayer in 2022. The ratio of adjusted funds from operations (FFO) to debt for BASF could be over 40% in 2022.

Sinochem Holdings has lower EBITDA margins than its peers because of its slim-margin energy-trading business. BASF and Bayer have more diversified chemical products. Their sales are also more geographically dispersed.

Sinochem Hong Kong, through Jinmao, has a national presence in China's property market, like Longfor and Poly. However, Sinochem Hong Kong has a smaller operating scale with total contracted sales of about HK$108.9 billion in 2021. The company is also less geographically diverse than Poly and Longfor, with a presence in 53 cities across mainland China.

Jinmao had a land bank of 77.4 million square meters at the end of June 2022. This is likely sufficient for more than five years of development and is competitive versus peers.

Longfor and Poly have lower financial leverage than Sinochem Hong Kong. They have debt-to-EBITDA ratios of 3.5x-4.5x, compared with Sinochem Hong Kong's 9.0x in 2021.

Sinochem Hong Kong (Group) Co. Ltd.--Peer Comparisons

	Sinochem Hong Kong (Group) Co. Ltd.	Bayer AG	BASF SE	Longfor Group Holdings Ltd.	Poly Development Holding Group Co. Ltd.
Foreign currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A/Negative/A-1	BBB-/Negative/--	BBB/Stable/--
Local currency issuer credit rating	A-/Stable/--	BBB/Stable/A-2	A/Negative/A-1	BBB-/Negative/--	BBB/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	HK$	HK$	HK$	HK$	HK$
Revenue	108,883	390,923	697,030	274,190	349,732
EBITDA	22,279	84,896	101,072	61,129	91,982
Funds from operations (FFO)	8,366	55,221	82,857	30,689	48,916
Interest	9,270	11,662	5,019	10,714	23,395
Cash interest paid	8,483	10,528	3,077	10,926	23,774
Operating cash flow (OCF)	(1,255)	36,057	63,994	26,871	(8,169)
Capital expenditure	1,287	22,889	31,066	18,580	333
Free operating cash flow (FOCF)	(2,541)	13,168	32,928	8,291	(8,502)
Discretionary cash flow (DCF)	(15,069)	(5,126)	3,556	(8,055)	(29,143)
Cash and short-term investments	38,399	35,154	25,115	108,240	209,144
Gross available cash	38,399	62,264	25,115	108,240	209,144
Debt	199,709	312,004	182,888	230,792	413,924
Equity	132,738	314,319	373,196	272,352	348,894
EBITDA margin (%)	20.5	21.7	14.5	22.3	26.3
Return on capital (%)	8.9	9.2	13.4	13.7	13.6
EBITDA interest coverage (x)	2.4	7.3	20.1	5.7	3.9
FFO cash interest coverage (x)	2.0	6.2	27.9	3.8	3.1
Debt/EBITDA (x)	9.0	3.7	1.8	3.8	4.5
FFO/debt (%)	4.2	17.7	45.3	13.3	11.8
OCF/debt (%)	(0.6)	11.6	35.0	11.6	(2.0)
FOCF/debt (%)	(1.3)	4.2	18.0	3.6	(2.1)
DCF/debt (%)	(7.5)	(1.6)	1.9	(3.5)	(7.0)

Business Risk

Sinochem Hong Kong's real estate business drives its business risks. After deconsolidating Sinochem Hong Kong's fertilizer business in 2021, the company's real estate segment (Jinmao) accounts for almost all its revenue and EBITDA.

Jinmao's business strengths stem from its more diversified and balanced business mix than other pure developers. The company's city operation projects help to keep its average land cost low. As of June 30, 2022, Jinmao had 34 such projects, up from four projects in 2017. City operation projects allow the company to obtain land in a highly cost effective way. This is given that it can engage with local governments from the early stages of city planning and infrastructure development.

Jinmao’s contracted sales could decline to RMB140 billion-RMB150 billion in 2022, from RMB235.6 billion in 2021. But contracted sales could potentially recover to 6%-8% in 2023 and 0%-2% in 2024. These compare with the high double digits per year from 2018 to 2021.

The downtrend in 2022 will mainly reflect weak homebuyer sentiment across China amid the industry downturn. Jinmao ranked 15th domestically by sales in 2020-2021, up from 18th in 2019. The company holds about 80% of its land resources in Tier 1 or Tier 2 cities, where demand is more stable than lower-tier cities.

Sinochem Hong Kong's EBITDA margin could drop in 2022 and stabilize in 2023-2024. This is because the company will recognize some high-cost projects. City operations will also contribute more notably to sales and margins. Gross margins for land development and secondary property development could drop due to declining demand for land and properties.

Jinmao has added more large-scale, low-cost projects to its portfolio. This is thanks to the company's links to and support from Sinochem Holdings. We incorporate a one-notch upward adjustment in Sinochem Hong Kong's stand-alone credit profile to reflect this strength.

Parent Sinochem Holdings is a global chemical player with leading market positions in agriculture and other products. The group will likely maintain a leading position in crop-protection products, commercial seeds, animal nutrition, and silicone materials in the coming years. This is considering its strong research and development capabilities, investments in sustaining new product pipelines, and barriers to entry to these high value-added markets.

Sinochem Holdings ranks first in the global crop-protection market, third in seeds, and second in liquid methionine used in animal feed. The group also has a prominent position in the domestic chemical market with wide product offerings. Products include fine chemicals, petrochemicals, fertilizers, coal chemicals, and fluorine chemicals.

Sinochem Holdings' diversified businesses mitigate risks by smoothening earnings fluctuations across industries. The company is one of the largest among global chemical peers. Its revenue will likely reach RMB1.1 trillion-RMB1.3 trillion in 2022-2024 while EBITDA could hit RMB105.0 billion-RMB120.0 billion.

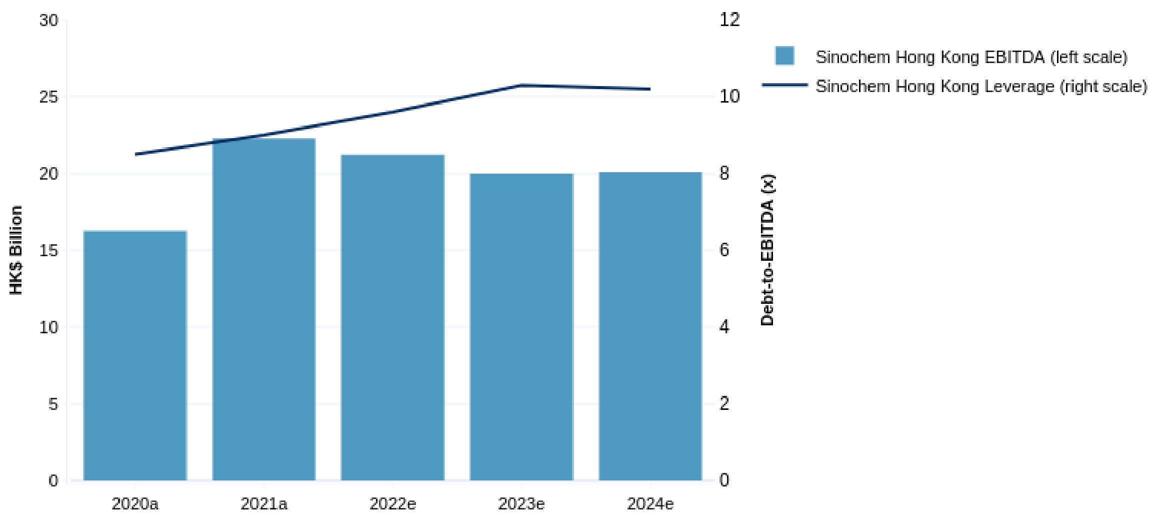
About one-third of the gross profit of Sinochem Holdings could come from nonchemical businesses over the coming three years. These businesses include property development and auto supplies. In the longer run, life science and material science could be the group's most strategic segments, with increased profit contributions.

Financial Risk

Sinochem Hong Kong's key subsidiary, Jinmao, is the major driver of its high financial leverage. We expect Jinmao’s leverage to be largely stable over the next three years. Leverage, however, should remain high due to historical aggressive land investments, slow revenue recognition, and margin erosion.

Jinmao should be able to contain its debt, given limited land spending. This is because the company has a land bank sufficient to support development over the next four to five years. We assume total land purchases will amount to 40%-50% of its total contracted sales per annum, down from 70%-80% in 2018-2019.

Sinochem Hong Kong's Leverage Will Remain High Due To Weak Contracted Sales Of Jinmao



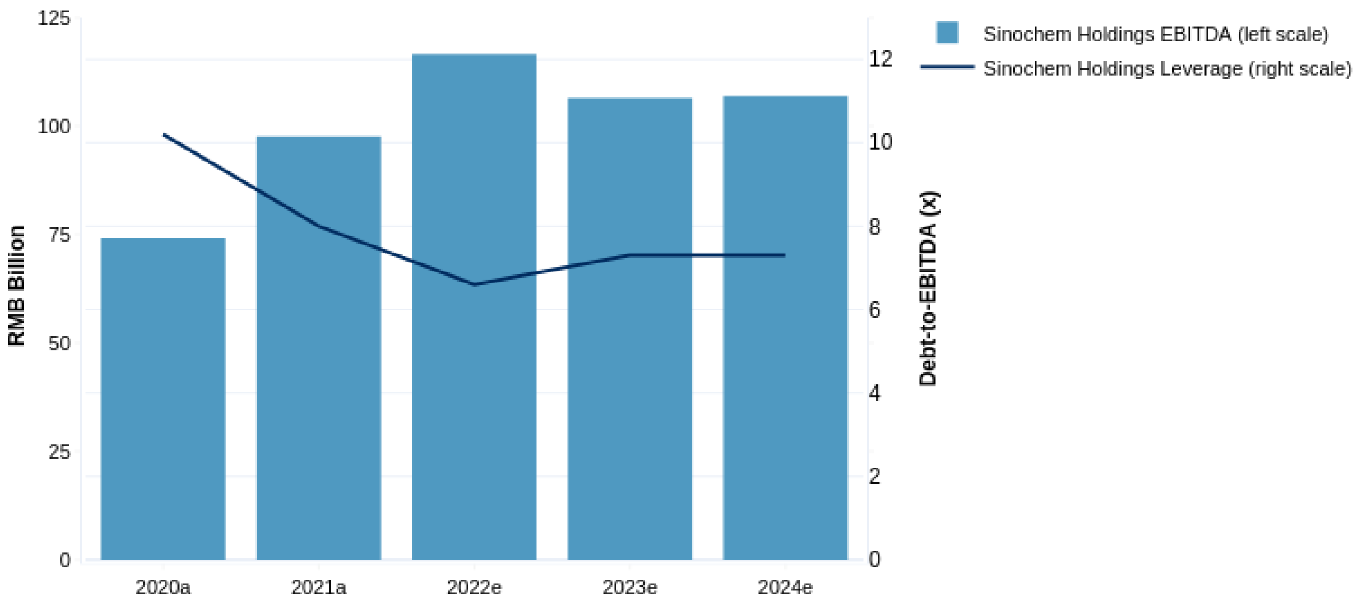
a--Actual. e--Estimate. HK$--Hong Kong dollars. S&P Global Ratings.

The financial leverage of Sinochem Holdings will likely improve in 2022, although it could remain high in the next two years. Group leverage may improve in 2022 due to the good performance of its chemical and agricultural segments. However, it may slightly tick up in 2023-2024 as profit margin moderates.

We estimate operating cash flow for Sinochem Holdings could improve to RMB50 billion-RMB60 billion over the next 12-24 months. This should be sufficient to fund annual capex of about RMB45 billion during the period.

Also, the group will likely exercise financial discipline to control debt. This would lead to steady adjusted debt of RMB770 billion-RMB780 billion in 2022-2024, versus RMB776.5 billion last year.

Sinochem Holdings' Leverage Will Trend Downwards As Earnings Improve



a--Actual. e--Estimate. RMB--Chinese renminbi. S&P Global Ratings.

Debt maturities

Sinochem Hong Kong (Group) Co. Ltd.--Debt Maturities*

Period	Amount (Mil. HK$)
Due before June 30, 2023	44,156
Due beyond June 30, 2023	132,867
Total	177,023

*Reported basis as of Dec. 31, 2021.

Sinochem Hong Kong (Group) Co. Ltd.--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	HK$	HK$	HK$	HK$	HK$	HK$
Revenues	54,986	64,094	76,287	49,613	67,776	108,883
EBITDA	9,242	10,273	15,098	13,966	16,258	22,279
Funds from operations (FFO)	877	(699)	(181)	54	(780)	8,366
Interest expense	4,400	6,082	8,616	9,563	10,382	9,270
Cash interest paid	4,628	5,860	7,861	9,212	10,889	8,483
Operating cash flow (OCF)	1,981	(41,560)	(11,420)	13,592	25,524	(1,255)
Capital expenditure	1,712	750	1,050	2,142	1,341	1,287
Free operating cash flow (FOCF)	268	(42,310)	(12,470)	11,450	24,184	(2,541)
Discretionary cash flow (DCF)	(3,235)	(52,954)	(20,676)	1,210	12,464	(15,069)
Cash and short-term investments	23,749	34,854	28,625	20,298	53,054	38,399
Gross available cash	23,749	34,854	28,625	20,298	53,054	38,399
Debt	73,082	91,216	120,386	132,304	138,949	199,709
Common equity	95,912	111,322	105,442	108,754	126,385	132,738
Adjusted ratios						
EBITDA margin (%)	16.8	16.0	19.8	28.2	24.0	20.5
Return on capital (%)	5.2	5.8	8.2	7.1	8.3	8.9
EBITDA interest coverage (x)	2.1	1.7	1.8	1.5	1.6	2.4
FFO cash interest coverage (x)	1.2	0.9	1.0	1.0	0.9	2.0
Debt/EBITDA (x)	7.9	8.9	8.0	9.5	8.5	9.0
FFO/debt (%)	1.2	(0.8)	(0.2)	0.0	(0.6)	4.2
OCF/debt (%)	2.7	(45.6)	(9.5)	10.3	18.4	(0.6)
FOCF/debt (%)	0.4	(46.4)	(10.4)	8.7	17.4	(1.3)
DCF/debt (%)	(4.4)	(58.1)	(17.2)	0.9	9.0	(7.5)

Reconciliation Of Sinochem Hong Kong (Group) Co. Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. HK$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	174,575	44,860	108,883	13,178	12,402	4,085	22,279	2,494	5,227	1,287
Cash taxes paid	-	-	-	-	-	-	(5,429)	-	-	-

Reconciliation Of Sinochem Hong Kong (Group) Co. Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. HK$)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash interest paid	-	-	-	-	-	-	(6,811)	-	-	-
Lease liabilities	1,304	-	-	-	-	-	-	-	-	-
Debt-like hybrids	26,661	(26,661)	-	-	-	1,672	(1,672)	(1,672)	(1,672)	-
Accessible cash and liquid investments	(28,800)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	8,171	8,171	3,513	-	-	-	-
Share-based compensation expense	-	-	-	56	-	-	-	-	-	-
Dividends from equity investments	-	-	-	874	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	6,122	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(2,076)	-	-
Noncontrolling/ minority interest	-	114,540	-	-	-	-	-	-	-	-
Debt: other	25,969	-	-	-	-	-	-	-	-	-
Total adjustments	25,134	87,878	-	9,100	14,293	5,186	(13,913)	(3,748)	(1,672)	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	199,709	132,738	108,883	22,279	26,695	9,270	8,366	(1,255)	3,554	1,287

Liquidity

We assess Sinochem Hong Kong's liquidity as adequate. We expect the ratio of liquidity sources to liquidity uses for the company to be 1.2x over the 12 months ending June 30, 2023. Net liquidity sources should remain positive even if EBITDA declines by 15%.

As a core subsidiary of Sinochem Holdings, Sinochem Hong Kong will likely receive ongoing support from the parent in terms of rolling over its bank loans. The company's liquidity also has a buffer from its parent's strong relationships with domestic banks and a large amount of uncommitted unused onshore and offshore credit facilities. We estimate these facilities added up to about RMB1.1 trillion as of end-2021.

Principal liquidity sources

- Cash balance and short-term investments of about HK$38.9 billion as of June 30, 2022.
- FFO of HK$4.8 billion for the 12 months ending June 30, 2023.
- Ongoing group support of HK$45.0 billion in terms of rolling over bank loans for the 12 months ending June 30, 2023.

Principal liquidity uses

- Debt maturities of HK$44.2 billion over the 12 months ending June 30, 2023.
- Working capital outflow of HK$5.4 billion over the same period.
- Capex of HK$2.5 billion over the same period.
- Dividend payout of HK$3.4 billion over the same period.

Environmental, Social, And Governance

ESG Credit Indicators

Environmental	Social	Governance
E-1 E-2 **E-3** E-4 E-5	S-1 **S-2** S-3 S-4 S-5	G-1 **G-2** G-3 G-4 G-5
- Climate transition risks, - Waste and pollution.	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental factors are a moderately negative consideration in our credit rating analysis of Sinochem Hong Kong. Sinochem Hong Kong has exposure to environmental risks through its real estate subsidiary, Jinmao. This exposure is generally in line with other Chinese property developers. Jinmao's green technology is a key feature of the company's products. The company's emphasis on eco-friendly features has pushed up its construction cost.

Sinochem Hong Kong's management is integrated with Sinochem Holdings. The merger of Sinochem and ChemChina has not changed the role of Sinochem Hong Kong, which will continue to be the key financing vehicle for the enlarged group.

We view Sinochem Holdings' exposure to environmental risks to be in line with other chemical peers. The group's agriculture and chemical businesses face more stringent environmental standards, including a push toward lower carbon emissions. Its oil and gas businesses also face long-term demand risks due to the energy transition toward renewable energy to address climate change.

In January 2021, the group's two constituent companies, Sinochem Group and ChemChina, committed to meeting China's national target of reaching peak carbon emissions by 2030 and carbon emission neutrality by 2060.

Group Influence

We view Sinochem Hong Kong as a core subsidiary of Sinochem Holdings. We therefore equalized our long-term ratings on Sinochem Hong Kong with the 'a-' group credit profile of Sinochem Holdings.

Sinochem Hong Kong is a direct extension of the parent and is integral to the group's offshore financing and investing strategy, in our view. The company is fully integrated with Sinochem Holdings strategically, operationally, and financially. It is distinct from the other financing and investment vehicles of Sinochem Holdings' subsidiaries. This is because the company directly acts on behalf of the ultimate parent for high-level, strategic initiatives.

Sinochem Hong Kong is also closely linked with the parent's reputation and brand. The parent is highly unlikely to sell Sinochem Hong Kong. The company's role will likely be reinforced in the future. As Sinochem Holdings' offshore investment platform, we believe

Sinochem Hong Kong will serve as the centralized platform to manage the group's offshore companies in activities such as board member appointments and financing.

Government Influence

Our assessment of Sinochem Holdings' very high likelihood of receiving extraordinary support from the Chinese government in the event of financial distress is based on the following group characteristics:

- Very strong link to the government. The Chinese government fully owns Sinochem Holdings and is highly likely to extend support in strategically important sectors such as agriculture. The government can exert strong influence on the group's strategy and business by appointing senior management.

- Very important role to the government. Sinochem Holdings plays a vital role in promoting the modernization of China's agriculture industry, as well as ensuring grain supply security by maintaining grain safety and productivity. In addition, the group operates national strategic reserves for important materials such as oil and natural rubber. As the only chemical SOE under the central SASAC, it also takes an active part in setting industry benchmarks and regulations for the domestic market.

Issue Ratings--Subordination Risk Analysis

Capital structure

Our issue ratings consider Sinochem Hong Kong's capital structure as of June 30, 2022. As of that date, the company had a total of HK$177 billion in consolidated debt. Of this, HK$23.3 billion was secured debt, HK$102.3 billion unsecured debt incurred by its operating subsidiaries, and HK$51.4 billion unsecured debt at the parent level.

Analytical conclusions

We rate all the senior unsecured notes guaranteed by Sinochem Hong Kong at 'A-', the same as the long-term issuer credit rating. This is despite the company's priority debt ratio of 71%, which exceeds our 50% threshold for notching down the issue rating. This is because we consider Sinochem Hong Kong to be a core subsidiary of Sinochem Holdings, which has a very high likelihood of receiving extraordinary government support. We believe the government is willing and able to intervene so that structurally subordinated lenders would not have worse recovery prospects than structurally senior lenders.

Ratings Component Scores

Foreign currency issuer credit rating	**A-/Stable/--**
Local currency issuer credit rating	**A-/Stable/--**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Aggressive**
Cash flow/leverage	Aggressive
Anchor	**bb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	**bb+**
Group credit profile	a-
Group status	Core (+4 notches)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

ChemChina Ratings Raised To 'A-'; Sinochem HK SIC And Bluestar Ratings Affirmed; Outlooks Stable, Nov. 9, 2021

Ratings Detail (as of November 10, 2022)*

Sinochem Hong Kong (Group) Co. Ltd.	
Issuer Credit Rating	A-/Stable/--
Issuer Credit Ratings History	
09-Nov-2021	A-/Stable/--
09-Apr-2021	A-/Developing/--
17-Apr-2014	A-/Stable/--
Related Entities	
China Jinmao Holdings Group Ltd.	
Issuer Credit Rating	BBB-/Stable/--
China National Bluestar (Group) Co. Ltd.	
Issuer Credit Rating	BBB/Stable/--
China National Chemical Corp. Ltd.	
Issuer Credit Rating	A-/Stable/--
Pirelli & C. SpA	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-
Sinochem International Corp.	
Issuer Credit Rating	BBB+/Stable/--
Syngenta AG	
Issuer Credit Rating	BBB/Stable/A-2
Syngenta Group Co. Ltd.	
Issuer Credit Rating	BBB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.