

RATING REPORT

HBIS Group Co., Ltd.

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The ratings of HBIS Group Co., Ltd. are derived from Fitch Ratings' internal assessment of the creditworthiness of Hebei province, based on a top-down approach in line with our Government-Related Entities Rating Criteria. The top-down approach reflects a high likelihood of support from the Hebei province to HBIS. The Outlook is Stable, which reflects our expectation that HBIS will remain a market leader and government support will stay strong. 'Strong' Support Record: Fitch raised HBIS's support record to 'Strong' from our previous 'Moderate' assessment. HBIS has received asset injections from the local government to boost iron-ore reserves, and recurring financial support to upgrade its production facilities. 'Strong' Socio-Political Implications of Default: Fitch raised the socio-political implications for the Hebei government, should HBIS default, to 'Strong' from our previous assessment of 'Moderate'. HBIS plays a critical role in delivering the government's political targets as it is the pillar of Hebei's steel industry.. 'Strong' Financial Implications of Default: We lowered the financial implications of a HBIS default on the local government to 'Strong' from 'Very Strong'. HBIS is the largest state-owned enterprise under the Hebei SASAC, accounting for 40% of its total assets. Large Scale, Wide Product Range: HBIS produced 44 million tonnes of crude steel in 2020, making it China's second-largest steelmaker and the third-largest globally. Weak Standalone Credit Profile: We assess HBIS's Standalone Credit Profile at 'b+', supported by its large operating scale and high product diversification, but constrained by high leverage. We expect net leverage to stay at around 8x in 2021-2024, driven by stable steel profitability and consistent capex requirements for facility upgrades. Nevertheless, HBIS's financial flexibility metrics remain intact, with FFO fixed-charge coverage at around 2x.