

# Guizhou Tyre Company Limited 2022 Tracking Rating Report

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## declaration Ming Dynasty (1368-1644)

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# 信用等级通知书

信评委函字 [2022] Tracking 号  
0822

## Guizhou Tyre Co:

China Chengxin International Credit Rating Co., Ltd. has assessed your company and its related products and services for the duration of your company's existence.

The Company has carried out follow-up ratings on the relevant debt items. The Credit Rating Committee of China Chengxin International has concluded that the main credit rating of the Company is **AA** and the outlook is stable;

The credit rating of "Guilin

Convertible Bonds" is hereby

maintained at **AA**.



China Chengxin International  
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21st June 2022

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**Rating Opinion:** China Chengxin International maintains the main credit rating of Guizhou Tyre Company Limited (hereinafter referred to as "Guizhou Tyre" or "the Company") at **AA**, with a stable outlook; and the debt credit rating of "Guizhou Tyre Convertible Bond" at **AA**. "CITIC International affirms that the overall credit strength of the Company is strongly supported by the advantages of increasing production capacity, further growth of revenue driven by strong overseas orders, accumulation of profits, and strengthening of the Company's capital strength as a result of the non-public offering. At the same time, CITIC is concerned about the fierce market competition in the tyre industry, the rising raw material prices that significantly compress the profit margins of the products, the greater pressure on capital expenditures, the decline in profitability and operating profitability, the debt and the lack of financial resources.

The impact on the Company's operations and overall credit profile due to factors such as the rising scale and the debt structure that still needs to be optimised.

#### Profile data

Guizhou Tyre (consolidated)	2019	2020	2021	2022.3
Total assets (\$bn)	105.21	115.16	128.76	133.95
Total owner's equity (\$ billion)	37.24	48.82	59.41	60.09
Total liabilities (\$bn)	67.97	66.34	69.35	73.86
Total debt (\$ billion)	51.07	44.82	46.90	49.48
Gross operating income (\$ billion)	64.58	68.09	73.39	18.63
Net profit (\$bn)	1.35	11.38	3.70	0.56
EBIT (\$bn)	2.95	14.49	4.58	—
EBITDA (\$bn)	6.57	17.63	7.63	—
Net cash flow from operating activities (\$ billion)	17.52	16.59	2.86	-0.08
Gross operating margin (%)	20.13	23.63	15.73	14.47
Return on total assets (%)	2.81	19.81	3.76	—
Gearing ratio (%)	64.61	57.61	53.86	55.14
Total capitalisation rate (%)	57.83	47.86	44.12	45.16

■ Since 2021, the company has continued to promote the construction of domestic and overseas "dual base" projects, and the scale of production capacity has been increasing, and the construction of overseas bases is conducive to offsetting the adverse impact of the "double reverse" tax rate and the trade friction between China and the United States at this stage. The construction of overseas bases is conducive to offsetting the unfavourable impacts of foreign "double-reverse" tariffs and China-US trade friction.

■ **Overseas orders are more robust to drive further growth in revenue scale.** 2021, with the successive resumption of overseas downstream vehicle factories, tyre export orders demand is more robust, driving the company's tyre export sales increased significantly, the annual revenue scale also increased year-on-year.

■ **Profit accumulation and the private offering enabled the Company to increase its capital strength.** 2021 In March, the Company raised net proceeds of \$984 million through the private offering, plus when the

The build-up of profits over the period led to a further increase in equity and a reduction in the financial leverage ratio at the end of the year.

#### Note

■ **Tyre industry market competition is fierce, rising raw material prices significantly compressed product profit margins.** The domestic tyre industry has serious product homogenisation and fierce competition, and faces the problem of structural overcapacity. At the same time, rubber, carbon black and other major raw materials accounted for a high proportion of the operating costs of enterprises, since 2021, the price of major raw materials rose, the company's profitability and profitability declined. The fluctuation of raw material prices affected the company's cost control, and the profitability of its products was squeezed.

■ **The company will face greater pressure on capital expenditure in the future.** As at the end of March 2022, the company is under construction.

The total planned investment for the project is \$3,189 million, with \$1,222 million still to be invested; proposed project

The total planned investment is RMB 2,301 million, there is certain pressure on capital expenditure, the company needs to pay attention to the financing, construction progress, capacity release and revenue situation.

■ **Debt scale rising, debt structure still needs to be optimised.** Due to the increase in project construction and daily working capital demand, the total debt scale of the company has continued to rise since 2021, and as at the end of March 2022, the proportion of short-term debt in the total debt of the company was 85.19%, and the debt structure still needs to be optimised.

#### Rating outlook

In the opinion of China Chengxin International, the credit level of Guizhou Tyre Co.

It will remain stable for 12 to 18 months.

■ **Factors that may trigger a rating upgrade.** Significant strengthening of the Company's capital strength, significant optimisation of its capital structure, significant and sustainable earnings growth, or

significant improvement in asset quality and debt servicing capacity.

■ **Factors that may trigger a rating downgrade.** Unexpected downward movement of tyre product prices,

unanticipated increase in raw material purchase prices, sustained significant profit losses due to less than expected benefits from investment projects, significant increase in financial leverage, deterioration in liquidity, or other factors leading to a significant decline in credit level.

## Industry Comparison

Comparison table of major indicators of some chemical enterprises in 2021 (end)							
company identification	Total assets (\$bn)		Gearing ratio (%)		Gross operating income (\$ billion)		Net profit (\$bn)
Chemical Holding Group Co. Source: Compiled by China Polyethylene International	162.26		69.42		60.28		1.61
Guizhou tyres	128.76		53.86		73.39		3.70
bond short name	Current debt credit level	Previous obligation credit level	Last rating times	Issue amount (billions of dollars)	Bond balance (billions of dollars)	survival period	special clause
Guilin Convertible Bond	AA	AA	2021/11/11	18.00	18.00	2022/04/22~2028/04/22	Resales, Redemptions, Special Downward Amendments

## Reasons for tracking ratings

In accordance with international practice and the requirements of the competent authorities, China Chengxin International is required to carry out tracking ratings on the bonds of the Company during the period of its existence to track and monitor the level of risk. This rating is a regular tracking rating.

## Use of Proceeds

Guizhou Tyre Co., Ltd. issued 1.8 billion yuan of publicly convertible corporate bonds (hereinafter referred to as the "Guilan Convertible Bonds").

The proceeds, after deduction of issuance costs, will be used for the "Intelligent Manufacturing Project of 3 Million Sets of High-Performance All-Steel Radial Tyres per Year" and the "1# Intelligent Sorting and Transit Centre Project". In view of the fact that "Your Wheel Convertible Bonds" will be redeemed in 2022, the public offering was completed on 22 April, and as of the date of this rating report, all of the Company's proceeds have arrived and have not yet been put to use.

## Macroeconomic and policy environment

**Macroeconomics:** GDP growth in the first quarter of 2022 was 4.8% year-on-year, generally reversing the situation of falling year-on-year growth from the second to the fourth quarter of last year, but lower than the compound growth rate of two years in the same period of last year, and the growth rate stabilised mainly due to the support of policy factors. Along with the steady growth policy continues to exert force and the policy effect shows, we maintain the subsequent quarterly growth rate "steady progress" judgement, but the epidemic outbreaks in many places may

aggravate the contraction of demand and expected to weaken, to achieve the full year of 5.5% of the expected growth target is still under greater pressure.

In terms of economic performance in the first quarter, the trend of normalisation of production and demand was greatly affected by the epidemic, the total volume of financial data was strong but structurally weak against the backdrop of weak demand for real financing, and the price level basically remained stable under the influence of a number of factors. From the production side, the value added of the secondary industry and industry remained at the normal growth level, but the monthly data slowed down month by month under the influence of the epidemic; the year-on-year growth rate of the tertiary industry in the current quarter was still lower than that of the secondary industry, and the year-on-year growth rate of the production index of the service industry turned negative again in March. From the viewpoint of demand side, the demand supported by strong policy factors is better repaired, which is manifested in the continuation of high growth of infrastructure and high-tech manufacturing investment; the demand supported by weaker policy factors is relatively weak, which is manifested in the continuation of the fall of real estate investment, the continuation of the slowdown in the growth rate of social retail sales, and the weakening of the substitution effect of the growth rate of exports has been adjusted back. From the viewpoint of financial data, the increase of social financing scale was high year-on-year, but the growth rate of social financing was only the same as that at the end of last year after excluding the net financing of government bonds. From the price level, affected by the low food prices, the growth rate of social financing was only the same as the end of last year.



CPI overall remained stable, commodity prices higher input-type inflationary pressures have risen, but the market demand is weak in the context of the continuation of the decline in the PPI year-on-year.

**Macro risks:** Risks and challenges to economic performance in 2022 will continue unabated. First, the spread of epidemics is widespread and frequent, and the negative impact of restrictions on regional economic activity may be further felt in the second quarter. Second, the lack of endogenous growth momentum has increased downward pressure on the economy, and the pressure on policies to stabilise growth has also risen. Third, debt pressure remains a long-term risk for the economy, and risks in key areas should not be underestimated; the property market is still in the process of bottoming out, which will not only be a drag on the repair of the investment growth rate, but will also likely spread the pressure to other areas such as local finance, urban investment enterprises and financial institutions. Meanwhile, the release of credit risk of the tail-end enterprises is still a cause for concern. Fourth, the high volatility of global commodity prices and the increase in imported inflationary pressures, coupled with the inversion of the interest rate differential between China and the United States after a lapse of 12 years, may pose a certain constraint on the continued easing of China's monetary aggregates and the continued reduction of policy rates. Fifthly, the accelerated

normalisation of overseas economic activities may put downward pressure on China's export growth; the Russian-Ukrainian conflict has exacerbated geopolitical instability, which may have a spillover effect on China's economy in the areas of energy, finance and the supply chain.

**Macro policy:** The 5.5% growth target put forward in the 2022 government work report is "medium- to high-speed growth on a high base", so "the policy force should be appropriately forward, and the reserve policy tools should be used in a timely manner", and we believe that stabilising growth will be the focus of the annual macroeconomic regulation and control. The centre of gravity. Among them, the easing orientation of monetary policy will continue, after the April full-scale reduction of the total easing still has room for operation, but in the context of weak demand for real financing and abundant liquidity, the structural function of monetary policy or more prominent, the follow-up central bank or priority by increasing the amount of support for agriculture and supporting small refinancing, expanding the size of the universal small micro loan support tool, with the local government in line with the city to stabilise the real estate market structural measures to guide the "broad credit", "broad credit", "broad credit", "broad credit", "broad credit", "broad credit", "broad credit", "broad credit" and "broad credit". Measures to guide "broad credit". The space for fiscal policy still exists, different from the traditional fiscal expansion, this year will mainly implement a combination of tax policies focusing on tax reductions and rebates, and through the use of specific state-owned financial institutions and franchises and other unconventional ways to solve the problem of sources of fiscal funds, in order to avoid increasing the accumulation of

long-term risks, coupled with the special debt investment performance constraints did not relax the pressure, in general, the current fiscal policy or still in the

It has sought to avoid excessive and ineffective stimulus, and to support economic stabilisation as soon as possible, mainly by means of early and precise stimulus, coupled with the expansion of transfer payments, and to reserve policy space for subsequent adjustments.

**Macro outlook:** the epidemic once again disturbed China's macroeconomic operation, the pressure to achieve the annual economic growth target has increased, the continuation of our previous judgement, policy factors will continue to support the economic operation of stabilisation, 2022 GDP growth rate may show a "steady progress" trend.

CITIC believes that the risks and challenges facing the Chinese economy in 2022 will further increase, and that achieving the target growth task will require a more robust and effective macro policy and a micro policy to further stimulate the vitality of market players. In the medium and long term, the hundreds of millions of people's desire to pursue a better life is strong, the smooth internal circulation will drive the domestic supply chain and industrial chain to run more smoothly, and the basis for expanding domestic demand is broader, and the fundamentals of China's long-term economic operation will remain unchanged.

## Recent Concerns

**2021 chemical industry fixed asset investment completion amount gradually rebound, industry capacity expansion, the new crown pneumonia epidemic although repeated, but the global economy gradually rebound, the chemical industry demand rebound, the main product prices rise, industry boom degree is at a better level; 2022, need to pay attention to overseas geopolitics, economic friction, epidemic repeated, policy**

## restrictions and other uncertainty factors on the chemical industry boom degree Influence

The downstream demand for chemical products is distributed in the real estate and construction, textile and garment, automobile, home appliance, medical treatment, electronics, agriculture, daily necessities and many other application terminals. 2021 At the beginning of the year, with the domestic epidemic of new crown pneumonia under effective control, various industries in the epidemic after the impact of the gradual recovery and push forward the resumption of production, coupled with the support of national policy, the economic boom is gradually picking up, the main downstream industries of the chemical industry has also significantly rebounded, the demand for chemicals continues to rebound. Demand for chemicals continued to pick up. However, since the second half of the year by the recurrence of epidemics, policy regulation, raw material price fluctuations and other factors, the overall downstream demand growth is gradually slowing down. On the export side, since 2021, overseas epidemics have been repeated, and the supply side is slow to repair, while domestic and foreign epidemic prevention and control show obvious differentiation, the domestic economy takes the lead in recovery, and the chemical industry is in the process of recovering.

The export of chemical industry rebounded strongly under the double influence of domestic capacity expansion and overseas order increase. It is expected that the growth rate of domestic demand of chemical industry will continue to be low and oscillating in 2022, and the recovery of overseas market may boost the export volume, but the emergence of mutated strains has increased its uncertainty to a certain extent, and the subsequent trend of the epidemic and the national defence measures may affect the change of the demand side in 2022.

Since 2021, fixed asset investment in the chemical industry has gradually rebounded, and industry capacity has expanded. In the first half of the year, with the easing of the domestic epidemic and the normalisation of management, the industry resumed work and production at a faster pace, the industrial chain and supply chain continued to recover and improve, and the production load of chemical products stabilised and rebounded. In the second half of the year, affected by the power restriction and energy consumption double control policies, the industry start rate has declined,

chemical products production growth has slowed down.

**Table 1: Statistics on the output of some products in China's chemical industry**

(million tonnes, billion cubic metres,

offerings	2020		2021	
	production capacity	year-on-year	production capacity	year-on-year
crude oil	19,492.0	1.6	19,897.6	2.4
petroleum	1,888.5	9.8	2,052.6	8.2
Crude oil processing capacity	67,440.8	3.0	70,355.4	4.3
Sulphuric acid (at 100 per cent)	8,332.3	-1.2	9,382.7	5.0
Caustic soda (100 per cent)	3,643.2	5.7	3,891.3	5.2
Soda ash (sodium carbonate)	2,812.4	-2.9	2,913.3	3.4
vinyl	2,160.0	4.9	2,825.7	18.3
Agricultural Nitrogen, Phosphorus and Potassium Chemistry Fertiliser (pure)	5,395.8	-0.9	5,446.0	0.8
Chemical pesticide (100 per cent of active ingredient)	214.8	-1.1	249.8	7.8
Plastics in primary forms	10,355.3	7.0	11,039.1	5.8
chemical fibre	6,167.9	3.4	6,708.5	9.1
Rubber Tyre Outer	81,847.7	1.7	89,910.8	10.8
Plastic products	7,603.2	-6.4	8,004.0	5.9

The chemical industry has a long and materials can be traced back to basic raw materials such as crude oil, natural gas, coal, and sulphurous iron ore, etc. Since 2021, crude oil prices have been on a trend of oscillating upwards against the backdrop of the implementation of OPEC+'s production cut agreement and the recovery of the global economy. Specifically, crude oil price fluctuations in 2021

<sup>1</sup> The chemical industry and enterprises mentioned in the text, unless otherwise specified, refer to the chemical industry in the Shenwan Industry Classification and belong to the extractive industries in the petroleum extraction industry and its enterprises, in the macro data of the chemical industry data include the National Bureau of Statistics Industry Classification of the oil and natural gas extraction industry, petroleum processing, coal and nuclear fuel processing industry, chemical raw materials and chemical products manufacturing industry, chemical fibre manufacturing industry and the rubber and plastic products industry and other five sub-industries. Plastic products industry and other five sub-industries.

Closely related to the recurrence of the epidemic, in late March 2021, the global epidemic rebounded in many countries and worsened in Europe, South America and India, with many European countries further tightening their blockade policies and crude oil prices coming under pressure. Oil ministers decided to gradually ease production cuts from May onwards, but as the incremental volume still could not cover the magnitude of growth in global demand for petroleum products, the supply and demand for crude oil was in a tight balance, and the prices of U.S. West Texas Light ("WTI") crude oil futures and Brent crude oil futures maintained a high level of volatility. Crude oil prices plummeted due to the uncertainty on the demand side of crude oil triggered by the spread of the delta virus; then crude oil prices recovered rapidly due to the impact of hurricanes in the United States, the reduction in crude oil supply and the disruption of the fuel supply chain in the United Kingdom; the WTI futures settlement price and the Brent crude oil futures settlement price rose to US\$84.65/bbl and US\$86.40/bbl, respectively, reaching the year's highest level on 26 October 2021. The price of WTI futures settled at US\$84.65 per barrel and Brent crude oil futures settled at US\$86.40 per barrel on 26 October, reaching the highest level of the year. However, due to the rapid spread of the omicron strain, the European Union, the United Kingdom and other countries introduced restrictive measures, and the mutated strain brought uncertainty to the demand for crude oil consumption, and the price of crude oil was under pressure. 2021 annual WTI futures settlement price and the average price of Brent crude oil futures were around US\$68.11/bbl and US\$70.95/bbl, respectively.

The international crude oil prices rose

sharply to US\$123.7 per barrel for WTI futures and US\$12.49 per barrel for Brent crude oil futures on 8 March 2022, compared with the same period last year. Recently, with the continuous evolution of the Russia-Ukraine conflict, international crude oil prices have been rising rapidly. On 8 March 2022, the WTI futures settlement price and the Brent crude oil futures settlement price climbed to US\$123.7/bbl and US\$12.49/bbl respectively.

127.98 USD/barrel. As the second largest exporter of international crude oil, Russia, against the backdrop of limited OPEC+ production increase and the lack of substantive progress in Iranian nuclear talks, the Russia-Ukraine conflict has made the future trend of international crude oil prices more uncertain. Affected by the summer heat and drought, winter cold, natural gas prices in 2021 seasonal changes, with the second half of the rise in natural gas consumption, natural gas prices rose significantly, the average price for the year rose by 52.42 year-on-year. 2020 ~ 2021 coal new production capacity significantly reduced, superimposed on the restriction of coal imports from Australia, coal imports from Mongolia is also affected by the epidemic, the coal supply is relatively tight; At the same time, after the epidemic, the domestic manufacturing industry boom degree improved electric power and other industries to increase the demand for coal, the mismatch between supply and demand makes the coal price climb rapidly. 2021, the end of October, the domestic market price of anthracite (No. 2 washed in the block) is

2,678.6 Yuan/tonne, up significantly from 900 Yuan/tonne at the beginning of the year.

197.62 per cent. Under the strong national coal supply policy, the price of domestic coal market declined. Overall, the prices of major raw materials and products in the chemical industry rose in 2021, and the significant increase in crude oil prices and demand increased the annual average price of major chemical products year-on-year.

Rising; in the context of the sharp rise in crude oil prices, the price of products near the crude oil end of the price of crude oil by the impact of the price of crude oil has also risen sharply, while close to the consumer side of the price of chemicals more dependent on their own supply and demand changes.

**Figure 1: Trends in international crude oil prices (\$/barrel)**

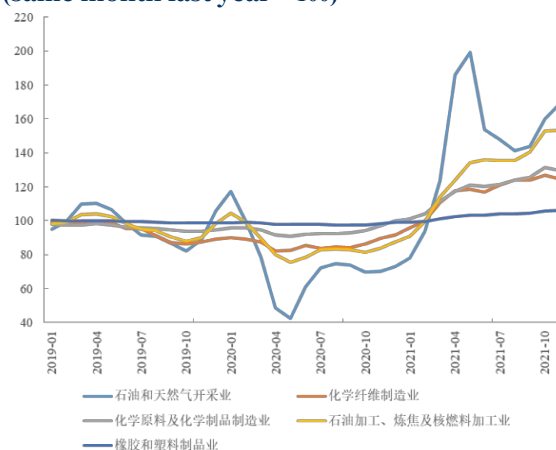


Source: Choice, collated by CITIC International

Since 2021, with the gradual digestion of the previous inventory, the domestic downstream industry resumption of production and export demand repair and improvement, most of the chemical products prices rose and maintained a high level of operation. From the point of view of industrial price index, since 2021, the chemical industry sub-industry industrial producer price index (hereinafter referred to as "PPI") all year is stronger than the same period of the previous year and the differentiation is more obvious. 2022, the first quarter, geopolitical and other factors lead to the international energy prices fluctuate sharply, promote the domestic chemical industry sub-

industry PPI In the first quarter of 2022, geopolitical factors led to sharp fluctuations in international energy prices, driving the PPI of various subsectors of the domestic chemical industry to rise sharply; raw material prices continue to run at a high level, which is expected to support the PPI of various subsectors of the chemical industry throughout the year.

**Figure 2: Chemical Industry Ex-factory Producer Price Index (same month last year = 100)**



Source: National Bureau of Statistics, Collated by CITIC International



In September 2020, the State explicitly proposed "carbon neutrality" and "carbon emissions reduction".

In October 2021, it was proposed that by 2025, energy consumption per unit of GDP would be 13.5% lower than that of 2020, carbon dioxide emissions per unit of GDP would be 18% lower than that of 2020, and the proportion of non-fossil energy consumption would reach about 20%. For enterprises in the industry, they will face greater pressure on capital investment in the upgrading and transformation of process technology level, the construction of fixed assets for green production, as well as technological innovation in carbon capture, utilisation and sequestration, and it is expected that the pressure on capital expenditure of some enterprises will increase. In addition, the "Improvement of dual-control system of energy consumption intensity and total energy consumption programme" puts forward the implementation of national major projects to coordinate energy consumption; resolutely control high-energy and high-emission projects; encouraging localities to increase the consumption of renewable energy; encouraging localities to exceed the target of reducing the intensity of energy consumption; and promoting the market-based trading of energy consumption targets. In order to respond positively to the "dual control of energy consumption" policy, many places across the country to implement the policy of limiting electricity and production, by restricting the use of electricity by high-energy-consuming enterprises to promote the reduction of energy consumption. In the short term, the policy of limiting electricity and production makes the domestic chemical enterprises' work rate drop rapidly, and the supply side is obviously contracted and reconstructed, which forms a certain constraint on the chemical production

capacity of the stock; in the long term, the continuous improvement of environmental protection standards and the implementation of the "dual-carbon" policy will promote the chemical enterprises to improve the technological level, increase the added value of their products, and push forward the industrial upgrading.

CITIC believes that in 2022, the domestic macroeconomic and overseas geopolitical and economic friction is still uncertain, coupled with the emergence of mutant strains of viruses to make the global epidemic repeated, superimposed on the "dual-carbon" policy, power restrictions, production restrictions and other policy constraints, the chemical industry boom degree of change there is a certain degree of uncertainty.

#### **Thanks to continued domestic policies to promote consumption and favourable export markets.**

**In 2021, China's auto market demand rebounded as a whole reversing the trend of the past three years.**

**The trend of continuous decline in 2022, it is expected that the overall production and sales volume may further recover in 2022, but chip supply, local epidemics and commercial vehicle consumption overdraft in the previous period will impose constraints, and it is expected that the annual automobile production and sales volume is still difficult to recover to the previous very high level**

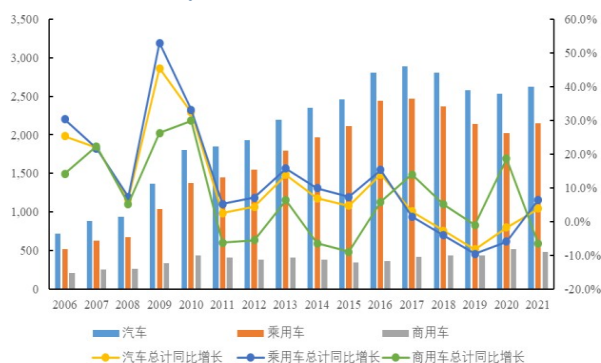
The automobile industry is one of the important pillar industries of China's national economy, and has formed a multi-species, full-series production and supporting system for all kinds of vehicles and parts. With the development of the industry, China has been the world's top automobile producer for more than 10 consecutive years, and the proportion of its output in the world has risen from 8.59 per cent in 2005 to 32.5 per cent in 2020.

Since 2021, China's national economy has been recovering steadily, and domestic auto market demand has been unleashed under the continuous consumption promotion policy, while the complete domestic auto industry chain and the improvement of the comprehensive level of products in the context of the epidemic and the recovery of the international market have led to the rapid growth of auto exports, with China's auto production, sales and exports increasing by 3.4%, 3.8% and 101.1% year-on-year, to 26.082 million, 26.275 million and 20.015 million units, all of which exceeded the level of the same period in 2019 before the epidemic. to 26.082 million units, 26.275 million units and 2.015 million units, all exceeding the level of the same period in 2019 before the epidemic, reversing the trend of continuous decline over the past three years. However, in recent years, the global semiconductor industry capacity investment is relatively conservative and more insufficient investment in the field of automotive chips; the epidemic led to the growth of the consumer electronics chip market seized part of the automotive chip production capacity; 2020 outbreaks outside of the country, the earthquake in Japan since 2021 and the United States blizzard and the intensification of local epidemics in Malaysia, and other force majeure factors that make semiconductor manufacturers to reduce production, production shutdown. The above factors cause automotive chip supply

and chip shortage contradiction in 2021 highlights. Affected by this, China's auto production and sales in April to August for five consecutive months of decline; since September, although the chip shortage situation continues to improve, but the order is still unable to meet. According to the forecasting agency AutoForecast Solutions data, as of 19 December 2021, the global automotive market cumulatively AutoForecast Solutions expects global auto production to drop by 11.31 million units in 2021 due to the chip shortage. In addition, the implementation of orderly power consumption policies in several provinces since September has also had a certain impact on domestic auto production. As a result of the production shortage, the inventory of China's automobile enterprises dropped significantly, and by the end of 2021, the inventory of passenger cars and commercial vehicles had dropped by 12.56% and 24.17% to 550,000 and 295,000 respectively as compared with the end of 2020; according to the automobile dealers' inventory early warning index disclosed by China Association of Automobile Distribution, the value of each month in 2021 was lower than that for the same period of 2019 and 2020, indicating that the demand for the automobile market rebounded in 2021, which was a good sign of a recovery. According to the Auto Dealers Inventory Warning Index disclosed by China Automobile Dealers Association, the values of each month in 2021 were lower than those of the same period in 2019 and 2020, which also indicated that the demand of the automobile market rebounded and the supply of automobiles was tighter than that of the previous period.



**Figure 3: Trend of China's car sales in recent years (million units)**



Source: China Association of Automobile Manufacturers (CAAM), collated by CITIC International

As for passenger cars, in recent years, the growth rate of China's passenger car market is affected by the gradual withdrawal of preferential policies, the overdraft of sales in the previous period and the lack of consumer confidence, etc. continues to decline, and in 2020, the passenger car market was affected by the new crown pneumonia epidemic in a low before and high after trend. in the first quarter of 2021, affected by the outbreak of the epidemic during the same period of the previous year, the effect of the policy of stimulating consumption and the release of demand accumulated after the epidemic was under control, the sales volume of passenger cars increased significantly year-on-year; however, the chip shortage gradually had a significant impact on industry production. In the first quarter of 2021, affected by the outbreak of epidemic in the same period of last year and the effect of policies to stimulate consumption and the release of demand accumulated after the control of the epidemic, the sales of passenger cars in each month increased sharply year-on-year; however, the shortage of chips gradually had a significant impact on the industry's production, and the sales of passenger cars in each month from May to November declined

year-on-year. Under the comprehensive impact, the cumulative sales of passenger cars in 2021 totalled 21.482 million units, a year-on-year growth of 6.5%, which is also higher than that of 2019 before the epidemic.

Sales increased by 3.8 million units.

In terms of commercial vehicles, although the truck market continued to heat up after March 2020 as the epidemic was gradually brought under control, e-commerce logistics and other enterprises resumed work and production, and the successive commencement of major engineering projects accelerated the expansion of capacity demand, while the elimination of National III vehicles, the tightening of the control of overweight and overpunishment and the accelerated implementation of policies such as the governance of "large tonnage and small standard" further stimulated the release of commercial vehicle renewal demand. At the same time, the accelerated implementation of policies such as the elimination of National III vehicles, the tightening of the control of super-penalties and the control of "large tonnage and small standard" further stimulated the release of demand for the renewal of commercial vehicles.

4.793 million units, of which trucks were the main pulling factor, with sales falling by 8.5 per cent year-on-year to 4.288 million units over the same period. However, it was better than the level in the years before the epidemic.

Heavy trucks, by the cyclical recovery, market demand warming and the control of super penalty led to the decline in the capacity of a single vehicle and other factors, China's heavy truck market as a whole to maintain the growth trend. 2020, despite the epidemic on the first quarter of the heavy truck sales caused by a large negative impact, but benefited from the accelerated elimination of the national three, the highway toll standard changes, the normalisation of the control of super and the successive commencement of infrastructure projects and other factors, the heavy truck market since April consecutively Brush

A new monthly sales record, the annual heavy truck market cumulative sales of 1,623,000 units, an increase of 38.25% year-on-year. 2021 first half of the heavy truck market continued the previous year's high boom market; but by the heavy-duty diesel trucks National VI emission regulations on 1 July 2021 the official implementation of the order of the consumer overdraft in the early period and the oil and gas prices continue to be high, the sales volume in the second half of the year narrowed considerably, with annual cumulative sales of heavy trucks of 1,395,000 units, and the expected above reasons

The impact of this element will continue to affect the heavy truck market in 2022.

**In terms of new energy vehicles,** China has introduced new energy subsidies and double points and other policies to promote the continuous development of the industry. Under the strong support of the state, China's new energy vehicles maintained a high-speed development trend before 2019. since July 2019, affected by the subsidy regression and emission standard switching brought about by the fuel vehicle discount promotion to squeeze the market and other factors, the monthly sales of new energy vehicle market continued to fall sharply, and the market has entered a period of adjustment. In order to promote the consumption of new energy vehicles and support the development of

new energy vehicle industry, in April 2020, four ministries and commissions, including the Ministry of Finance, the Ministry of Industry and Information Technology, the Ministry of Science and Technology, and the National Development and Reform Commission, jointly issued the Circular on Improving the Policy of Promoting and Applying New Energy Vehicles with Financial Subsidies, which extended the period of implementation of the policy of promoting and applying the financial subsidies for new energy vehicles to the end of 2022, and in principle, the subsidy standards for the years of 2020 to 2022 will be sloped back 10% from the previous year. In 2021, the Ministry of Industry and Information Technology, the Ministry of Commerce, the Ministry of Agriculture and the Comprehensive Department of the National Energy Administration issued the Circular on Carrying Out New Energy Vehicle Rural Development Activities in 2021, which was published by the Ministry of Industry and Information Technology, the Ministry of Commerce, the Ministry of Agriculture and the Comprehensive Department of the National Energy Administration. In 2021, the Ministry of Industry and Information Technology, the Ministry of Commerce, the Ministry of Agriculture and the National Energy Bureau issued the Notice on Carrying Out New Energy Vehicle Activities in the Countryside in 2021, and the annual production and sales of new energy vehicles reached 3,545,000 and 3,521,000 respectively, with a year-on-year growth of 159.5% and 157.5% driven by the favourable policies and the willingness of independent consumption. In the short term, 2022 is the last year for the implementation of the new energy vehicle subsidy and purchase tax exemption policy, which is expected to promote the early release of the demand for new energy vehicle

purchases, coupled with the enhancement of the willingness to consume on its own, it is expected that the sales of new energy vehicles in 2022 will continue to maintain a relatively rapid growth.

Overall, the prosperity of China's passenger car and commercial vehicle markets continues to diverge. Benefiting from automotive support policies and initiatives to stimulate consumption, the passenger car market is gradually recovering, and in 2021, the sales and profitability level of automobile enterprises as a whole will be on the upswing, in which the new energy automobile market is growing significantly; the commercial vehicle market is subject to large fluctuations, with the market recovering significantly in the first half of the year 2020-2021, and the demand declining since the second half of the year 2021, with profitability level rising to a record high.

The level of the automotive industry is expected to continue to grow in 2022, and earnings will be further restored. It is expected that the sales volume of the automotive industry will still show growth in 2022, and earnings will be further restored, but the chip shortage and localised epidemics will still adversely affect the automotive industry in the short term.

### **Stable property rights structure, sound corporate governance structure and internal control system**

The ownership structure of the Company is stable, and as at the end of March 2022, the Company's ownership structure is stable.

(hereinafter referred to as "Guiyang AIC") is the controlling shareholder of the Company, holds 27.76% equity interest in the Company (of which the cumulative number of pledged shares accounted for 13.06% of the total share capital of the Company, accounting for 47.06% of its shareholding) and the State-owned Assets Supervision and Administration Commission of the People's Government of Guiyang (hereinafter referred to as "Guiyang SASAC") is the actual controller of the Company. State-owned Assets Supervision and Administration Commission ("Guiyang SASAC") is the de facto controller of the Company.

The Company has formed a corporate governance structure with the general meeting of shareholders as the authority, the board of directors as the decision-making body, the supervisory board as the supervisory body and the management as the executive body, each performing its own duties and responsibilities, coordinating with each other and exercising checks and balances on each other, and it has

also set up a comprehensive management system in terms of fund management, connected transactions, major investments, external guarantees, safety and environmental protection, and quality management, which is basically in line with the current situation of the Company's operation and management. The corporate governance structure and internal control system are relatively sound. During the Tracking Period, the Company still implemented centralised management of funds, with the Funds Management Department responsible for pooling funds of subsidiaries, and subordinate companies were required to report monthly to the Funds Management Department on the plan for use of funds; the Company, as a listed company, did not pool funds with shareholders. In respect of personnel changes, one outside director was co-opted in June 2021, and there was no departure of the remaining directors, supervisors and senior management.

### **The company continues to promote the construction of "dual base", the domestic base of new projects put into operation and the old plant relocation to drive production capacity, Vietnam plant to help offset the "double reverse" tax rate and trade friction of the adverse impact, but need to pay attention to the overseas operating risks**

The company is one of the tyre manufacturers with more complete varieties of domestic commercial tyre specifications, and is listed in the "2021 China Tyre Enterprises" published by China Rubber Industry Association's China Rubber magazine in September 2021, which is the largest tyre manufacturer in China.

The company is ranked No. 8 in the "Industry Ranking" and owns "Advance and Hercules",

"Dolyton", "Jinhu", "King Kong" and other brands of truck tyres, construction machinery tyres, agricultural machinery tyres, industrial vehicle tyres and special tyres have established a strong supporting relationship with many well-known enterprises in China. It has established supporting relationships with many famous domestic enterprises and maintained strong market competitiveness and competitive position during the tracking period.

Since 2021, the company has continued to promote the construction of "dual bases" at home and abroad. The project is to relocate 3 million all-steel radial tyres from one location to another (to hereinafter referred to as **the "Zazo III Project"**) and 1.2 million all-steel radial tyres per annum in Vietnam (hereinafter referred to as **the "Vietnam I Project"**). With the Zazo III Project reaching production<sup>2</sup> and the Vietnam Phase I Project gradually coming into production, as at the end of March 2022, the Company's annual production capacity of all-steel tyres and bias tyres will be as follows

The number of tyres increased to 5.95 million and 2.79 million respectively. Due to the epidemic in Vietnam, the progress of equipment installation and debugging and mass trial production of the first phase of the

project in Vietnam has been affected. The first tyre of the first phase of the project in Vietnam was successfully rolled out of the production line on 1 April 2021, but due to the epidemic in the region, the progress of equipment installation and debugging and mass trial production of the project has been affected to a certain extent, and the Company expects that the first phase of the project in Vietnam will reach the intended useable state by the end of June 2022, and the average daily production volume is 2,500~3,000 tyres currently. Currently, the average daily production capacity is 2,500~3,000 strips. In addition, in July 2021, the Board of Directors of the Company considered and approved the implementation of the Intelligent Manufacturing Project with an annual production capacity of 3 million sets of high-performance all-steel radial tyres (hereinafter referred to as the **"Zazzo Phase IV Project"**) and the project with an annual production capacity of 950,000 high-performance all-steel radial tyres of the Company in Vietnam (hereinafter referred to as the **"Vietnam Phase II Project"**). (hereinafter referred to as **"Vietnam Phase II Project"**), with a total investment of RMB2,301 million (of which RMB2,301 million will be invested in the project through the **"Guilan Rotary" project**).

The company has raised RMB 1.600 billion and RMB 1.176 billion from "bonds". **CITIC believes that** with the construction and commissioning of the company's domestic and overseas planned production capacity in the future, its production capacity and revenue scale will be further increased, and the adoption of a dual-base layout will be conducive to offsetting the current stage of the foreign "double-reverse" tariff rate.

<sup>3</sup>and the unfavourable impact of the US-China trade friction. However, overseas plant



construction also made  
It faces uncertainties in the  
investment and legal environments,  
and political risks and management  
difficulties have increased,

<sup>2</sup> In October 2019, the Company and its subsidiary Guizhou Hercules Tyre Company Limited (hereinafter referred to as the "Hercules Company") signed the "Housing Expropriation Monetary Compensation Agreements (a total of three)" with the Yunyan District Expropriation Bureau in respect of the requisitioned production buildings, with a total compensation amount of RMB2,486 million, of which one phase of the "Housing Expropriation Monetary Compensation Agreement" (a total of three)

The "Monetary Compensation Agreement for House Acquisition" has been fulfilled in 2020 with a total collection of \$991 million.

According to the Company's announcement on 1 January 2022, the Company received two Hercules housing expropriation compensations

As of the end of March 2022, the Company's monetary compensation for this housing expropriation totalled RMB270 million. As at the end of March 2022, the Company has made a total of RMB 270 million in respect of the monetary compensation for the housing expropriation.

requiring attention to changes in trade policies and the company's earnings from overseas bases.

**Table 2: Distribution of the Company's production capacity**

Domestic Plants	Capacity (tonnes/year)	commissioning time
Zazo I	All-steel tyres	2014.7
Zazo II	Bias tyres	2015.1
	126,000	

The Company has received a total of RMB1,261 million in compensation payments, with RMB1,224 million yet to be

in relation to the payment of the remaining compensation payments.

<sup>3</sup> In May 2021, the U.S. Department of Commerce made a final determination imposing varying degrees of anti-dumping duties on passenger car and light truck tyres from Korea, Taiwan, Thailand and Vietnam, and countervailing duties on passenger car and light truck tyres from Vietnam, which do not involve products manufactured at the Company's base in Vietnam for the time being.

Zazo III	All-steel tyres 170,000	2020.11
<b>Vietnam Factory</b>	<b>Capacity (tonnes/year)</b>	<b>commissioning time</b>
Viet Nam I	All-steel tyres 57,000	2021.12

Source: Provided by the company, collated by CITIC International

product ion cap acit y	2019	2020	2021	2022.1~3
All-steel tyres	405.57	432.36	450.80	99.62
slanting tyre	192.62	226.27	266.76	70.80
add up the total	598.19	658.63	717.56	170.43

sale s volu me	2019	2020	2021	2022.1~3
All-steel tyres	406.64	440.40	450.80	99.62
slanting tyre	203.11	223.44	262.36	96.84
add up the total	606.75	664.57	698.16	161.86

production n and marketin g rate	2019	2020	2021	2022.1~3
All-steel tyres	99.52	102.03	96.67	65.28
slanting tyre	105.45	98.75	98.35	136.78
Average sales price	2019	2020	2021	2022.1~3
All-steel tyres	1,148.51	1,106.21	1,161.95	1,385.32
slanting tyre	855.06	821.59	826.58	977.53

orders for all-steel road transport tyres decline, leading to the decline in the production and sales rate of all-steel tyres, and the inventory has increased. Tyre orders decline in the domestic market affected by the epidemic, resulting in all-steel tyre production and sales rate decline, inventory has increased, need to pay attention to the company's downstream market expansion of the above products and the progress of de-inventorying; bias tyre orders continue to increase, driven by the overall production and sales rate of its upward trend. In terms of price, driven by rising raw material prices, the prices of all-steel tyres and bias tyres have risen to different degrees since 2021.

Manufacturers of construction machinery and agricultural machinery. In terms of settlement mode, the company's replacement market and each agent mainly adopt telegraphic transfer or bank acceptance remittance.

**Table 3: Company's production and sales volume by product in recent years (10,000 bars, %, \$/bar)**

Source: Provided by the company, collated by CITIC International

Sales model, the company mainly adopts direct sales for OEMs (i.e. supporting market) and indirect sales with dealers signing agency service contracts (i.e. replacement market) two sales models, while actively developing and expanding ports, mines and other groups of customers who have a greater demand for replacement tyres, at present, the company's cooperation with the supporting OEMs include Sany Group, Lenggong Group, Xugong Group, LiuGong Group, John Deere, Cargotec, Volvo, Koni and other well-known trucks and buses at home and abroad. Deere, Cargotec, Volvo, Konecranes and other well-known trucks and buses at home and abroad,

The billing period is generally not more than 60 days; the main supporting market

The settlement method is banker's acceptance, and the billing period is generally 90~120 days.

Days.

In terms of market, the company's product sales are still mainly in the domestic market. Domestic sales, since 2021, the domestic tyre market competition tends to be fierce, the company's sales growth in the domestic market has also slowed down, affected by the decline in sales of all-steel tyres, the company's domestic sales revenue in 2021 decreased year-on-year. In addition, since April 2022, the domestic epidemic prevention and control tends to tighten, resulting in some areas of logistics and transport obstruction, or will have a certain impact on the company's product sales in the first half of the year, **China Chengxin International** will keep an eye on this.

Overseas sales, in 2021, as overseas downstream vehicle factories have resumed work, tyre export orders demand is also relatively strong, coupled with the company's active access to shipping positions from multiple channels, the annual export sales of tyres increased significantly, the proportion of export revenue also increased from 19.28% to 27.32% in 2020, the future with the release of production capacity of the company's base in Vietnam, the scale of overseas sales is expected to rise further.

Source: Provided by the company, collated by CITIC International

### Main raw material prices continue to rise on the company's cost control, product profitability space is squeezed

Raw materials required for the company's production mainly include natural rubber, auxiliaries, synthetic rubber, steel cord, carbon black, etc. The proportion of raw material cost to operating cost is 78.41% in 2021, and the price of raw materials has a greater impact on the profitability of the company's products. The company's natural rubber is mainly imported from Southeast Asia, the main suppliers are Shidong Rubber Co.

Table 4: Sales of the company's products by

sale s volu me	2019	2020	2021	2022.1~3
domestic	433.49	519.49	529.79	124.69



Ltd., etc. The company purchases rubber through long term contracts to ensure stable supply, and makes timely adjustments through spot and futures purchases according to market price fluctuations. The rest of the raw materials are mainly procured domestically, and the main settlement method is banker's acceptance draft.

Source: Provided by the company, collated by CITIC International

Most of the main raw materials required for the production of the company's petroleum industry chain related to chemical raw materials, its price performance and oil prices show a greater correlation, since 2021, the international crude oil prices and coal tar prices continue to rise and at a high level, coupled with the natural rubber by the impact of the weather supply decline, price increases, the company's raw material procurement prices overall show a substantial increase. **Prudential International believes that** the company's raw material prices accounted for a higher proportion of production costs, and the impact of rising raw material prices can not be fully transmitted to downstream customers in a timely manner, the company's cost control impact, coupled with the domestic tyre industry, product homogeneity is serious, the competition is more intense, faced with structural overcapacity, the company's product profitability space has been squeezed, and in the future we need to continue to pay attention to the purchase price of major raw materials and tyres! The future need to continue to pay attention to the main raw material procurement prices and tyre market conditions change on the stability of the company's profitability.

Table 5: Company purchases in recent years

		2019	2020	2021	2022.1~3
(unit: 10,000 tonnes, 10,000 yuan/tonne)					
natural rubber	procurement volume	12.89	13.32	13.58	3.36
	average price	1.01	0.98	1.12	1.16
synthetic rubber	procurement volume	4.92	5.50	6.34	1.66

**In the future, the company will continue to accelerate the construction of dual bases to comprehensively enhance the competitiveness of the tyre manufacturing business, and the larger-scale project investment may cause the company to face a certain pressure on capital expenditure; during the tracking period, the company maintained a better product research and development capability and technical strength**

In the future, the Company will continue to strengthen the measures of "one turn, one reduction, one adjustment, one supplement and one construction" (i.e. transferring production capacity to overseas, reducing costs in all aspects, adjusting production and sales structure, comprehensively filling short boards in efficiency and management, and building a beautiful Guilun), accelerate the progress of the project of expanding production capacity of the dual bases in Zazo and Vietnam, and continuously and comprehensively improve the three major competitiveness of products, costs and services. We will continuously and comprehensively improve the competitiveness of products, costs and services, promote transformation and upgrading, and achieve

internationalised, intelligent and green high-quality development.

As at the end of March 2022, the total planned investment of the Company's projects under construction is as follows 3,189 million, with \$1,222 million still to be invested; Proposed Project

With a total planned investment of RMB2,301 million, there is a certain pressure on capital expenditure, and CITIC will keep an eye on the financing, construction progress, capacity release and revenue of the relevant projects.

In terms of product research and development and technology, the company has established a national enterprise technology centre and postdoctoral research station, provincial green tyre engineering technology research centre and provincial high-performance tyre engineering research centre, and has mastered the key technologies of tyre research and development, design and production at the advanced level in China, and the mastery rate of the key technologies of the dominant products has reached 100%, which are entirely produced by self-developed technologies. In the past three years, the company has presided over and participated in the formulation of 19 national standards, independently researched and developed and is in the period of validity.

A total of 136 technology patents (including 8 invention patents, utility model patents).

(46 patents and 82 design patents) the main products are in the leading position in the same industry, and the main performance indexes of some products have reached the international advanced level, with certain R&D advantages.

**Table 6: Company's ongoing and proposed projects as at end-March 2022 (\$bn)**

Name of project under construction	Total planned investment	Cumulative investment	2022 April to December Planned Investment	Planned investments in 2023
www.ccxi.com.cn Zazo All Steel III	15.45	24 12.24	Guizhou Tyre Company Limited 2022 Tracking Rating Report 3.21	—
Vietnam Phase I Project	14.34	7.43	6.91	—
High-tech Zone R&D Centre, Office Building	2.10	—	0.70	1.40

Note: There is no clear investment plan for the second phase of the company's Vietnam project. Source: Provided by the company, collated by China Chengxin International.

## Financial analysis

The following analysis is based on the 2019~2021 financial reports audited by Zonghua

Accounting Firm (Special General Partnership)

with a standard unqualified opinion and the statements disclosed by the company. The

incomes	2019	2020	2021	2022.1~3
Tyre business	65.72	67.16	72.31	18.48
Compound and others	0.44	0.48	0.42	0.08
Other business	0.42	0.45	0.66	0.07
<b>total revenue</b>	<b>64.58</b>	<b>68.09</b>	<b>73.39</b>	<b>18.63</b>
gross margin	2019	2020	2021	2022.1~3
Tyre business	19.83	23.40	15.56	15.73
Compound and others	11.94	7.89	13.65	7.51
Gross	20.13	23.63	15.73	14.47

**In 2021, tyre production and sales volume and sales price rose to drive year-on-year growth in revenue scale, but by the impact of raw material prices rose sharply, operating profitability declined year-on-year, the future still need to continue to pay attention to the impact of fluctuations in the price of raw materials on the stability of profitability and cost management and control situation**

In 2021, benefited from the tyre production and sales volume increase and sales price rise, the company's total operating income to maintain the growth trend, but by the rubber, carbon black, steel curtain and other major raw material prices and power costs rose sharply, intensified competition in the domestic market and other unfavourable factors, the company's tyre business gross margin and the overall gross margin level declined; in the same year, the mixing rubber and other business gross margin year-on-year, but due to the small size of the revenue to the company's overall gross margin impact. In the first quarter of 2022, sales volume and price rise led the company's total operating income increased by 4.57% year-on-year, but the gross profit margin showed a downward trend, the future still need to pay attention to the impact

of raw material cost fluctuations on the stability of the company's profitability and the company's cost control situation.

**Table 7: Revenue and Gross Margin Composition of the Company by Segment in Recent Years (\$bn, %)**

Source: Provided by the company, collated by CITIC International

Benefiting from the continuous promotion of cost reduction and efficiency enhancement, the company will achieve further reduction in the scale of period expenses in 2021. Specifically, the sales expenses will increase slightly with the growth of business scale; the burden of personnel salaries will be reduced, leading to the reduction of management expenses; with the arrival of the proceeds from the company's non-public offering of shares to generate a certain amount of interest income as well as the decline in financing costs, the company will be able to reduce its expenses in 2021, and the company will be able to reduce its expenses in 2021.

Finance costs were also reduced. Combined with the above factors, the Company's period expense ratio has been further reduced since 2021, and its ability to control expenses has been continuously improved.

Under the influence of gross profit margin decline brought about by substantial increase in raw material costs, the company's operating business profit decreased year-on-year in 2021, coupled with the unsustainable supplement to the proceeds from the disposal of assets for housing relocation in 2020, and the asset impairment losses mainly due to bad debt losses and losses on decline in the value of inventories also eroded profits, the above factors made the company's total profit decline by 70.67% year-on-year in 2021, and the EBITDA margin and return on total assets also fell to 10.39% and 3.76% respectively. In the first quarter of 2022, the company is still facing the impact of unfavourable factors such as high raw material prices and frequent occurrence of domestic epidemics, resulting in a year-on-year decrease of 46.96% in total profit and weakening of profitability.

**Table 8: Indicators related to corporate profitability in recent years (\$ billion, %)**

Note: "Research and development expenses" are recorded in "Administrative expenses" and "Credit impairment losses" are recorded in "Asset impairment losses". Note: "Credit impairment loss" is recorded as "Asset impairment loss"; due to the lack of relevant data, some indicators for the first quarter of 2022 cannot be calculated. Source: Financial statements of the company, collated by CITIC.

**Since 2021, total assets have further increased with the advancement of twin-base construction and the expansion of operating scale, and the non-public offering of shares and profit accumulation have further pushed up the scale of equity, resulting in an overall decrease in the level of financial leverage; however, the scale of debt has increased and the debt structure, which is dominated by short-term debt, has yet to be optimised.**

With the advancement of the construction of dual bases and the expansion of operation scale, the total asset scale of the Company has further increased since 2021. Specifically, the Company's book money funds are relatively abundant, and their scale fluctuates slightly with the income and expenditure of business operating funds, external investment and financing, etc. As at March 2022, the Company's total assets have increased further.

Restricted currency funds at the end of the year amounted to RMB356 million, which were mainly restricted as promissory notes and credit deposits, etc.; the company's export business since 2021 has realised a total of RMB1.5 billion.

	2019	2020	2021	2022.1-3
sales expense	3.80	2.24	2.51	0.61
overheads	5.03	5.98	5.66	1.26
financial cost	1.04	1.11	0.33	0.05
Total period costs	9.87	9.33	8.50	1.92
period cost ratio	15.28	13.70	11.58	10.32
Profit from operating activities	2.37	6.41	2.98	0.68
Gain on disposal of assets	0.00	6.91	0.97	0.00
Impairment losses on assets	0.59	-0.06	0.14	0.03
Total profit	1.50	13.28	3.90	0.65
EBITDA	6.57	17.63	7.63	-

However, the relatively long shipment and payment terms for exports have led to an increase in the scale of accounts receivable, and the accumulated bad debt provision has been made by the end of 2021.

At the end of the same period, notes receivable continued to decline with the decline in the proportion of settlement using notes; the company's book inventory is mainly inventory goods, which has increased since 2021 with the slowdown in the sales of truck tyres and other products. **CCSIC is concerned that** the continuous increase in the scale of accounts receivable and inventory and the decline in the turnover speed of the company's accounts receivable and inventory since 2021 have caused a certain degree of occupation of working capital, and it is necessary to continue to pay attention to the recovery of accounts receivable and the progress of de-inventorying in the future. In terms of non-current assets, other equity instruments are the company's investment in Guiyang Bank Co., Ltd., Guizhou Bank Co., Ltd. and Guiyang Rural Commercial Bank Co., Ltd. and the fair value of the above investments declined in 2021, resulting in a decrease in their carrying amount; with the gradual promotion of the construction of the twin bases, Zazao III project and Vietnam base project have been gradually solidified since 2021, resulting in a decrease in

construction in progress and a decrease in fixed assets. With the gradual progress of the construction of the twin bases, the Zazo III project and the Vietnam base project have been gradually consolidated since 2021, resulting in a decrease in construction in progress and an increase in fixed assets.

The Company's total liabilities, mainly

interest-bearing debt and accounts payable, have continued to increase since 2021. Among them, accounts payable mainly consisted of payables for raw material purchases, which increased with the expansion of business scale and the increase of raw material prices since 2021, and the age of the accounts was mainly within one year. The total debt scale is affected by the increase of bank borrowings and notes payable and continues to increase, and as at the end of March 2022, the proportion of short-term debt of the company increased to 85.19%, and the debt structure needs to be optimised.

In 2021, the Company paid a cash dividend of \$96 million through a non-public offering.

The net proceeds of 984 million yuan from the share issue were used for the construction of the Vietnam base project<sup>4</sup>, coupled with the accumulation of profit for the year, the scale of owner's equity at the end of the year rose to 5,941 million yuan, driving down the financial leverage ratio, and the increase in the scale of debt financing in the first quarter of 2022 led to a rebound in the gearing and total capitalisation ratios.

In addition, in April 2022, the Company completed the issuance of "Guilun Convertible Bonds", raising a total of RMB 1.8 billion for the construction of Zazuo IV and other projects, which further increased the scale of total debt, but in the future, with the gradual conversion of "Guilun Convertible Bonds", the Company's total debt and financial leverage are expected to be suppressed. Leverage is expected to achieve the pressure

<sup>4</sup> In March 2021, the Company made a non-public offering of RMB 6.30 per share to 12 parties, including Guiyang Industrial and Commercial Investment. The Company issued 158,730,158 ordinary shares of RMB, of which Guiyang Industrial and Commercial Investment obtained a placing amount of 4.35 per cent.



Descending.

**Table 9: Major assets, liabilities and capital structure of the company (\$ billion, %)**

the company's net cash flow from operating activities decreased significantly year-on-year;

	2019	2020	2021	2022.3
notes receivable	13.77	13.38	12.47	10.49
accounts receivable	7.53	7.29	9.73	12.26
inventory (of material)	6.89	6.28	9.68	12.45
investments in subsidiaries	7.87	8.65	6.66	6.58
financial instruments	1.11	1.11	1.11	1.11
construction in progress	2.08	9.15	7.43	5.47
fixed assets	33.05	37.63	46.19	49.44
<b>total assets</b>	<b>105.21</b>	<b>115.16</b>	<b>128.76</b>	<b>133.95</b>
short-term debt	50.49	47.12	46.90	42.46
<b>total debt</b>	<b>51.07</b>	<b>44.82</b>	<b>46.90</b>	<b>49.48</b>
Short-term debt/total debt	99.47	82.83	84.34	85.19
accounts payable	10.16	13.25	14.81	16.96
<b>total liability</b>	<b>67.97</b>	<b>66.34</b>	<b>69.35</b>	<b>73.84</b>
paid-up capital	7.75	7.98	9.56	9.56
capital surplus	18.35	18.82	27.17	27.19
unallocated profit	6.44	16.34	18.29	18.85
<b>Total owners' equity</b>	<b>37.24</b>	<b>48.82</b>	<b>59.41</b>	<b>60.09</b>
gearing	64.61	57.61	53.86	55.14
Accounts receivable turnover ratio	7.86	9.19	8.62	6.78*
Inventory turnover	6.94	7.90	7.75	5.76*

Billions of dollars.

Note: Record "Contract assets" as "Inventory"; transfer "Banker's acceptances" from "Receivables financing" back to "Notes receivable". to "Bills receivable" in "Receivables"

Source: Company financial statements, collated by CITIC International

**The level of operating cash flow has dropped significantly, and cash flow from investing activities has shown a large net outflow with the construction of the project; the debt service indicators have weakened, and there is a certain amount of short-term pressure on debt repayment, and it is necessary to continue to pay attention to the matching of investment and financing for the project.**

In 2021, affected by the substantial increase in raw material costs leading to a substantial increase in procurement expenditure,

Mode.

In 2021, the company's earnings and operating cash level declined, coupled with the continued expansion of the scale of debt financing, EBITDA and net cash flow from operating activities to cover debt principal and interest weakened, the relevant debt service indicators weakened, coupled with the total debt is mainly short-term debt, the company is facing a certain degree of short-term debt servicing pressure. In addition, the company has a large amount of money funds on its books, which can form a certain supplement to its debt-servicing capacity, but considering that the company will still have large-scale capital expenditure for the Zazo IV project and the Vietnam II project in the future, it is still necessary to continue to pay attention to the impact of the project's investment and financing matching on the scale of its total debt and the pressure of debt-servicing in the future.

**Table 10: Company cash flow and debt service**

metrics in recent years (billion RMB)	2019	2020	2021	2022.3
Net cash flow from operating activities	17.52	16.59	2.86	-0.08
Net cash flows from investing activities	0.65	-3.54	-7.86	-4.48
Net cash flow from financing activities	-13.04	-10.77	6.46	3.23
Total debt/EBITDA	7.77	2.54	6.15	—
EBITDA Interest cover multiple	4.55	14.25	10.55	—
Net cash flow from operating activities/total debt	0.34	0.37	0.06	-0.01*
Net cash flow from operating activities/interest expense	12.14	13.41	3.95	—
Currency equivalents/short-term debt	0.70	0.91	0.85	0.71

### liquidity to support overall debt servicing capacity

As at the end of March 2022, the Company has obtained total bank credit

facilities amounting to HK\$1.5 billion.

The amount of RMB 8,872 million, of which the unused amount is RMB 4,060 million, has a certain degree of standby liquidity; at the same time, the company is an A-share listed enterprise with smooth financing channels.

As at the end of March 2022, the Company's restricted assets totalled RMB 1,889 million, accounting for 14.10% of the total assets at the end of the period, including restricted money funds of RMB 356 million, notes receivable of RMB 676 million, fixed assets of RMB 731 million, and fixed assets of RMB 1,889 million. billion and intangible assets of \$126 million, reducing the liquidity of this component.

As at the end of March 2022, the Company had no external guarantees and no material pending litigation.

**Past debt performance:** according to the Enterprise Credit Report and related information provided by the Company, on 12 May 2019~2022, the public



All the borrowings of the Company are repayable on maturity and interest is paid on time, and there is no delay in the payment of principal and interest. According to public information, as of the date of the report, the Company has no record of credit default in the open market.

## External support

**The controlling shareholder is a wholly state-owned enterprise and one of the important industrial investment and financing platforms in Guiyang City, as an important carrier of the real economy under its banner, the Company can obtain certain external support in resource deployment and business expansion.**

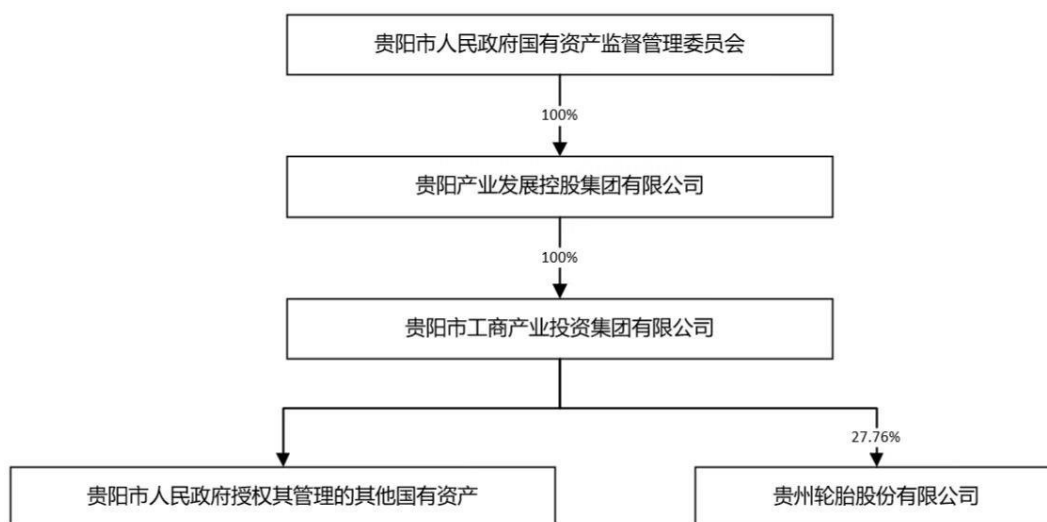
Guiyang AIC is a wholly-owned enterprise under Guiyang State-owned Assets Supervision and Administration Commission and one of the important investment and financing platforms in Guiyang. As at the end of March 2022, the total assets of Guiyang AIC amounted to RMB38.172 billion, and in 2021, it achieved total revenue of RMB11.109 billion and net profit of RMB300 million. The company is one of the important carriers of Guiyang Industrial and Commercial Investment's entity economy, and is also its important revenue scale support and profit support, Guiyang Industrial and Commercial Investment's willingness to support the company is very strong, Guiyang

Industrial and Commercial Investment participated in the company's non-public offering of stock in 2021, the amount of the subscription was 435 million yuan, and in April 2022, Guiyang Industrial and Commercial Investment participated in the issuance of the "Guilun Convertible Bond" original shareholders placing. In April 2022, Guiyang Industrial and Commercial Investment participated in the Company's issuance of "Guilun Convertible Bonds" with a subscription amount of RMB 499.74 million in a placing by the original shareholders. In addition, Guiyang State-owned Assets Supervision and Administration Commission, the de facto controller of Guiyang City, is able to provide greater support to the Company in terms of coordination with the government, deployment of resources and business development.

## Rating conclusions

In summary, CITIC maintains the main credit rating of Guizhou Tyre Co., Ltd. at **AA**, with a stable outlook; and maintains the debt credit rating of "Guilan Convertible Bond" at **AA**.

## Appendix I: Shareholding structure and organisation chart of Guizhou Tyre Company Limited (as at the end of March 2022)



### Major Subsidiaries of the Company

company identification	company abbreviation	registered capital	Shareholding (%)
Guizhou Tyre Import & Export Co.	import-export corporation	20 million	100
Guizhou Advance Tyre Sales Co.	Forward Tyre Sales	20 million	100
Guizhou Hercules Tyre Co.	Hercules tyres	24,000 million	100
Guizhou Advance Tyre Investment Co.	Forward Tyre Investment Company	\$50,000,000	100

The organizational chart shows the internal structure of the company. At the top are the Party Secretary and the Board of Directors, with the Chairman of the Board and the General Manager. The Board Secretary is also shown. Below the Board of Directors are various departments including Enterprise Management, Discipline Inspection, Labor Union, Logistics, Administration, Human Resources, Security, Archives, Equipment Engineering Center, Storage, Technology Improvement, Information Technology, Finance, Company Office, Special Products Technology Center, Experimental Research Center, Full Steel Product Technology Center, Strategic Development Research Institute, Material Supply, Safety and Environmental Protection, Quality Control, Production, Power Supply, Tire Plant, Special Tire Plant, Front-end Plant, Rear-end Plant, Engineering Tire Plant, Technical Service Center, Import and Export Company, Sales Company, Investment Company, New Materials Company, GTC, TIRE RESOURCES, and other subsidiaries.

Source: Provided by the company

## Annex II: Financial Data and Key Indicators of Guizhou Tyre Company Limited (Consolidated Calibre)

Financial data (in millions of yuan)	2019	2020	2021	2022.3
money funds	216,851.76	190,476.96	211,287.84	195,539.28
Net accounts receivable	75,315.67	72,894.66	97,297.02	122,612.62
Other receivables	5,717.70	7,972.62	4,000.23	4,138.37
Net inventory	68,911.94	62,756.07	96,799.82	124,477.18
long-term investment	78,725.43	86,533.88	66,559.31	65,836.46
fixed assets	330,502.85	376,278.97	461,908.41	494,350.45
construction in progress	20,817.50	91,499.98	74,347.27	54,668.88
intangible asset	22,366.07	23,735.30	36,561.34	35,475.20
total assets	1,052,102.92	1,151,622.80	1,287,573.16	1,339,469.73
Other accounts payable	4,161.77	8,484.30	7,213.87	5,444.20
short-term debt	507,931.75	371,241.31	395,532.21	421,575.78
Long-term debt	2,721.02	76,980.55	73,458.17	73,271.06
total debt	510,652.76	448,221.86	468,990.38	494,846.84
net debt	293,801.01	257,744.90	257,702.54	299,307.56
total liability	679,743.75	663,410.24	693,478.01	738,576.73
Expensed interest expense	14,430.00	12,068.70	6,829.32	—
Capitalised interest expenses	—	301.33	404.76	—
Total owners' equity	372,359.17	488,212.56	594,095.15	600,893.01
total revenue	645,833.79	680,872.95	733,927.92	186,305.04
Profit from operating activities	23,709.94	64,074.85	29,758.14	6,795.20
investment income	234.00	1,453.00	1,282.66	0.00
net profit	13,544.25	113,846.92	36,979.84	5,591.30
EBIT	29,461.85	144,914.17	45,797.04	—
EBITDA	65,716.84	176,291.73	76,290.93	—
Net cash flows from operating activities	175,189.19	165,935.77	28,581.30	-778.18
Net cash flows from investing activities	6,464.22	-35,350.16	-78,629.04	-44,757.70
Net cash flows from financing activities	-130,375.11	-107,705.46	64,603.35	32,304.43
capital expenditure	40,670.51	83,524.97	119,709.76	45,347.67
Financial Indicators	2019	2020	2021	2022.3
Gross operating margin (%)	20.13	23.63	15.73	14.47
Period cost ratio (per cent)	15.28	13.70	11.58	10.32
EBITDA margin (%)	10.18	25.89	10.39	—
Return on total assets (%)	2.81	13.15	3.76	—
Return on net assets (%)	3.79	26.46	6.83	3.74*
Current ratio (X)	0.83	0.89	0.98	0.94
Quick ratio (X)	0.73	0.78	0.82	0.75
Inventory turnover (X)	6.94	7.90	7.75	5.76*
Accounts receivable turnover (X)	7.86	9.19	8.62	6.78*
Gearing ratio (%)	64.61	57.61	53.86	55.14
Total capitalisation rate (%)	57.83	47.86	44.12	45.16
Short-term debt/total debt (per cent)	99.47	82.83	84.34	85.19
Net cash flow from operating activities/total debt (X)	0.34	0.37	0.06	-0.01*
Net cash flow from operating activities/short-term debt (X)	0.34	0.45	0.07	-0.01*
Net cash flow from operating activities/interest expense (X)	12.14	13.41	3.95	—
Adjusted net cash flow from operating activities/total debt (%)	31.14	33.51	1.52	—

Total debt/EBITDA (X)	7.77	2.54	6.15	—
EBITDA/short-term debt (X)	0.13	0.47	0.19	—
EBITDA Interest cover multiple (X)	4.55	14.25	10.55	—
EBIT Interest cover multiple (X)	2.04	11.71	6.33	—

Note: 1. The first quarterly report of 2022 is unaudited; 2. CCSIC adjusted the finance lease payments included in "Long-term payables" to long-term debts in its analysis; 3. "Contract assets" was included in "Inventories", "R&D expenses" was included in "Administrative expenses", and "Credit impairment loss" was included in "Asset impairment". The "contract assets" were included in "inventories", "research and development expenses" were included in "administrative expenses", and "credit impairment losses" were included in "asset impairment losses". Losses on credit impairment are included in "Losses on asset impairment"; 4. Indicators marked with "\*" have been annualised; 5. Due to the lack of relevant data, some of the indicators for the first quarter of 2022 cannot be calculated.

## Annex III: Formulas for basic financial indicators

nor		formula
c a p i t a l s t r u c t u r e	Cash and its equivalents (monetary equivalents)	= Monetary funds (cash) + financial assets at fair value through profit or loss/financial assets for trading Assets + notes receivable
	long-term investment	= Available-for-sale financial assets + held-to-maturity investments + long-term equity investments
	short-term debt	= Short-term borrowings + financial liabilities at fair value through profit or loss/financial liabilities held for trading + accrued interest payable Notes payable + non-current liabilities due within one year + other debt adjustments
	Total capitalisation rate	= $\frac{\text{long-term loans} + \text{bonds payable} + \text{lease liabilities} + \text{other debt adjustments}}{\text{total debt} + \text{total owner's equity}}$
o p e r a t i o n a l e f f i c i e n c y	Inventory turnover	= $\frac{\text{average net operating income}}{\text{average net operating costs/inventories}}$
	Accounts receivable turnover ratio	= $\frac{\text{total debt} - \text{currency funds}}{\text{average net operating income/accounts receivable}}$
	turnover ratio	= Total liabilities/total assets
	Cash flow days	= average net accounts receivable x 360 days/operating income + average net inventories x 360 days/operating costs - accounts payable
		Average net amount x 360 days / (operating costs + closing net inventory - opening net inventory)
p r o f i t a b i l i t y	Gross operating profit margin	= (Operating income - operating costs)/Operating income
	Profit from operating activities	= Total operating income - Operating costs - Interest expense - Fees and commissions - Surrender premiums - Net claims expense - Net withdrawal of insurance contract reserves - Policy dividend expenses - Reinsurance expenses - Taxes and surcharges - Period expenses + Others proceed
	EBIT (earnings before interest and tax)	= Total profit + expensed interest expense
	EBITDA (earnings before interest, taxes, depreciation and amortisation)	= EBIT + depreciation + amortisation of intangible assets + amortisation of long-term amortisation charges
	return on total assets	= EBIT/average balance of total assets
	return on net assets	= average of total net profit/owners' equity
	EBIT margin	= EBIT/total operating income for the year
	EBITDA margin	= EBITDA/total operating income for the year
c a s h f l o w s	capital expenditure	= Cash paid for acquisition of fixed assets, intangible assets and other long-term assets
	Adjusted net cash flow from operating activities (CFO-) (Dividends)	= Net cash flow from operating activities (CFO) - cash paid to distribute dividends, profits or interest payments
	FCF	= Net cash flow from operating activities - cash paid for acquisition of fixed assets, intangible assets and other long-term assets - distribution of shares Cash paid for interest, profit or interest repayment
	Retained cash flow	= Net cash flow from operating activities - (Decrease in inventories + Decrease in operating receivables + Increase in operating payables) - (Cash paid in dividends, profits or interest repayments - Financial interest expense - Capitalised interest expense) (out)
s o l v e n c y	current ratio	= Current assets/current liabilities
	quick ratio	= (Current assets - inventories)/current liabilities
	interest expense	= Expensed interest expense + capitalised interest expense
	EBITDA Interest cover multiple	= EBITDA/interest expense
	EBIT Interest cover multiple	= EBIT/interest expense

NE Interest expenses, fee and commission expenses, surrender premiums, net claims expenses, net withdrawal of insurance contract reserves,

policy dividend expenses and reinsurance expenses" are exclusively for financial and related enterprises involved in financial business. According to the ~~in~~ the Revision and Issuance of the Format of Financial Statements of General Enterprises for the Year 2018 (Caixin [2018] No. 15) for enterprises that have implemented the new financial standards, the formula for calculating long-term investments is as follows: "Long-term investments = Debt investments + Other investments in equity instruments + Other debt investments + Other non-current financial assets + Long-term equity investments "

## Annex IV: Symbols and Definitions of Credit Ratings

Master Class Symbol	hidden meaning
<b>AAA</b>	The subject is extremely capable of repaying its debts, is largely unaffected by the unfavourable economic environment and has a very low risk of default.
<b>AA</b>	The subject is highly capable of repaying its debts, is less affected by the unfavourable economic environment and has a very low risk of default.
<b>A</b>	The assessed parties are more capable of repaying their debts, are more susceptible to unfavourable economic environments and have a lower risk of default.
<b>BBB</b>	The subject's ability to repay its debts is average, and it is subject to an unfavourable economic environment and an average risk of default.
<b>BB</b>	The subject of the assessment has a weak ability to repay its debts, is significantly affected by the unfavourable economic environment and has a high risk of default.
<b>B</b>	The ability of the subject to repay its debts is more dependent on a favourable economic environment and the risk of default is high.
<b>CCC</b>	The ability of the subject to repay its debts is extremely dependent on a favourable economic environment and the risk of default is extremely high.
<b>CC</b>	Subjects are afforded less protection in the event of insolvency or reorganisation and are largely unable to secure repayment of their debts.
<b>C</b>	The subject of the assessment is unable to repay the debt.

Note: Except for AAA, CCC and the following grades, each credit rating can be fine-tuned with "+" and "-" symbols to indicate slightly higher or lower grades.

Medium and long-term bond rating symbols	hidden meaning
<b>AAA</b>	The bonds are extremely safe, largely unaffected by unfavourable economic conditions and have a very low risk of default.
<b>AA</b>	The bonds are highly secure, less vulnerable to adverse economic conditions and have a very low risk of default.
<b>A</b>	Bonds are safer, more vulnerable to unfavourable economic environments and have a lower risk of default.
<b>BBB</b>	Bonds are generally safe, subject to an unfavourable economic environment and have an average risk of default.
<b>BB</b>	Bonds are weakly secured, highly exposed to unfavourable economic conditions and have a high risk of default.
<b>B</b>	Bond security is more dependent on a favourable economic environment and the risk of default is high.
<b>CCC</b>	Bond security is extremely dependent on a favourable economic environment and the risk of default is extremely high.
<b>CC</b>	There is basically no guarantee that the bonds will be repaid.
<b>C</b>	Cannot repay bonds.

Note: Except for AAA, CCC and the following grades, each credit rating can be fine-tuned with "+" and "-" symbols to indicate slightly higher or lower grades.

Short-term bond rating symbols	hidden meaning
<b>A-1</b>	It is a top-rated short-term bond with little risk of debt servicing and a high degree of safety.
<b>A-2</b>	Less risk of debt servicing and higher security.
<b>A-3</b>	Debt service risk is average and security is vulnerable to adverse environmental changes.
<b>B</b>	Debt service risk is high and there is some risk of default.
<b>C</b>	Debt service risk is high and default risk is high.
<b>D</b>	Failure to make scheduled debt service payments.

Note: Each credit rating is not subject to fine-tuning.