

## **RATING ACTION COMMENTARY**

### **Fitch Affirms ChemChina at 'A'; Outlook Stable**

Sun 08 May, 2022 - 21:37 ET

Fitch Ratings - Hong Kong - 08 May 2022: Fitch Ratings has affirmed China National Chemical Corporation Limited's (ChemChina) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

Fitch rates ChemChina on a top-down basis under its Parent and Subsidiary Linkage (PSL) Rating Criteria. This reflects the low legal, high strategic and high operational incentives for the parent, Sinochem Holdings Corporation Ltd. (Sinochem Holdings) to provide support to wholly owned ChemChina.

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

The Stable Outlook reflects our expectation that linkages between Sinochem Holdings and ChemChina will remain intact.

## **KEY RATING DRIVERS**

**Sinochem Holdings Linked to State:** We assesses Sinochem Holdings' status, ownership and control by the Chinese state as 'Strong' because of the government's full ownership and control of the company. We assess Sinochem Holdings' support record as 'Strong'. The company and its predecessors have consistently received government policy and financial support. We expect Sinochem Holdings to continue receiving state support due to its strategic importance to China's agricultural industry and food security as well as the development of the chemical industry.

We assess the socio-political implications of a default by Sinochem Holdings as 'Very Strong', as the company plays a pivotal role in China's supply of chemicals for the agricultural industry. We assess the financial implications of a default as 'Strong'.

Financial distress at Sinochem Holdings would limit funding for other state-owned enterprises, as the company and its subsidiaries are active domestic and offshore bond issuers.

**Parental Linkages Drive Rating:** ChemChina's ratings are derived from our internal assessment of the creditworthiness of Sinochem Holdings under PSL criteria where Sinochem Holdings is the stronger parent. After a reorganisation in 2021, ChemChina has effectively become a legal entity as its actual management and finance functions have merged with the relevant offices of Sinochem Holdings. However, ChemChina remains the direct controlling shareholder of some of the most important operating assets of the parent, and still has a substantial amount of outstanding debt.

**High Operational Incentive:** We assess the parent's operational incentive to support ChemChina as 'High'. Sinochem Holdings has full control over ChemChina. The two have substantial overlap in senior management. ChemChina is integral to Sinochem Holdings as its agrochemical, materials, specialty chemical and animal nutrition businesses are key pillars of the parent's core operations. Substantial synergies along the chemical value chain exist between the subsidiaries of ChemChina and the other operating entities of Sinochem Holdings.

**High Strategic Incentive:** We assess Sinochem Holdings' strategic incentive to support ChemChina as 'High'. ChemChina makes accounts for over half of Sinochem Holdings' EBITDA and total assets. ChemChina owns the most strategically important agrochemical business of the parent via Syngenta Group Co., Ltd. (Syngenta Group, A/Stable), which is a global leader in crop protection, seeds and crop nutrition products. ChemChina and its subsidiaries' assets and operations provide critical competitive advantage to Sinochem Holdings in the domestic and global markets.

**Low Legal Incentive:** We assess the parent's legal incentive to support ChemChina as 'Low' due to the absence of legal ties between ChemChina and Sinochem Holdings in the form of guarantees and cross-default clauses in their debt documents.

**Leverage to Remain High:** Fitch expects ChemChina to gradually deleverage during 2022-2025 with Syngenta Group's IPO and steady expansion in EBITDA. However, the company's leverage, measured by net debt/EBITDA, is likely to remain high at 9x-10x, despite dropping from 12x-13x in the past. We believe leverage control is one of the priorities for ChemChina and its parent in the short to medium term. In addition, the subsidiaries of ChemChina are seeking to enhance collaboration with other entities under Sinochem Holdings to create more synergies.

## **DERIVATION SUMMARY**

ChemChina's rating and linkages with its parent are comparable with those of Baoshan Iron & Steel Co. Ltd. (Baosteel, A/Positive). Baosteel, which is China Baowu Steel Group Corporation Limited's (A/Positive) major operating entity, holds around half of the group's total production capacity. The operational and strategic importance of ChemChina and Baosteel to their respective parents are similar.

## **KEY ASSUMPTIONS**

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

- Revenue to grow by 5.7%-8.5% a year during 2022-2025
- EBITDA margin to be 8.3%-8.7% during 2022-2025
- Capex of CNY25 billion a year during 2022-2025
- Annual net acquisition spending of CNY1.1 billion-5 billion during 2022-2025, primarily due to acquisition activities by Syngenta Group
- Net proceeds of USD10 billion from Syngenta Group's IPO in 2022

## **RATING SENSITIVITIES**

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

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

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

- Negative rating action on the Chinese sovereign
- Decreased likelihood of state support to Sinochem Holdings
- Weakening linkages between Sinochem Holdings and ChemChina

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

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

- Structural features: A further rise in macro-financial risks, for example through failure to maintain credit growth close to or below nominal GDP growth over the next few years.

- Public finances: A sustained upward trend in government debt/GDP, or a crystallisation of contingent liabilities that leads to a sharp rise in government debt relative to 'A' peers.

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

- Structural features: A material reduction in macro-financial risks and associated contingent liabilities facing the sovereign, for example, by maintaining credit growth below nominal GDP growth over a multi-year period, which would cause the removal of the -1 qualitative overlay notch on structural features.

- External finances: Evidence of widespread adoption of the Chinese yuan as a global reserve currency, as reflected in a substantial increase in the share of yuan-denominated claims in the IMF's currency composition of official foreign-exchange reserves (COFER) database.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **LIQUIDITY AND DEBT STRUCTURE**

**Adequate Liquidity:** As of end-2021, ChemChina had readily available cash of over CNY50 billion with short-term debt of over CNY190 billion. ChemChina's liquidity remains adequate as it now has access to Sinochem Holdings' treasury and ample bank facilities to support its funding needs.

## **ISSUER PROFILE**

ChemChina is a leading supplier of agrochemicals, tyre and rubber products, chemical materials and specialty chemicals. Syngenta Group, the global crop protection and seeds leader, is a wholly owned subsidiary of ChemChina.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

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

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

ChemChina's rating is derived from Fitch's internal assessment of the creditworthiness of Sinochem Holdings under Fitch's Parent and Subsidiary Linkage Rating Criteria.

ESG CONSIDERATIONS

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

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
China National Chemical Corporation Limited	LT IDR	A Rating Outlook Stable		A Rating Outlook Stable
	Affirmed			
senior unsecured	LT	A	Affirmed	A
CNAC (HK) Finbridge Company Limited				
senior unsecured	LT	A	Affirmed	A
subordinated	LT	BBB+	Affirmed	BBB+

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senior unsecured

LT

A-

Affirmed

A-

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[VIEW ADDITIONAL RATING DETAILS](#)

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## **APPLICABLE CRITERIA**

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

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

[Corporate Rating Criteria - Effective from 15 October 2021 to 28 October 2022 \(pub. 15 Oct 2021\)](#) (including rating assumption sensitivity)

[Sector Navigators - Addendum to the Corporate Rating Criteria - Effective from 15 October 2021 to 15 July 2022 \(pub. 15 Oct 2021\)](#)

[Parent and Subsidiary Linkage Rating Criteria - Effective from 1 December 2021 to 16 June 2023 \(pub. 01 Dec 2021\)](#)

## **APPLICABLE MODELS**

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 ([1](#))

## **ADDITIONAL DISCLOSURES**

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China National Chemical Corporation Limited  
CNAC (HK) Finbridge Company Limited  
CNRC Capitale Limited

EU Endorsed, UK Endorsed  
EU Endorsed, UK Endorsed  
EU Endorsed, UK Endorsed

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