China Chengtong Holdings Group Co., Ltd.'s 2019-1 Debt-for-Equity Swap Bonds

Ratings

Long-term credit rating of the issuer: AAA
Credit rating for this bond: AAA
Rating outlook: Stable

Bond overview:

Issue size (current tranche): CNY 3.1 billion
Maturity of this issue: 5 years
Debt servicing method: Annual interest payment, and bullet repayment of principal at maturity
Use of proceeds: To be used for the market-based debt-for-equity swap project

Rating assigned date: May 28, 2019

Financial data

Item	2016	2017	2018
Cash assets (CNY 100mn)	345.67	666.21	1001.04
Total assets (CNY 100mn)	1082.26	1690.61	2474.56
Owners' equity (CNY 100mn)	611.34	1046.25	1540.71
Short-term liabilities (CNY 100mn)	206.17	177.17	228.42
Long-term liabilities (CNY 100mn)	138.33	273.72	416.51
Total liabilities (CNY 100mn)	344.49	450.89	644.93
Revenue (CNY 100mn)	621.54	828.75	1016.55
Total profit (CNY 100mn)	20.27	24.85	28.23
EBITDA (CNY 100mn)	45.93	52.87	66.08
Net cash flow from operating activities (CNY 100mn)	2.12	10.32	142.74
Operating profit margin (%)	6.71	6.30	6.93
ROE (%)	2.41	1.02	1.17
Debt-to-asset ratio (%)	43.51	38.11	37.74
Total debt capitalization ratio (%)	36.04	30.12	29.51
Current ratio (%)	214.65	311.17	292.62
Operating cash flow-to-current liabilities ratio (%)	0.66	2.99	29.09
Total liabilities / EBITDA (x)	7.50	8.53	9.76
EBITDA-to-interest cover (x)	3.91	3.71	2.82

Notes: 1. Short-term liabilities include other interest-bearing current liabilities; 2. Long-term liabilities include interest-bearing debts recognized as long-term accounts payable; 3. Monetary funds with restricted use have been removed from cash assets.

Analysts

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Rationale

The ratings assigned by China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") to China Chengtong Holdings Group Co., Ltd. (the "Company") reflect the fact that as a pilot enterprise for state-owned capital operations directly affiliated to the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council, the Company holds an important functional position and boasts distinct advantages in terms of strong policy support granted by the government and its entitlement for receiving free state-owned equities and assets. Furthermore, the logistics business operated by the Company, as the controlling shareholder, has abundant resources and the largest area for storage; the integrated business operation which combines forestry, pulp and paper is highly competitive, benefiting from a complete industrial chain and diversified product lines. Lianhe Ratings also notices that due to the slowdown in macroeconomic growth and fluctuations in commodity prices, profitability of the production material trade controlled by the Company has weakened; the high proportion of minority shareholders to owner's equity and the instability of shareholding may adversely affect the Company's business operation and development.

In 2016, five ministries and commissions announced the reorganization and designation of the Company as a pilot enterprise for operations of state-owned capital, with priority given to functions such as shareholding management and capital operations, as well as state-owned enterprise (SOE) reforms and restructuring. Therefore, the Company plays an important role in this new structure. In 2017, through a free assets transfer, the Company becomes an indirect controlling shareholder of CTS International Logistics Corporation Ltd. ("CTS International

Logistics"). Its powerful logistics network and large-scale commodity trade businesses are expected to create a synergy with CTS International Logistics' logistics operations, further improving the Company's overall competitiveness. Lianhe Ratings assigns the "stable" outlook rating to the Company.

To a certain extent, the Company's debt level will be affected by the bond offering. The Company has set up a dedicated account and a debt repayment account for proceeds of the bond issue, which will make it easier to ensure compliance in the use of proceeds and in the collection of funds.

Based on a comprehensive assessment of the bond issuer's long-term credit profile and its ability to repay debts associated with the bond tranche, Lianhe Ratings concludes that the risk of default on the bond repayment is extremely low.

Strengths

1. As one of the two pilot enterprises for state-owned capital operation, the Company serves as an important platform for pushing forward the reform and restructuring of central SOEs, and plays a leading role in state-owned asset integration and operation among central SOEs in line with its business and functional roles.
2. The government has injected a large amount of state-owned capital, equities and assets into the Company in recent years. As of the end of 2018, it had received equities from 21 central government controlled SOEs floated on the market, with a total worth of CNY 50.935 billion (calculated based on market cap at the time of transfer). These assets have been recognized as financial assets available for sale.
3. The Company played a leading role in establishing China Structural Reform Fund Corporation Ltd. (CSRF), a fund that supports SOEs under central government control in the business integration of core industries and reorganization based on their lines of businesses. As of the end of 2018, CNY 98.826 billion had been raised for the fund in the first tranche. The Company is the ultimate controller and has included the CSRF in its consolidated financial statements, leading to a substantial increase in total assets and capital resources.
4. The Company has the largest and most widely distributed logistics, container transportation and metal distribution networks in China, covering services like warehousing, delivery and information provision. It has forged ahead with modern logistics business transformation, broadening the outlook for business development. After acquiring a 45.81% of state-owned stake in CTS International Logistics in 2017, the Company became the indirect controlling shareholder of the logistics firm. In the future, synergies are expected to arise from integration of CTS International Logistics' assets and the Company's logistics and commodity trade businesses.
5. On the papermaking front, the Company has almost 13.33 hectares of forests in China, and its pulp production capacity is close to two million tons, ranking it among the largest and most competitive papermakers in the country.

Concerns

1. Due to the slowdown in macroeconomic growth and fluctuations in commodity prices, profitability of businesses operated by the Company as the controlling shareholder has weakened, and working capital has been tied up by large amounts of accounts receivable and inventories, exposing the Company to bad-debt and price cut risks.
2. Minority shareholders account for a large proportion of owner's equity. In 2018, equity transfers originally recorded as capital

surplus were recognized as undistributed profits, resulting in a spike in undistributed profits relative to owner's equity attributable to the parent company. It has made shareholding less stable.

3. As a shareholding platform, the parent company's assets and capital are limited, and its capital operations are heavily reliant on external funding, meaning that the parent company is under considerable debt burdens.