

Hunan Provincial Expressway Group Co., Ltd.'s 2019-3 Medium-term Notes

Ratings:
Long-term credit rating of the issuer: AAA
Credit rating of the medium-term notes
(MTN): AAA
Rating outlook: Stable
MTN overview:
Scale of the MTN: basic issue size of CNY 700 million, up to CNY 2 billion

Maturity of this issue: 3+2 years (at the end of the third interest-bearing year, the Company has the option to adjust the coupon rates, while investors have the option to sell their notes back to the Company)

Debt servicing method: Annual interest payment, and bullet payment of principal at maturity

Use of proceeds: To repay existing debt

Date of rating: July 16, 2019

Financial data

Item	2016	2017	2018	March 2019
Cash assets (CNY 100mn)	82.89	132.48	128.80	91.81
Total assets (CNY 100mn)	4,007.37	4,245.28	4,616.41	4,666.10
Owners' equity (CNY 100mn)	1,257.52	1,362.97	1,558.29	1,564.93
Short-term liabilities (CNY 100mn)	292.02	450.22	343.13	319.47
Long-term liabilities (CNY 100mn)	2,392.64	2,363.14	2,654.45	2,709.42
Total liabilities (CNY 100mn)	2,684.67	2,813.36	2,997.58	3,028.89
Revenue (CNY 100mn)	123.14	137.71	141.38	41.75
Total profit (CNY 100mn)	86.34	8.51	5.56	6.76
EBITDA (CNY 100mn)	196.59	133.47	121.69	--
Net cash flow from operating activities (CNY 100mn)	62.84	94.62	148.81	51.41
Operating profit margin (%)	77.33	77.77	81.46	85.26
ROE (%)	6.84	0.52	0.33	--
Debt-to-asset ratio (%)	68.62	67.89	66.24	66.46
Total debt capitalization ratio (%)	68.10	67.36	65.80	65.93
Current ratio (%)	92.82	46.58	53.06	42.50
Operating cash flow-to-current liabilities ratio (%)	18.74	18.91	38.35	--
Total liabilities/EBITDA (x)	13.66	21.08	24.63	--
EBITDA-to-interest cover (x)	1.31	0.86	0.81	--

Note: Financial data for 1Q2019 are unaudited; of other current liabilities, (ultra) short-term financing paper has been included in short-term liabilities, and the interest-bearing portion of long-term payables has been included in long-term liabilities

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Rationale

Hunan Provincial Expressway Group Co., Ltd. (the "Company") is the only state-owned company engaged in highway investment and operations in Hunan province. It boasts significant advantages in asset scale and external support, and enjoys a monopoly position in the province's expressway sector. In recent years, as more expressways are open to traffic, synergies associated with its road network have become more visible, and its toll revenue has continued to grow. China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") also finds certain adverse factors on its credit rating. For example, the Company faces pressure in capital expenditure, has a heavy debt burden, and faces heavy pressure to repay short-term liabilities, toll collection rights of a large proportion of its expressway projects are pledged, and its overall profitability is weak.

The Company's operating cash flow and EBITDA offer a high degree of protection for this MTN.

As more expressways built by the Company are completed and open to traffic in recent years, a more sophisticated highway network has been basically formed in Hunan. In the future, as the regional economy continues to grow, synergies associated with the road network will become more visible, and the Company's toll revenue and profitability are set to improve. In the meantime, given factors conducive to its medium- and long-term development, Lianhe Ratings' rating outlook for the Company is stable. For example, the Company holds an important position in Hunan's expressway sector, and is poised to continue to receive substantial government backing in terms of project investment, policy and debt repayment arrangements.

Based on an overall assessment of the Company's long-term credit history and its ability to repay the MTN, Lianhe Ratings concludes that the risk of nonpayment of this MTN is extremely low.

Strengths

1. Hunan province is a road transportation hub in Central and South China, with stable economic development.
2. As an entity engaged in highway investment and operations and wholly-owned by Hunan's State-Owned Assets Supervision and Administration Commission, the Company enjoys a monopoly position in the province's expressway sector and substantial backing from the Hunan provincial government in various aspects.
3. The Company also has quality road assets, with car traffic and toll revenue on the rise. In the future, as synergies associated with Hunan's more sophisticated highway network gradually manifest, the Company is set to see a sustained increase in both car traffic on its toll roads and toll revenue.

Concerns

1. With interest-bearing liabilities continuing to rise, the Company has a heavy debt burden and faces heavy pressure to repay short-term liabilities.
2. The Company's profit is highly dependent on government subsidies, and its profits are significantly eroded by its operating expenses, with a relatively weak profitability.
3. Toll collection rights of a large proportion of its expressway projects are pledged, which will constrain its future fund-raising activities and asset operation.
4. Since both its projects under construction and proposed projects require heavy investment, the Company faces certain pressure in capital expenditure.