# Credit Rating Report for Hunan Valin Iron and Steel Group Co., Ltd.'s 2019-3 Medium-term Notes

**Ratings:**
**Long-term credit rating of the issuer:** AAA
**Credit rating of this medium-term notes (MTN):** AAA
**Rating outlook:** Stable
**Scale of this issue:** no more than CNY 1.5 billion
**Maturity of this issue:** 3 years
**Debt servicing method:** Annual interest payment, repayment of principal at maturity
**Use of proceeds**: Repayment of bank loans or debt financing instruments due
**Date of rating:** April 28, 2019

### Financial data

| Item | 2016 | 2017 | 2018 |
|---|---|---|---|
| Cash assets (CNY100mn) | 154.26 | 159.26 | 168.71 |
| Total assets (CNY 100mn) | 1218.27 | 1171.13 | 1100.09 |
| Owners' equity (CNY 100mn) | 194.23 | 388.95 | 443.04 |
| Short-term liabilities (CNY 100mn) | 648.05 | 461.18 | 311.31 |
| Long-term liabilities (CNY 100mn) | 157.23 | 119.45 | 128.14 |
| Total liabilities (CNY 100mn) | 805.28 | 580.63 | 439.46 |
| Revenue (CNY 100mn) | 840.28 | 1025.35 | 1208.85 |
| Total profit (CNY 100mn) | 1.23 | 54.33 | 79.05 |
| EBITDA (CNY 100mn) | 75.50 | 133.33 | 140.56 |
| Net cash flow from operating activities (CNY 100mn) | 68.20 | 53.17 | 180.50 |
| Operating profit margin (%) | 5.57 | 12.41 | 15.78 |
| ROE (%) | 0.68 | 12.57 | 15.72 |
| Debt-to-asset ratio (%) | 84.06 | 66.79 | 59.73 |
| Total debt capitalization ratio (%) | 80.57 | 59.88 | 49.80 |
| Current ratio (%) | 43.61 | 64.74 | 79.61 |
| Operating cash coverage ratio (%) | 8.09 | 8.31 | 35.78 |
| Total liabilities / EBITDA (x) | 10.67 | 4.35 | 3.13 |
| EBITDA-to-interest cover (x) | 2.14 | 3.47 | 5.87 |

Note: The financial data for 2016 is based on the data at beginning of 2017 and the financial data for 2017 is based on data at the beginning of 2018; Non-directional debt financing instruments and ultra-short-term financing bills have been included in short-term liabilities, and finance lease payments have been included in long-term liabilities.

**Analysts**
Tang Yan, Sun Xin
**Email:** lianhe@lhratings.com
**Tel:** 010-85679696
**Fax:** 010-85679228
**Address:** 17/F PICC Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
**Website:** www.lhratings.com

### Rationale

Hunan Valin Iron and Steel Group Co., Ltd.'s (hereinafter referred to as "the Company") main products include wide and heavy plates, hot-rolled steel plates, cold-rolled steel plates, galvanized steel sheets, steel rods, steel wires, seamless steel pipes and so on. The Company is a large state-owned steel enterprise based in Hunan province, one of the top 10 steel firms in China, and one of the top 20 steel companies in the world. It has received significant support from the government and has competitive advantages over the similar companies in terms of industrial structure, production scale and product varieties. At the same time, the Company established a joint venture with ArcelorMittal S.A., the world's largest steel producer, and became a shareholder of the world's fourth largest iron ore exporter, Fortescue Metals Group Ltd (hereinafter referred to as "FMG"). With improvement of the iron and steel market in recent years, the Company's operating income and total profit have been growing rapidly, and profitability has greatly improved. China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Ratings") has also noted the negative impact of factors on the Company's credit fundamentals, for example, the increase of production costs due to the rising raw material prices and relatively high proportion of short-term debt.

In recent years, the Company has reduced logistics and labor costs, and has been improving labor productivity with a view to enhancing its economic efficiency; at the same time, the

Company has been increasing R&D investment, and optimized its product structure to further increase the proportion of high-end steel products. The competitiveness of the Company in the steel market is expected to increase in the future; the size of the Company's debt has declined with improved debt indicators and eased debt burden. At present, the Company is promoting market-oriented debt-to-equity swaps, which will help improve its debt structure and reduce the debt burden. Th rating outlook given by Lianhe Ratings for the Company is "stable".

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

**Strengths**

1. The Company is a large state-owned steel enterprise based in Hunan province, one of the top 10 steel firms in China, and one of the top 20 steel companies in the world.
   It has received significant support from the government and has competitive advantages over the similar companies in terms of industrial structure, production scale and product varieties.
2. In terms of technology research and development, the Company has close cooperation with the world's leading steel and mining firm ArcelorMittal group, with its R&D capabilities enhanced.
3. In recent years, the Company has been increasing R&D investment, and optimized product structure with proportion of high-end steel products further increased. The competitiveness of the Company in the steel market is expected to increase in the future.
4. In recent years, the size of the Company's debt has declined, debt indicators have improved, and the debt burden has eased. In 2018, the Company actively promoted market-oriented debt-to-equity swaps, which will help improve its debt structure and reduce the debt burden.
5. By utilizing its advantages in water transport and port facilities, the Company continuously increases the proportion of water transport to reduce transportation costs; at the same time, the Company further improves labor productivity to improve economic efficiency.
6. The cash flow and EBITDA of the Company's operating activities offer a high degree of protection for this MTN.

**Concerns**

1. The profitability of steel companies is highly dependent on steel prices. Since Q3 2018, the fluctuations in steel prices may have an impact on the Company's profitability.
2. The price of raw materials in the Company's steel business has increased significantly, which has put more pressure on the Company's raw material cost control.
3. The Company's short-term debt ratio is relatively high, which leads to a certain pressure on its short-term debt repayment.
4. This MTN has cross-default and prior restrictive clauses, which may have a certain risk of acceleration of maturity.