

Credit Rating Report for Shaanxi Yanchang Petroleum (Group) Co., Ltd.'s 2019-4 Medium-term Notes

Ratings

Long-term credit rating of the issuer: AAA

Credit rating of the medium-term notes (MTN): AAA

Rating outlook: Stable

Scale of this MTN: CNY 3 billion

Maturity term of this MTN: 3 years

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

Use of proceeds: To supplement working capital and refinancing maturing debt

Date of rating: May 27, 2019

Financial data

Item	2016	2017	2018	March 2019
Cash assets (CNY 100mn)	230.23	138.66	186.63	212.68
Total assets (CNY 100mn)	3165.61	3294.44	3704.60	3677.62
Owners' equity (CNY 100mn)	1143.94	1187.88	1341.61	1327.96
Short-term liabilities (CNY 100mn)	701.80	1007.67	1127.51	1281.84
Long-term liabilities (CNY 100mn)	743.25	558.65	567.75	588.40
Total liabilities (CNY 100mn)	1445.05	1566.32	1695.26	1870.24
Revenue (CNY 100mn)	2352.92	2799.47	3079.80	729.14
Total profit (CNY 100mn)	5.45	15.78	34.02	6.50
EBITDA (CNY 100mn)	158.58	179.21	221.57	--
Net cash flow from operating activities (CNY 100mn)	26.59	78.27	129.56	14.30
Operating profit margin (%)	9.13	9.95	11.20	10.80
ROE (%)	0.11	0.99	1.52	--
Debt-to-asset ratio (%)	63.86	63.94	63.79	63.89
Total debt capitalization ratio (%)	55.82	56.87	55.82	58.48
Current ratio (%)	51.34	38.86	37.24	35.19
Operating cash flow-to-current liabilities ratio (%)	2.12	5.15	7.37	--
Total liabilities/EBITDA (x)	9.11	8.74	7.65	--
EBITDA-to-interest cover (x)	3.02	3.55	3.53	--

Note: 1. Financial data for 1Q2019 are unaudited; 2. The interest-bearing portion of other current liabilities has been included in short-term liabilities. 3. The interest-bearing portion of long-term payables has been included in long-term liabilities.

Rationale

China Lianhe Credit Rating Co., Ltd.'s ("Lianhe Ratings") ratings on Shaanxi Yanchang Petroleum (Group) Co., Ltd. (the "Company" or "Yanchang Petroleum") reflect the Company's substantial advantages, such as its local monopoly position, interest in a large number of projects, and as one of the big four Chinese groups approved to engage in oil and gas exploration. The Company has a strong ability to generate cash flows from operating activities, with significant operating cash flows and continued net inflows. In the recent years, the Company's revenue and profit have grown steadily, and its assets have increased, thanks to rising global oil prices. Lianhe Ratings also notes some factors that could have an adverse impact on its credit rating. For example, the Company's operations are highly exposed to macroeconomic and global oil price volatility; its liabilities are increasing rapidly; its investment income contributes to a large portion of its profit; the investment scale of the Company's planned projects and projects under construction is large; most of the assets are illiquidity; and its debt structure needs to be optimized.

Going forward, the Company will adjust its asset structure and extend its industrial chain while developing its core business. As more projects under construction become operational, the Company is set to further expand its production, improve its industrial chain, and strengthen its ability to fend off risks. Lianhe Ratings' rating outlook for the Company is stable.

Operating cash inflow and EBITDA coverage ratios are high for this MTN.

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

Analysts

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Strengths

1. The Company is one of the largest oil refiners and chemical producers in China. It has a vast oil and gas resource base, a full industrial production chain, and extensive operations, with substantial advantages thanks to its local monopoly position.
2. With extensive operations, the Company's revenue and profit have grown steadily in the recent years, thanks to rising global oil prices.
3. The Company has a strong ability to generate cash flows from operating activities, with significant operating cash flows and continued net inflows.
4. Repayment of this MTN is high given its strong operating cash inflow and EBITDA.

Concerns

1. The Company's operations are highly exposed to macroeconomic and global oil price volatility.
2. The Company's assets are illiquidity. Interest-bearing liabilities have been growing in the recent years, and short-term liabilities make up a significant portion of its total debt, hence its debt structure needs to be optimized.
3. Investment income contributes to a large portion of its profit, and its overall profitability is relatively weak.
4. The investment scale of the Company's planned projects and projects under construction is large, with a large demand for external financing.