Foshan Public Utilities Holding Co., Ltd.'s 2019-1 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 this MTN: CNY 500 million

Maturity of this issue: 3 + 2 years

Debt servicing method: Annual interest payment, with the coupon rate adjustment option and put option established the Company has the option of adjusting the coupon rate at the end of the third year, and investors have a put option to sell all or part of the bonds held by them back to the Company at the par value, or give up the put option and continue to hold the bonds, in which case the bonds will be repaid at once upon maturity.

Use of proceeds: To repay bank loans and outstanding bonds, and replenish working capital

Date of rating: January 17, 2019

Financial data

Item	2015	2016	2017	September 2018
Cash assets (CNY 100mn)	14.26	13.83	40.80	60.55
Total assets (CNY 100mn)	175.09	176.21	235.84	296.83
Owners' equity (CNY 100mn)	69.90	67.99	93.81	127.46
Short-term liabilities (CNY 100mn)	22.92	20.92	67.37	60.04
Long-term liabilities (CNY 100mn)	33.38	22.35	16.16	42.88
Total liabilities (CNY 100mn)	56.30	43.26	83.53	102.92
Revenue (CNY 100mn)	59.17	58.84	76.85	86.71
Total profit (CNY 100mn)	8.15	7.77	9.26	9.80
EBITDA (CNY 100mn)	16.93	15.52	17.56	--
Net cash flow from operating activities (CNY 100mn)	11.35	13.45	15.75	9.17
Receivables/total assets (%)	27.10	29.73	23.34	15.31
Operating profit margin (%)	21.20	22.31	20.13	17.27
ROE (%)	9.13	8.57	7.10	--
Debt-to-asset ratio (%)	60.08	61.42	60.22	57.06
Total debt to capitalization ratio (%)	44.61	38.89	47.10	44.67
Current ratio (%)	106.34	92.90	99.07	132.46
Operating cash flow-to-current liabilities ratio (%)	17.35	16.93	14.62	--
EBITDA-to-interest cover (x)	3.54	4.36	4.30	--
Total liabilities/EBITDA (x)	3.33	2.79	4.76	--

Note: The financial data for the third quarter of 2018 are unaudited.

Rationale

Foshan Public Utilities Holding Co., Ltd. (the "Company") is a major operator of public utilities and state-owned assets. The ratings assigned by China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") reflect the fact that the Company has scale and monopolistic advantages in water and gas supply businesses, and that it has received strong support from shareholders by means of equity injection and financial subsidization. On the other hand, Lianhe Ratings notices that the Company's business operations and credit standing are adversely affected by the average-level quality of its assets, short-term debt servicing pressure, and deficiency in liabilities structure.

In recent years, the Company consistently received strong support from its shareholders, and has made considerable headway in the water and gas supply businesses. With the inclusion of Foshan Financial Investment Holdings Co., Ltd. and Guangdong Guotong Logistics City Co., Ltd. in consolidated financial statements and flotation of Foshan Gas Group Co., Ltd. ("Foshan Gas"), the Company's overall standing has improved, with sharper scale and competitive advantages. New businesses will become important drivers of operating income growth, and the Company's profitability is expected to increase substantially. Lianhe Ratings assigns the "stable" rating outlook to the Company.

Based on a comprehensive assessment of the issuer's long-term credit standing and its ability to repay debts associated with the MTN, Lianhe Ratings concludes that the risk of a default on repayment of the medium-term notes is extremely low, and the security of the MTN is extremely high.

Strengths

1. The Company has acquired several subsidiaries in recent years, resulting in its further improved overall standing.
2. As the operator of public utilities assets in Foshan, the Company has obtained effective external supports in recent years via public finance subsidization and injections of assets and equities.
3. The Company's businesses include power generation, water and gas supplies, public properties and financial operations in Foshan. Having in possession of local monopolies in public utilities businesses in the city, its subsidiaries have a distinct competitive advantage in the regional market.
4. Its subsidiary, Foshan Gas, was listed on the Shenzhen Stock Exchange in 2017, and the Company's competitiveness has improved further with expanded direct financing channels.
5. The Company's operating income continued to grow in recent years, and so did its net cash inflow from operating activities.

Concerns

1. The Company's electricity, water and gas pricing mechanisms have not been marketized, and both price adjustment and the pricing mechanisms are controlled by the government.
2. In recent years, the Company has accrued a considerable amount of other receivables, resulting in tie-up of funds. Its assets are of average quality.
3. The Company's debts mainly consist of short-term liabilities in recent years, and a sharp rise in short-term debts places debt servicing pressure on the Company in the near term. Its debt structure needs to be improved.

Analysts
HUO Zhengze, ZHANG Cheng

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