Chengdu Rail Transit Group Co., Ltd.'s 2019-1 Corporate Bond

Ratings:

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

Overview of the corporate bond:

Issue size: CNY 1.5 billion
Maturity of this issue: 3 + N years
Method of repayment: Repayment of interest once a year, with one repricing for every three interest-bearing years. At the end of each repricing period, the Company has the option to extend the term of the bond by one repricing period or repay the bond in full.
Use of proceeds: To replenish the working capital

Date of rating: June 5, 2019

Financial data

Item	2016	2017	2018
Cash assets (CNY 100mn)	107.10	156.21	168.01
Total assets (CNY 100mn)	1087.46	1479.24	1887.62
Owners' equity (CNY 100mn)	440.19	568.40	671.10
Short-term liabilities (CNY 100mn)	0.00	2.09	45.34
Long-term liabilities (CNY 100mn)	504.94	684.90	863.38
Total liabilities (CNY 100mn)	504.94	686.98	908.72
Revenue (CNY 100mn)	14.79	22.47	31.49
Total profit (CNY 100mn)	0.55	0.68	0.70
EBITDA (CNY 100mn)	0.81	1.06	1.05
Net cash flow from operating activities (CNY 100mn)	1.01	0.92	0.86
Operating profit margin (%)	-18.04	2.23	4.52
ROE (%)	0.10	0.09	0.07
Debt-to-asset ratio (%)	59.52	61.57	64.45
Total debt capitalization ratio (%)	53.43	54.72	57.52
Current ratio (%)	194.96	166.91	165.30
Operating cash flow-to-current liabilities ratio (%)	0.85	0.48	0.34
Total liabilities/EBITDA (x)	626.21	650.66	868.98

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Rationale

China Lianhe Credit Rating Co., Ltd.'s (hereinafter referred to as "Lianhe Ratings") rating on Chengdu Rail Transit Group Co., Ltd. (hereinafter referred to as "Chengdu Rail Transit" or the "Company") reflects the Company's strength in its exclusive right to operate in the region, the external support from the government it enjoys, the continuous growth of the Company's assets, as well as the ever increasing equity and operating income thanks to the rail transit projects to be constructed with increased mileage. At the same time, Lianhe Ratings also noted factors that have adverse effects on the Company's operations and solvency; for example, the Company's large-scale other receivables, weak profitability, rapid growth of debt and large financing needs in the future.

The bond has features such as renewable option, repricing of coupon rates and accumulation of deferred interest. By analyzing the relevant terms of the bond, Lianhe Ratings believes that the bond liquidation sequence is the same as other ordinary bonds/debt instruments; there is a relatively large adjustment on the coupon rates of this bond, so it is more likely that the Company will perform a redemption. The Company has set up a dedicated debt repayment account for this bond and employed a debt creditor scheme, which is conducive to the collection and use of the bond funds in ways that are in compliance with the rules.

Although large-scale investment has put increased pressure on the Company in terms of finance and debt, it has gained undoubted support from the Chengdu municipal government, which not only promises to invest in the subway project, but also offers a good coverage for the repayment of principal and interests of the project. In addition, Chengdu has a relatively fast economic development, with a relatively strong overall financial strength, which helps to support the Company's overall credit standing. Lianhe Ratings assigns the "stable" outlook rating to the Company.

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

Strengths

1. Chengdu maintains a rapid economic growth, with a relatively strong overall financial strength; and thus, provides a favorable external environment for the development of the Company.
2. As the main entity for the investment, construction, operation management and resource development of subways in Chengdu, the Company boasts the advantage of exclusive right to operate subways in the region. The Chengdu municipal government continues to lend support to the Company in terms of capital and operating subsidies.
3. With the adjustment of subway fares and the increase in operating mileage, the Company's operating income continues growing.

Concerns

1. The bond has features such as renewable option, repricing of coupon rates and accumulation of deferred interest, all of which make it special and different from ordinary corporate bonds.
2. The metro network in Chengdu has not yet showed an economy of scale and the Company's operation on the subways has not yet been profitable. Its total profit is heavily dependent on financial subsidies of the local government, showing a weak profitability.
3. The Company's other receivables are quite substantial and still growing rapidly, an item which occupies certain funds.
4. With the continuous investment in subway construction, the Company's interest-bearing debt will show a rapid growth. The Company will have greater financing needs along with the expansion of investment in construction of subway lines in the future.