

CCCC Fourth Harbor Engineering 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:

Issue size: CNY 1 billion
Maturity of this issue: Perpetual until redemption by the issuer
Debt servicing method: The issuer is entitled to redeem the MTN at the par value, plus interest payable, on the third interest payment date and on every third interest payment date thereafter
Use of proceeds: To repay bank loans and existing debts

Rating assigned date: July 8, 2019

Financial data

Item	2016	2017	2018	March 2019
Cash assets (CNY 100mn)	44.39	63.19	59.56	40.78
Total assets (CNY 100mn)	326.00	428.22	524.20	532.37
Owners' equity (CNY 100mn)	94.78	113.49	144.69	151.06
Short-term liabilities (CNY 100mn)	16.76	53.63	38.08	57.34
Long-term liabilities (CNY 100mn)	28.92	22.78	54.91	66.86
Total liabilities (CNY 100mn)	45.69	76.42	92.99	124.20
Operating income (CNY 100mn)	279.82	307.86	333.05	64.13
Total profit (CNY 100mn)	16.81	19.13	21.94	5.30
EBITDA (CNY 100mn)	26.89	27.05	30.36	--
Net cash flow from operating activities (CNY 100mn)	21.76	35.20	36.01	0.12
Operating profit margin (%)	10.61	11.65	10.78	12.75
ROE (%)	14.65	14.58	13.66	--
Debt-to-asset ratio (%)	70.93	73.50	72.40	71.62
Total debt capitalization ratio (%)	32.53	40.24	39.12	45.12
Current ratio (%)	91.19	74.71	71.65	70.77
Operating cash flow-to-current liabilities ratio (%)	11.70	12.90	11.74	--
Total liabilities/EBITDA (x)	1.70	2.83	3.06	--
EBITDA-to-interest cover (x)	8.96	9.90	6.22	--

Note: Opening balances in the audited 2018 report are adopted as financial data for 2017. Financial data of the first quarter of 2019 are unaudited.

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Rationale

CCCC Fourth Harbor Engineering Co., Ltd. (hereinafter referred to as the "Company") is a wholly-owned subsidiary of China Communications Construction Co., Ltd. (hereafter referred to as the "CCCC"), specializing in construction of ports, highways, bridges, railways, public works and other infrastructure facilities and related investment, industrial shipbuilding, survey and design and real estate businesses. The Company boasts distinct advantages in terms of shareholder support, construction qualifications, business diversification, volume of new orders and overall profitability. China Lianhe Credit Rating Co., Ltd. (hereinafter referred to as "Lianhe Ratings") also notices that the Company faces tough competition on the construction market, and is under considerable investment expenditure pressure; its debt level has increased at a relatively fast pace; and political, economic and foreign exchange risks may adversely affect its business operations abroad.

The Company is about to transform from a traditional producer and construction enterprise toward a company that spans its businesses across investment, production and operation. It will complete projects for which contracts have been signed, and at the same time further develop the build-operate-transfer (BOT) and public-private partnership (PPP) markets. Furthermore, continuous development of the real estate business provides a certain level of support for the Company's profits. Its profitability is expected to improve further. Lianhe Ratings assigns the "stable" rating outlook to the Company.

Characteristics of the MTN include a call option, the ability to reset coupon rate and interest deferment and accrual. After analyzing relevant terms and conditions, Lianhe Ratings concludes that the MTN has the same priority of liquidation to creditors as the Company's other outstanding debt financing instruments. Additionally, considering the call option and the terms and conditions of interest payment, there is only a trivial possibility that the

Company will fail to redeem the bonds or defer interest payment.

Based on a comprehensive assessment of the issuer's long-term credit history 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. As a wholly-owned subsidiary of the CCCC, the Company's shareholder has exceptional overall strength and is capable of providing the Company with strong funding and business acquisition support.
2. The Company is officially qualified as a top-grade general contractor for port and waterway engineering and construction, and has acquired extensive construction experience and considerable technical advantage.
3. The value of its new contracts has increased by the year. The Company has a competitive edge in securing projects in South China and overseas, and has a substantial number of orders on-hand, thereby laying the groundwork for future business development.
4. Benefiting from business diversification, the Company has seen strong growth in the investment business segment, and its overall profitability is high.

Concerns

1. Characteristics such as call option, the ability to reset coupon rate and interest deferment and accrual make the MTN different from most other MTNs.
2. BOT/PPP projects launched or proposed by the Company entail large amounts of investment, and its interest-bearing debts have grown rapidly in recent years, meaning that the Company will face considerable investment pressure in the future.

3. The Company's substantial business operations abroad expose it to a certain level of political, economic and foreign exchange-related risks.