MOODY'S

Rating Action: Moody's changes outlooks on 18 Chinese corporates to negative following sovereign action

06 Dec 2023

Hong Kong, December 06, 2023 -- Moody's Investors Service has today changed to negative from stable the rating outlooks on 18 Chinese nonfinancial corporates, following Moody's affirmation of the Government of China's issuer rating at A1 and change in the outlook to negative from stable.

For further information on the sovereign rating action, please refer to Moody's press release published on 5 December 2023: ("Moody's affirms China's A1 rating, changes outlook to negative from stable")

At the same time, Moody's has affirmed all the ratings of these 18 Chinese nonfinancial corporates.

The 18 companies comprise (1) 13 state-owned enterprises (SOEs) and their subsidiaries that are ultimately owned by the central government (central SOEs), and (2) two SOEs and their subsidiaries that are ultimately owned by regional and local governments (local SOEs); and (3) three privately owned entities (POEs), with two rated at the sovereign level and one benefiting from parental support.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL482958 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Today's rating actions are primarily driven by the change in outlook to negative from stable on China's government credit ratings. The outlook change reflects rising evidence that financial support will be provided by the government and wider public sector to financially-stressed regional and local governments (RLGs) and State-Owned Enterprises (SOEs), posing broad downside risks to China's fiscal, economic and institutional strength. The outlook change also reflects the increased risks related to structurally and persistently lower medium-term economic growth and the ongoing downsizing of the property sector. These trends underscore the increasing risks related to policy effectiveness, including the challenge to design and implement policies that support economic rebalancing while preventing moral hazard and containing the impact on the sovereign's balance sheet. As such, Moody's expects support provided to financial-stressed entities to be more selective, contributing to protracted risks of further strains for SOEs and RLGs.

The affected issuers on this list include SOEs that are classified as government-related issuers (GRIs) and their subsidiaries. Under Moody's joint default analysis approach for GRIs, the rating or credit quality of a government that provides support to a GRI is a key input for that GRI's ratings.

For the 6 SOEs and two POEs rated at A1, Moody's has changed their outlooks to negative as their ratings are on par with the sovereign rating, incorporating expected support from the Chinese government; or their ratings do not incorporate any uplift due to their strong Baseline Credit Assessment (BCA) and standalone credit strength. Nevertheless, their ratings remain constrained by the sovereign rating and therefore, a downgrade of the sovereign rating will lead to a downgrade of these companies' ratings.

For the three A2 rated SOEs, including one local SOE, their ratings are sensitive to a potential decline in the rating or credit quality of their owner governments and ultimately of the central government. Their owner governments will also prioritize supporting SOEs owned by the central government over local SOEs, those with public policy mandates over highly commercialized SOEs, and companies with high strategic importance such as those providing national security and key infrastructure.

Similarly, the rating outlooks of the remaining 6 rated SOE subsidiaries and one POE subsidiary have been changed to negative from stable, following those of their parents because they are either closely linked with their parents or play integral roles in the parent group and their ratings benefit from uplift due to parental support.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given the negative outlooks, any upward rating pressure on these companies is unlikely.

Moody's could return the outlooks on these companies to stable if (1) the outlook on China's sovereign rating returns to stable, while support for the companies remains a priority and unlikely to change; and/or (2) the companies meaningfully diversify their businesses outside China, significantly reducing their exposure to systemic risk in China.

Moody's could downgrade these companies' ratings if the sovereign rating is downgraded. A weakening of the BCAs or standalone credit profiles as applicable for GRIs' subsidiaries or POEs could also impact their ratings.

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• Principal Methodologies and Models Used

• Support Level of Government Support

• Dependence Level of Government Support

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are all solicited credit ratings. For additional information, please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL482958 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Endorsement

• Lead Analyst

• Releasing Office

• Person Approving the Credit Rating

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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