



## **Fitch Publishes State Grid Corp of China's 'A+' IDR; Rates USD Bonds 'A+(EXP)'**

Fitch Ratings-Hong Kong-07 May 2013: Fitch Ratings has published State Grid Corporation of China's (SGCC), Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) of 'A+' with Stable Outlook, respectively. Fitch has also assigned the company foreign and local currency senior unsecured ratings of 'A+', respectively.

Simultaneously Fitch has assigned SG Overseas Investment (2013) Limited's proposed USD senior unsecured notes, guaranteed by SGCC, an 'A+(EXP)' rating. The final ratings are contingent upon receipt of final documents conforming to information already received by Fitch.

### **Key Rating Drivers**

**Equalised with the sovereign:** The ratings of SGCC are equalised with the People's Republic of China (A+/Stable), the company's ultimate owner, as per Fitch's Parent-Subsidiary Linkage methodology. The equalisation of SGCC's ratings with the state takes into consideration its strategic importance to China as well as strong financial and operational support extended to SGCC by the government via both monetary and regulatory policy support.

**Strategic role in China:** SGCC's monopoly concessions serve over 1.1 billion users in 26 provinces or 88% of the national territory, representing approximately 80% of the nation's total electricity consumption. By being the largest purchaser of electricity, distributor and retailer, SGCC also holds a critical role in the electricity value chain in China.

**Support from government:** SGCC has been receiving a series of monetary and tax treatment support from the state. Most importantly, the state ensures SGCC a reasonable return on invested assets - which has allowed it to maintain a robust financial position. Although not independent from the state, Fitch considers the regulatory framework to be highly beneficial to SGCC overall.

**Strong stand-alone profile:** SGCC's financial profile is robust for its 'A+' rating. Fitch expects SGCC's cash flow generation to remain strong, funds flow from operations (FFO) adjusted net leverage below 2.75x and the FFO interest cover to maintain around 7.0x on a sustained basis (2.56x and 6.07x respectively in 2012). The company also maintains healthy liquidity and a favourable debt profile.

**Evolving regulatory environment:** The Chinese government has outlined changes to the regulatory framework over time, targeting the liberalisation of the generation and retail segments. However, Fitch expects SGCC's position to be largely intact, with the state expected to maintain a tight control on China's electricity transmission and distribution and the tariffs of the sector.

**Liquidity is strong:** SGCC's liquidity position stems from its robust internal cash generation, its well-structured debt maturities, as well as its access to debt markets. SGCC has committed credit facilities from major banks of over CNY900bn. There is little secured debt (around 6% of total consolidated debt). SGCC also centrally manages the cash flow generated by its subsidiaries.

### **Rating Sensitivities**

Negative: Future developments that may, individually or collectively, result in negative rating action:

-A negative rating action on the sovereign

-Weakening linkages with the sovereign weakens in conjunction with deterioration in FFO adjusted net leverage to over 3.0x and FFO interest cover to less than 5.0x on a sustained basis

Positive: Future developments that may, individually or collectively, result in positive rating action:

-A positive rating action on the sovereign provided the linkages remain intact

Contacts:

Primary Analyst

Edwin Lam

Director

+852 2263 9975

Fitch Ratings (Hong Kong) Ltd.

2801, Tower Two, Lippo Centre

89 Queensway, Hong Kong

Secondary Analyst

Michael Wu

Director

+852 2263 9922

Committee Chairperson

Buddhika Piyasena

Director

+65 6796 7223

Media Relations: Wai Lun Wan, Hong Kong, Tel: +852 2263 9935, Email: [wailun.wan@fitchratings.com](mailto:wailun.wan@fitchratings.com).

Applicable criteria, Corporate Rating Methodology, and Parent and Subsidiary Rating Linkage, both dated 8 August 2012, are available on [www.fitchratings.com](http://www.fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research**[Corporate Rating Methodology](#)[Parent and Subsidiary Rating Linkage](#)**Additional Disclosure**[Solicitation Status](#)

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30 North Colonnade, London, E14 5GN