



Fitch Rates State Grid Corporation of China's USD Bonds Final 'A+'

Fitch Ratings-Hong Kong-06 May 2014: Fitch Ratings has assigned State Grid Overseas Investment (2014) Limited's USD1,250m 2.750% guaranteed senior notes due 2019, USD1,600m 4.125% guaranteed senior notes due 2024 and USD650m 4.850% guaranteed senior notes due 2044 final ratings of 'A+'.

The notes are irrevocably and unconditionally guaranteed by State Grid Corporation of China (SGCC, A+/Stable). The notes are rated at the same level as SGCC's senior unsecured rating as they represent unconditional, unsecured and unsubordinated obligations of the company.

The final rating assignment follows a review of final documentation materially conforming to the draft documentation previously reviewed. The final ratings are same as the expected ratings assigned on 15 April 2014.

KEY RATING DRIVERS

Equalised With the Sovereign: The ratings of SGCC are equalised with the China sovereign (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. As the largest purchaser, distributor and retailer of electricity, SGCC also holds a critical role in the electricity value chain in China.

Evolving Regulatory Environment: Fitch considers the regulatory framework to be highly beneficial to SGCC overall. Fitch expects the state to maintain tight control on electricity transmission and distribution tariffs, preserving SGCC's strong financial and strategic position. The regulatory framework could evolve over the next decade, leading to a liberalisation of the retail segment that could be preceded by a clearer transmission and distribution tariff framework.

Support from Government: SGCC has been receiving monetary and tax treatment support from the state. Most importantly, the state ensures SGCC a reasonable return on invested assets. During the next several years, the country will rely on SGCC to develop the power grid to keep pace with economic growth, facilitate changes to the coal-fired generation capacity and develop renewable energy sources. The current tariff framework and support from the government will continue to allow SGCC to maintain a robust financial profile.

Strong Standalone 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 to remain below 2.75x and the FFO interest cover to be around 8.5x on a sustained basis (2.0x and 8.5x respectively in 2013). The company also maintains healthy liquidity and a favourable debt profile.

Strong Liquidity: 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 CNY1trn. There is little secured debt (less than 5% 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 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

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Additional information is available on www.fitchratings.com.

Applicable criteria, "Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage", dated 5 August 2013 are available at www.fitchratings.com

Applicable Criteria and Related Research:

[Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage](#)

Additional Disclosure

[Solicitation Status](#)

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