

CMBI Credit Commentary

First take from Corporate Day: Far East Horizon – Fairly-valued NBF

FRESHK is a prudently managed leading leasing company in China, and sees steady operation in 1H2021. But at current valuation - FRESHK 3.375 '25 (Z~230bp), 125bp pick-up over BOCAVI '25 (Z~107bp), we view it's fairly valued.

Expecting status quo from tie-up of Sinochem/ChemChina

Sinochem(A-/Dev) and ChemChina (BBB/Pos)'s tie-up to form a NewCo will become the only chemical company under Central SASAC, this is going to be credit positive to Far East Horizon's parent. Nonetheless, given S&P's rating on FRESHK is a bottom-up approach, adding +1 notch uplift from parent Sinochem Group's support. **We expect NewCo's formation will have no impact to FRESHK's current BBB- rating.**

Currently Sinochem Group is the largest shareholder of Far East Horizon, with 23.13% stake. And FRESHK uses Sinochem Group's offshore bond issuance quota. FRESHK expects status quo to remain.

Steady 1H2021 results outlook

Management guides its leasing asset to grow by single digit in 2021, vs 15% total assets growth in 2020. NPA formation will ease after covid in 2020, which will support net profit growth. (2020: Net profit +4% yoy) This will likely offset a slight decline in Net Interest Margin (NIM) in 2021 driven by higher onshore funding cost.

Horizon Construction IPO expects to modestly boost FRESHK's capitalization ratio.

S&P's estimated FRESHK's risk-adjusted capitalization (RAC) ratio exceeded 5.5% at end-2020, thanks to its strong profit retention. We expect its subsidiary – Horizon Construction IPO, targeting within 2021, will modestly increase its equity base, and capitalization ratio. Horizon Construction represents 5% of FRESHK's total asset. This should lift FRESHK's RAC ratio further away from 5% (one of S&P's downgrade trigger), but insufficient to reach 10% RAC's upgrade trigger.

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