Fixed Income
Credit Commentary

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WESCHI – limited capex spent in Ethiopia expansion so far. Still OW on robust China's operation

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WESCHI bond price down 4pt last week on news of Ethiopia announcing a nationwide state of emergency yesterday (link). Ethiopian regional conflict in Northern area escalated when its Tigray rebel forces advanced towards capital, it has not yet evolved into a full-blown civil war.

We maintain our OW recommendation on WESCHI '26 at 93 (YTM~7%) despite the geopolitical concern, as we understand WESCHI will prudently deploy its capex for expansion in Ethiopia by phrases. We like WESCHI for its low leverage and limited refinancing pressure in 2022. Its leverage will remain low at <2.5x Debt-to-EBITDA thanks to its robust Chinese operation in Shaanxi. Next bullet maturity is RMB 500mn onshore MTN due in May 2022, which company can repay with either internal operating cash flow, or its committed undrawn bank line of RMB 849mn.

Management has so far only spent USD 25mn in its stake acquisition of an Ethiopian cement company "NCSC", out of its total project budget of USD 450mn. The Ethiopian project capex is split evenly into a) 61.9% stake acquisition of NCSC and b) expansion capex. a) WESCHI previously expects to complete the 61.9% stake acquisition for USD 170mn by 1Q2022. There will likely be delay considering the evolving political landscape. b) On expansion capex, WESCHI plans to raise local project financing of USD 200mn to gradually increase NCSC production capacity from currently 1.2mt to 5mt.

There will likely be delay in spending, compares to the company's prior projection to spend USD100mn – USD 150mn annually in Ethiopia. But putting things into perspective, its expansion capex in Ethiopia is manageable compared to its annual EBITDA of RMB 2.8bn (2019-2020).

Recent performance

West China cement has been able to raise its average selling price (ASP) in China to RMB 570/ton in Oct, (vs RMB 319/ton in 1H21) to pass through recent rise in coal price (RMB 1200/ton recently, from RMB 628/ton in 1H21). As such management expects its FY2021 gross profit margin can sustain to be similar to FY2020's 33%. This will support its EBITDA generation of ~RMB3bn in 2021, against total debt of RMB7.6bn by end-2021.

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