Zoomlion Heavy Industry Science & Technology Co., Ltd.'s (2019-1) Corporate Bond

Credit rating of the bond: AAA
Credit rating of the issuer: AAA
Rating outlook: Stable
Size of issue: No more than CNY 3 billion (inclusive)
Size of the current issuance: No more than CNY 1 billion (inclusive)
Maturity of this issue: 5 years (3 + 2)
Debt servicing method: Annual interest payment, bullet repayment of principal at maturity.
Date of rating: June 21, 2019

Financial data

Item	2016	2017	2018	Match 2019
Total assets (CNY 100mn)	891.41	831.49	934.57	983.87
Owners' equity (CNY 100mn)	377.95	382.27	387.68	397.19
Long-term liabilities (CNY 100mn)	230.85	192.95	136.45	114.91
Total liabilities (CNY 100mn)	389.53	320.61	395.47	425.60
Operating income (CNY 100mn)	200.23	232.73	286.97	90.17
Net profit (CNY 100mn)	-9.05	12.48	19.57	9.81
EBITDA (CNY 100mn)	15.93	37.03	49.29	--
Net cash flow from operating activities (CNY 100mn)	21.69	28.51	50.64	18.67
Operating profit margin (%)	22.74	20.06	26.21	29.17
ROE (%)	-2.31	3.28	5.08	2.50
Debt-to-asset ratio (%)	57.60	54.03	58.52	59.63
Total debt to capitalization ratio (%)	50.75	45.61	50.50	51.73
Current ratio (x)	2.56	2.54	1.78	1.64
Total liabilities / EBITDA (x)	0.04	0.12	0.12	--
EBITDA-to-interest coverage ratio (x)	0.98	2.49	3.40	--
EBITDA /scale of this Bond (x)	0.53	1.23	1.64	--
EBITDA / issue size (x)	1.59	3.70	4.93	--

Note: 1. The financial data and indicators in this report are calculated on the basis of consolidated financial statements; due to rounding, there may be a slight difference between the sum of sub-totals and the total in this report; 2. The financial data for the first quarter of 2019 has not been audited, and relevant indicators have not been annualized; 3. Interest-bearing items of other accounts payable and other current liabilities have been recognized as short-term liabilities or other relevant items for accounting purposes.

Rationale

The ratings assigned by United Credit Ratings Co., Ltd.'s (hereinafter referred to as "United Ratings") to Zoomlion Heavy Industry Science & Technology Co., Ltd. (hereinafter referred to as the "Company" or "Zoomlion") reflect the fact that the Company is a global leading high-end equipment manufacturer, with strong competitive advantages in terms of leading market position, market share, business scale, brand reputation and R&D capabilities. Benefited from the boom of the construction machinery sector in recent years, the Company's overall performance has improved consistently, with output of its major products increased, a sharp rise in revenues and a good operating cash flow. On the other hand, United Ratings also noted factors which have adverse effect on the Company's credit standing, for example the business climate in the construction machinery sector has a large impact on the Company's performance; both revenues and gross margin of its agricultural machinery business have declined; and overall heavy debt burdens with exposure to liquidity risk .

In the future, as the Company continues expanding its international operations and speeding up digital transformation, its overall capacity and profitability are expected to improve further. United Ratings' rating outlook for the Company is "stable".

Based on a comprehensive assessment of the bond issuer's long-term credit profile and its ability to repay debts associated with this issuance of bond, United Ratings concludes that the risk of default on the bond repayment is extremely low.

Strengths

1． As a global leading high-end equipment manufacturer, the Company has acquired a large market share for its major products, giving it a leading position in the marketplace.

2. The operating income of its construction machinery business segment grew substantially as the market recovered, which translated into significantly improved profitability and cash flow from operating activities.

3. The Company boasts strong R&D and innovation capabilities in regard to construction and agricultural machinery products.

Concerns

1. Credit sale makes up a considerable portion of the Company's total sales. A slowdown in downstream business growth or a decline in the business climate on the construction machinery market may make it difficult for the Company to recover working capital, or expose it to the contingent liability risk.

2. Large sums of inventories and accounts receivable pose a risk of asset depreciation, and some working capital is tied up accordingly.

3. Heavy debt burdens expose the Company to a certain degree of liquidity risk.

Analysts

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