

# RatingsDirect®

---

## China's Top Corporates Face Elevated Financial Risks As Economy Slows

### Primary Credit Analysts:

Terry E Chan, CFA, Melbourne (61) 3-9631-2174; [terry.chan@standardandpoors.com](mailto:terry.chan@standardandpoors.com)  
Christopher Lee, Hong Kong (852) 2533-3562; [christopher.k.lee@standardandpoors.com](mailto:christopher.k.lee@standardandpoors.com)

### Media Contacts:

Olayinka Fadahunsi, New York 212-438-5095; [olayinka.fadahunsi@standardandpoors.com](mailto:olayinka.fadahunsi@standardandpoors.com)  
Michelle Lei, Beijing (86) 10-6569-2961; [michelle.lei@standardandpoors.com](mailto:michelle.lei@standardandpoors.com)

HONG KONG (Standard & Poor's) Oct. 28, 2015--Disciplined financial management will become more important for Chinese corporations as economic growth slows and lenders turn cautious on lending due to elevated financial risks. That's according to a report that Standard & Poor's Ratings Services released today, titled: "The Worst Isn't Over For China's Top Corporates." The report surveys China's top 200 companies by revenue, bond issuance, and market capitalization, and assesses the industry risks for the 19 major sectors.

"Financial risks are still high for Corporate China. Many companies are heavily debt-laden and will be vulnerable to any drastic slowdown in economic growth or changes in credit conditions," said Standard & Poor's credit analyst Terry Chan.

But the deterioration in financial risks at least appears to have slowed in 2015. In addition, corporate bond defaults have been limited although a few high-profile defaults have shattered long-held perceptions of the invincibility of state-owned enterprises.

"If defaults do increase meaningfully, corporates could start to aggressively cut capital expenditure and investments, which would likely depress even further the investment growth driver for the Chinese economy. In turn, that could reduce demand for commodities and capital goods from countries with large exposure to the China investment story," said Standard & Poor's credit

analyst Christopher Lee.

We expect demand to remain sluggish across many industries for the next 12-18 months due to more cautious capital spending, at least, squeezing margins and constraining business confidence. The sectors most vulnerable to the tough conditions for this year and next are capital goods and metals and mining.

The recent correction in the property market and the sharp decline in new construction and land acquisitions have an obvious knock-on effect for related industries, including steel and building materials.

In a stressed scenario, Standard & Poor's expects lower investment to trim China's annual GDP growth to 5.3% in 2016 and 5.1% in 2017.

"Any drastic slowdown in China's economic growth, which is not our base case, is likely to trigger multi-notch downgrades among several industries, such as building materials, metals and mining, real estate developers, and transport-cyclical," Mr. Chan said.

China's highly indebted heavy industries continue to have worse financial metrics than global peers'. So while the deterioration in financial risks may be moderating, there are still meaningful downside risks to credit profiles for China corporates.

"Next year looks to be one when China's corporate sector should aim to rebalance their financial risk profiles against an environment of meaningful downside risks to economic growth, and potentially volatile credit market as the U.S. raises interest rates," Mr. Lee said.

#### AUSTRALIA

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services licence number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

The report is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-7280 or sending an e-mail to [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com). Ratings information can also be found on Standard & Poor's public Web site by using the Ratings search box located in the left column at [www.standardandpoors.com](http://www.standardandpoors.com). Members of the media may request a copy of this report by contacting the media representative provided.



Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).