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Research Update:

China National Bluestar 'BBB' Rating Affirmed Following Parent's Acquisition Of Syngenta; Outlook Stable

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Overview

- We expect China-based diversified chemical company Bluestar to remain a core subsidiary of ChemChina even after the parent's acquisition of Syngenta.
- Therefore, we continue to equalize the rating on Bluestar to that on its parent.
- We are affirming our 'BBB' long-term corporate credit rating and 'cnA' long-term Greater China regional scale rating on Bluestar. We are also affirming our issue ratings on the debt that Bluestar guarantees.
- The stable outlook on Bluestar over the next 12-24 months reflects the stable rating outlook on ChemChina.

Rating Action

On May 22, 2017, S&P Global Ratings affirmed its 'BBB' long-term corporate credit rating and 'cnA' long-term Greater China regional scale rating on China National Bluestar (Group) Co. Ltd. (Bluestar), a China-based diversified chemical company. The outlook is stable.

At the same time, we affirmed our 'BBB' long-term issue rating and 'cnA' Greater China regional scale rating on the senior unsecured notes that Bluestar Finance Holdings Ltd. issued. We also affirmed the 'BBB-' long-term issue rating and 'cnA-' Greater China regional scale rating on the perpetual securities that Bluestar Finance issued. Bluestar guarantees both issues.

Rationale

We affirmed the rating to reflect our view that Bluestar will remain a core subsidiary of China National Chemical Corp. (ChemChina) even after the parent's acquisition of Syngenta AG. Bluestar remains the only domestic flagship company of ChemChina. Therefore, we continue to equalize the ratings on Bluestar to that on its parent.

We expect Bluestar to sustain its good position in its key markets (of animal nutrition and silicon and its derivatives) with stable profitability. Therefore, we believe the company's EBITDA contribution to ChemChina will remain material despite some dilution following the consolidation of Syngenta. Bluestar was the original company that ChemChina built upon.

Outlook

The stable outlook on Bluestar over the next 12-24 months reflects the stable rating outlook on ChemChina. We expect that ChemChina will maintain its group credit profile and that Bluestar will remain a core subsidiary over the next two years.

Downside scenario

We could lower the ratings on Bluestar if we lower the rating of ChemChina.

We could downgrade ChemChina if its EBITDA interest coverage stays below 1.5x for an extended period. This could be because of weakening profitability or aggressive debt-funded acquisitions. We may also lower the ratings on ChemChina if the company's competitive position weakens substantially, possibly because of the company's failure to maintain its market position in specialty chemical products or integrate its acquisitions.

We may also lower the ratings on Bluestar if ChemChina continues to expand, such that we believe Bluestar's importance to ChemChina has declined, and we no longer consider it to be a core subsidiary. Finally, although the likelihood is low, we may lower the ratings on Bluestar if we believe that the likelihood of extraordinary government support for ChemChina has decreased.

Upside scenario

The likelihood of an upgrade of Bluestar is remote over the next 12 months because of ChemChina's high debt leverage.

However, we may raise the ratings if ChemChina substantially lowers its debt leverage and its ratio of debt to EBITDA approaches 4x. The company could achieve this if it can significantly lower its debt with equity injections, disposal of investments, or a significant cutback in capital spending or acquisitions.

Ratings Score Snapshot

Corporate Credit Rating BBB/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb

- Group credit profile: bbb
- Entity status within group: Core (equal to the group credit profile)

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, June 1, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Commodity Chemicals Industry, Dec. 31, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Specialty Chemicals Industry, Dec. 31, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Corporate Entity And North American Insurance Holding Company Hybrid Capital Instruments, April 1, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- China National Chemical Corp. 'BBB' Ratings Affirmed Following Completion Of Syngenta Acquisition; Outlook Stable, May 17, 2017

Ratings List

Ratings Affirmed

China National Bluestar (Group) Co. Ltd.

Corporate Credit Rating	BBB/Stable/--
Greater China Regional Scale	cnA/--/--

Bluestar Finance Holdings Ltd.

Senior Unsecured	BBB
Senior Unsecured	BBB-
Senior Unsecured	cnA
Senior Unsecured	cnA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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