FitchRatings

Fitch Removes Bluestar from RWP; Upgrades to 'A-'

Fitch Ratings-Hong Kong-18 May 2017: Fitch Ratings has removed the Rating Watch Positive on China National Bluestar (Group) Co, Ltd's Long-Term Issuer Default Rating (IDR) and senior unsecured rating from Rating Watch Positive and upgraded the ratings to 'A-' from 'BBB+'. The Outlook on the IDR is Stable. A full list of ratings is at the end of this commentary.

The rating upgrade and the removal from RWP, which had been in place since February 2016, follow the upgrade of the rating on its parent, China National Chemical Corporation (ChemChina). ChemChina was upgraded to 'A-' from 'BBB+' after the completion of its takeover of Swiss seeds and pesticides group Syngenta AG. BlueStar's ratings are equalised to the ratings of its parent due to the strong legal, operational and strategic ties between them.

KEY RATING DRIVERS

Parental Linkage Drives Ratings: Bluestar's ratings remain equalised to the ratings of its parent ChemChina, which effectively holds 63.58% of the subsidiary. Bluestar consistently receives guarantees from ChemChina for a significant portion of its loans. At end-2016, around 40% of Bluestar's loans were guaranteed by ChemChina. Moreover, Bluestar carries out businesses in all of ChemChina's core segments, and operates as a major overseas platform for the parent.

ChemChina's Enhanced Strategic Importance: The acquisition of Syngenta raises ChemChina's overall strategic importance to the Chinese agriculture and food industry, as Syngenta is the world's third-largest seed company and one of the four dominant producers of genetically modified seeds. Enhancing agricultural yields is of high importance, as the country has more than 20% of the world's population with less than 10% of the planet's arable land. In addition, Chinese agricultural yields are more than 40% lower than those of most Western countries.

DERIVATION SUMMARY

Bluestar's rating reflects strong linkages with ChemChina, which owns 63.58% of Bluestar, in line with top-down approach in Fitch's Parent and Subsidiary Rating Linkage criteria. Bluestar's ratings remain equalised to those of ChemChina as it consistently receives guarantees from ChemChina for a significant portion of its loans. At end-2016, ChemChina guaranteed around 40% of Bluestar's loans, after considering its zero equity-credit perpetual bonds. Bluestar is a key contributor to ChemChina's material science and life-science segments, and operates as a major overseas platform for the parent.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
- No major mergers and acquisitions
- No common dividend payout

RATING SENSITIVITIES

Bluestar's ratings are equalised to those of ChemChina.
A change in the rating on ChemChina would likely to lead to rating action on Bluestar. Negative action would be likely if Bluestar's legal, operational and strategic linkages with ChemChina weaken.

For the ratings of ChemChina, the following sensitivities were outlined by Fitch in its Rating Action Commentary of 19 May 2017.
Future Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Positive rating action on the Chinese sovereign, provided the linkages with ChemChina remain intact
- Stronger linkages between ChemChina and the Chinese sovereig
Future Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Negative rating action on the Chinese sovereign

- Weaker linkages between ChemChina and the Chinese sovereign

For the sovereign rating of China, the following sensitivities were outlined by Fitch in its Rating Action Commentary of 21 November 2016:
The main factors that individually or collectively could lead to rating action are:
Positive
- Greater confidence that the debt problem in the broader economy can be resolved without a material negative impact to growth or financial stability.
- Increased evidence that the economy can rebalance smoothly without experiencing a disruptive "hard landing".
- Widespread adoption of the Chinese yuan as a reserve currency globally.
Negative
- A continuation of policy settings that result in a further build-up of the economy's imbalances and vulnerabilities.
- An adverse macroeconomic or financial shock that weakens medium-term growth prospects or negatively affects public finances.
- Sustained capital outflows sufficient to erode China's external balance sheet strengths, or undermine financial stability

LIQUIDITY

At end-2016, Bluestar had cash and equivalents of CNY17.7 billion and unused banking facilities of CNY16.6 billion, compared with its short-debt obligations of CNY20.7 billion.

FULL LIST OF RATING ACTIONS

China National Bluestar (Group) Co, Ltd
-Long-Term Foreign-Currency IDR upgraded to 'A-' from 'BBB+'; Outlook Stable; removed from Rating Watch Positive
-Senior unsecured debt rating upgraded to 'A-' from 'BBB+'; removed from Rating Watch Positive

Bluestar Finance Holdings Limited
- Rating on USD500m 3.5% senior notes due 2018 upgraded to 'A-' from 'BBB+'; removed from Rating Watch Positive

- Rating on USD500m 4.375% senior notes due 2020 upgraded to 'A-' from 'BBB+'; removed from Rating Watch Positive
- Rating on USD500m 3.125% senior notes due 2019 upgraded to 'A-' from 'BBB+'; removed from Rating Watch Positive
- Rating on USD600m 3.5% senior notes due 2021 upgraded to 'A-' from 'BBB+'; removed from Rating Watch Positive

Bluestar Finance Holdings Limited is a wholly owned subsidiary of Bluestar and the notes are guaranteed by Bluestar.

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Applicable Criteria

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017) (https://www.fitchratings.com/site/re/895493)

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)
(https://www.fitchratings.com/site/re/886557)

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