

China Energy Investment Corporation Limited's 2019-3 Corporate Bond

Credit rating of the bond: AAA

Credit rating of the issuer: AAA

Rating outlook: Stable

Scale of the issuance: Up to CNY 5 billion

Maturity of the bond: 3 years

Debt servicing method: Annual interest payment,
repayment of principal at maturity

Date of rating: September 6, 2019

Key financial data:

Item	2016	2017	2018	March 2019
Total assets (CNY 100mn)	17,740.62	17,740.75	17,826.41	18,263.88
Owners' equity (CNY 100mn)	6,601.92	6,758.98	6,991.49	7,204.42
Long-term liabilities (CNY 100mn)	4,321.54	4,542.43	4,554.34	--
Total liabilities (CNY 100mn)	7,735.14	8,176.76	8,116.38	--
Revenue (CNY 100mn)	4,236.79	5,099.24	5,422.57	1,400.17
Net profit (CNY 100mn)	336.18	433.86	509.11	144.81
EBITDA (CNY 100mn)	1,501.23	1,687.82	1,822.12	--
Net cash flow from operating activities (CNY 100mn)	1,707.08	1,507.45	1,912.00	309.88
Operating profit margin (%)	28.79	29.08	29.86	29.58
ROE (%)	5.09	6.49	7.40	2.04
Debt-to-asset ratio (%)	62.79	61.90	60.78	60.55
Total debt-to-capitalization ratio (%)	53.95	54.75	53.72	--
Current ratio (x)	0.41	0.45	0.49	0.58
EBITDA-to-total liabilities ratio (x)	0.19	0.21	0.22	--
EBITDA-to-interest coverage ratio (x)	4.33	4.74	4.65	--
EBITDA / scale of this bond (x)	30.02	33.76	36.44	--

Note: 1. Unless otherwise stated, all data herein are consolidated; 2. Figures may not sum due to rounding. Unless otherwise stated, the currency herein refers to the Chinese yuan (CNY); 3. Financial statements for 1Q 2019 are unaudited, and the relevant indicators are not annualized; 4. Since the financial data for 2015 adopts year-beginning balance in former Shenhua Group's 2016 audit report, in formulas used to calculate China Energy Investment's indicators on rate of return (such as return on total capital, return on total assets, and return on equity) and indicators on operating efficiency (such as inventory turnover, accounts receivable turnover and total assets turnover) for 2016, the year-end balance for that year rather than the average of the year-beginning and year-end balances is used as the denominator; 5. Financial liabilities such as deposits absorbed and interbank placement have been included in the Company's debt

Rationale

The rating assigned to China Energy Investment Corporation Limited (hereinafter referred to as "China Energy" or the "Company") by United Credit Ratings Co. Ltd. (hereinafter referred to as "United Ratings") reflects that as the world's biggest coal producer, biggest thermal power producer, biggest wind power producer, and largest coal-to-oil and coal chemical company, China Energy boasts advantages in terms of resources endowment, deployment along the industrial chain, economies of scale, equipment technology, and management capabilities. In particular, its integrated operating model featuring "coal-electricity-road-port-air" has helped significantly improve the stability of its operating performance. China Energy has strong capital strength, high profitability and decent operating cash flow. In the meantime, United Ratings has also noted factors that could have an adverse impact on its credit rating, such as cyclical macroeconomic fluctuations, industry policy changes, and risks associated with production safety.

Going forward, as its main projects under construction begin operations, the Company is set to further improve its industrial chain and consolidate its industry position. United Ratings' rating outlook for the Company is "stable".

Based on a comprehensive assessment of the Company's credit profile and its ability to repay the bond, United Ratings concludes that the risk of default on the bond repayment is extremely low.

Strengths

1. The Company has established an integrated operating model featuring "coal-electricity-road-port-air", with substantial synergies achieved between different industries. The model can not only help ensure transport capacity for the Company's procurement and sales

activities but also help control inventories, reduce capital occupation and improve the stability of its operating performance.

2. As the world's largest coal producer, China Energy has huge coal resource reserves. Its coal resources are of excellent quality (low content of sulfur and phosphorus, high heat productivity), and have characteristics such as shallow and thick coal seams, simple geologic formations, stable surface conditions, and low gas content for the majority of its coal mines. Given such characteristics, the Company is able to adopt large-scale, mechanized mining methods, which is conducive to reducing mining costs and improving mining efficiency, pointing to its substantial resource endowment and scale advantages.

3. As the world's largest thermal power producer and wind power producer, China Energy leads its peers in controllable installed capacity. With large-installed-capacity generating units accounting for a high proportion of its total power generating units, the Company boasts strong scale and technological advantages, which is conducive to reducing per unit coal consumption and controlling power generation costs. With a reasonable power source structure, the Company is able to continually improve the stability of its operating performance.

4. China Energy has strong capital strength, high profitability, decent operating cash flow, and very strong ability to repay debts.

Concerns

1. The power industry is highly exposed to cyclical macroeconomic fluctuations. Factors such as coal price volatility, increased investment in environmental protection, and the electric power system reform could negatively affect the power industry's profitability.

2. In case of major accidents in the Company's coal or electricity production process, they could have a substantial impact on its normal production and operation.

Analysts

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