

Sinopec Corp (386 HK)

FUNDAMENTAL VIEW¹

As of 17 Apr 2024

- We expect the credit profile of Sinopec, which is one of the three Chinese national oil companies (NOCs) to continue to be underpinned by its strategic role in China's energy security and the resulting strong government support.
- We expect Sinopec's standalone credit profile to remain supported in FY24 by resilient refined oil demand and improving demand for chemical products as industrial activities pick up and the destocking trend ends.
- To note, we use the financials of HKEx listed Sinopec Corp (386.HK) as a proxy for the credit profile of its parent, the obligor of the outstanding \$ bonds (BBG: SINOPE).

RISKS & CATALYSTS

As of 17 Apr 2024

Risks: Lower-than-expected domestic sales of refined oil and chemical products due to a severe economic downturn, higher-than-expected crude oil and gas feedstock costs resulted from geopolitical tensions, elevated inventory losses due to tumbling oil & gas prices, and large capex overrun result in a weaker standalone credit profile. However, we expect the strong government support to offset these downside risks. US sanction related headline risks due to US-China tension and other geopolitical risks.

Catalysts: inflow into China \$ bonds as a result of improving China macro outlook and US-China relationship; stronger-than-expected recovery in chemical product demand.

CREDIT QUALITY SCORE (CQS)²

As of 19 Sep 2022

CURRENT CQS

60

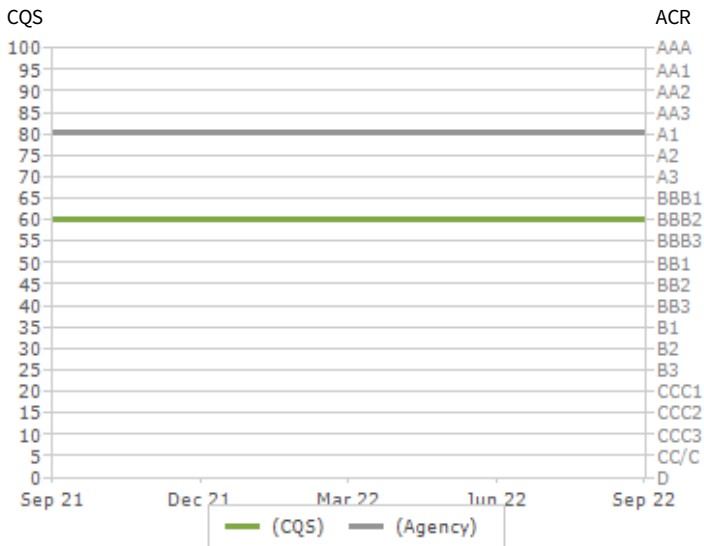
CQS OUTLOOK³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS



KEY METRICS

As of 17 Apr 2024

RMB BN	FY19	FY20	FY21	FY22	FY23
Total Debt/Capitalization	27.8%	25.3%	25.6%	27.5%	31.5%
Net Debt/Capitalization	17.3%	9.4%	7.6%	16.3%	19.8%
Total Debt/Total Equity	38.6%	33.8%	34.5%	38.0%	46.1%
Total Debt/Total Assets	19.2%	17.2%	16.7%	18.3%	21.7%
Total Debt/EBITDA	1.6x	1.5x	1.2x	1.5x	2.0x
Net Debt/EBITDA	1.0x	0.6x	0.4x	0.9x	1.3x
EBITDA/Gross Interest	12.9x	16.8x	20.1x	16.1x	14.5x
EBITDA Margin	7.3%	9.5%	9.4%	7.0%	6.8%

Note: Limited disclosure on capitalized interest in interim reports.

BUSINESS DESCRIPTION

As of 17 Apr 2024

- Sinopec Group is a Chinese integrated oil and gas (O&G) company and is one of the largest globally & domestically. In FY23, 56.1% of Sinopec Corp' external revenues came from marketing and distribution (i.e. retail and direct sales of refined oil), 13.1% from chemicals, 5.4% from refining, and 5.7% from E&P. Corporate and others segment accounted for the remaining 19.7% of sales revenue, consisting of import and export business, R&D and managerial activities.
- The refining segment purchases crude oil from third parties as well as the E&P segment of the company, and processes crude oil into refined petroleum product. Most of the gasoline, diesel and kerosene are sold internally to the marketing and distribution segment of the company; part of the chemical feedstock is sold internally to the chemical segment, and the other refined petroleum products are sold externally to both domestic and overseas customers. The marketing and distribution segment purchases refined oil products from the refining segment and third parties, and mainly distributes to domestic customers via its wholesale and retail networks.
- In FY23, Sinopec's total oil and gas output was 504 mn barrels of oil equivalent (mmbobe), up 3.1% YoY; this included 252/29 mmbbls (+0.3%/-1.9%) of domestically produced/overseas crude oil, as well as 1,338 bcf of natural gas (+7.1% YoY). The average realized price of its crude oil and natural gas was \$76.6/bbl and \$7.1/thousand cubic feet respectively.

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown are for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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