Credit Opinion 15 November 2017

HNA Group (International) Company Limited

Hong Kong

Category:	Corporate Rating
Rating Type:	Solicited Rating
Industry:	Investment Holding
Long-term Credit Rating:	BBB_g-
Rating Outlook:	Stable

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Key Indicators

HNA Group (International) Company Limited [1]	2017H1	2016	2015	2014
Total Assets (HKD billion)	91.7	81.9	48.8	41.8
Total Assets (USD billion)	11.8	10.5	6.3	5.4
Net Assets (HKD billion)	48.6	41.3	25.8	25.9
Net Assets (USD billion)	6.2	5.3	3.3	3.3
Total Revenue (HKD billion)	4.3	6.1	4.8	4.5
Total Revenue (USD billion)	0.5	0.8	0.6	0.6
Net Profit (HKD million)	307.0	605.7	542.3	692.8
Net Profit (USD million)	39.4	77.6	69.5	88.8
Return on Equity (%)	0.7	1.8	2.1	2.5
Total Debt / Total Capital (%)	44.2	46.8	43.0	33.2
Total Debt / EBITDA (x) [2]	-	12.9	10.6	6.5
EBITDA / Interest (x) [2]	-	2.1	3.2	4.1

[1] Consolidated financial statements in accordance with Hong Kong Financial Reporting Standards audited by Li, Tang, Chen & Co. 2017H1 figures denote for six months ended 30 June 2017 from unaudited results.
[2] Adjusted EBITDA excluded share of results of associates.
Source: Company data, CCXAP research

Rating Drivers

- Strong shareholder support by HNA Group
- Stable income generated from leasing services
- Business risks inherited in equity investments
- Moderate debt leverage but vulnerable credit metrics

Rating Rationale

The BBB_g- rating of HNA Group (International) Company Limited ("HNA International" or the "Company") is underpinned by (1) strong shareholder support provided by HNA Group Company Limited ("HNA Group" or the "Group"); (2) the Company's investment decisions in line with HNA Group's principle businesses; (3) leading market position in its serviced regions of trailer leasing; (4) good geographical and business diversification of investments. However, the rating is also constrained by (1) uncertainties and risks in equity investments which require high level of capital operation and risk management; and (2) the Company's large transactions with connected parties of HNA Group.

Rating Outlook

The stable outlook on HNA International's rating reflects its good performance as an investment holding company. We believe that the Company would remain competitive in the future.

What could upgrade the rating?

The rating could be upgraded if (1) core leasing business achieves leading position in the existing and new markets; (2) the Company receives stable dividends from its equity investment; and (3) the Company reduces its debt leverage.

What could downgrade the rating?

The rating could be downgraded if (1) the Company's revenue slumps and profitability deteriorates; (2) equity investment incurs significant losses; or (3) the Company's liquidity buffer squeezes.

Corporate Profile

HNA International was incorporated in July 2010 with limited liability in Hong Kong. HNA Group is the Company's controlling shareholder. As of 31 December 2016, HNA Group directly held approximately 91.1% of the Company's shares, and Hong Kong Airlines Limited held approximately 8.9%.

HNA International's policy is to act as the offshore investment and management platform of HNA Group. The Company has invested in trailer leasing, aviation leasing, hotel operation, finance and other services.

As of 31 December 2016, HNA International reported total assets and net assets of HKD 81.9 billion and HKD 41.3 billion, respectively. In 2016, HNA International generated total revenue and net profit of HKD 6.1 billion and HKD 0.6 billion, respectively.

As of 30 June 2017, HNA International reported total assets and net assets of HKD 91.7 billion and HKD 48.6 billion, respectively. In the six months ended 30 June 2017, HNA International generated total revenue and net profit of HKD 4.3 billion and HKD 0.3 billion, respectively.

Detailed Rating Considerations

1. Strong shareholder support from HNA Group

Founded in 1998, HNA Group has become one of the largest investment holding groups in China. As of 31 December 2016, HNA Group reported total assets of RMB 1,015.5 billion, engaged in aviation, airport, real estate, hotel, travel, finance, logistics and other industries. In 2016, HNA Group recorded total revenue of RMB 195.6 billion and net profit of RMB 4.7 billion. In 2017, HNA Group ranked the 170th among Fortune 500 in terms of revenue.

Acting as the important offshore platform of HNA Group, HNA International makes overseas investments for the group. HNA Group appoints its management team to HNA International, and also provides daily technical support and risk management to the Company. Moreover, given the capital strength of HNA Group, HNA International gains strong support from the parent company in terms of capital injection and business development.

The shareholder support enhances HNA International's access to diversified funding channels with favorable borrowing costs. HNA Group has provided guarantee for HNA International's bonds issued in the debt capital market, which helped lower the interest rate. We believe that the strong support from controlling shareholder helps strengthen the overall credit profile of HNA International.

2. Investment decisions align with HNA Group's principle business

As the offshore investment platform of HNA Group, HNA International adopts the investment strategy to cover aviation, logistics, travel, and finance industries around the world, which is in line with HNA Group's existing business lines. Meanwhile, the Company's investment policy is to identify suitable investment targets, to develop through asset integration and value enhancement, and to exit by selling to HNA Group or third parties.

The Company has short but sound track record of invest-and-exit. In November 2011, HNA International acquired Seaco SRL ("Seaco"), the world's fifth largest container leasing company at the time. In December 2013, HNA International nurtured Seaco and subsequently sold to Bohai Leasing, a related party of HNA Group, recognizing a return of approximately HKD 2.78 billion. Since 2011, HNA International has conducted logistic transportation business through GC Tankers Pte. Ltd. In July 2014, HNA International disposed of its interest in GC Tankers to an independent third party for a consideration of USD 40 million.

As of 31 December 2016, the core investments of HNA International mainly included a wholly-owned trailer leasing company which is TIP Trailer Services ("TIP"), and associate companies such as Hong Kong International Aviation Leasing Co., Ltd ("HKI Aviation Leasing"), NH Hotels S.A. ("NH Hotels") and HNA Holding Group Co. Limited ("HNA Holding"). As of 31 December 2016, HNA International held 24.0% shares of HKI Aviation Leasing, 29.5% shares of NH Hotels and 9.7% of HNA Holding.

Exhibit 1. Major Investments of HNA International as of 30 June 2017

Type	Company	Region	Industry	Period	Share (%)	Investment
Subsidiary Companies	TIP Trailer Services	Europe	Leasing	2013	100.0	EUR 480 mn
	Hong Kong International Financial Service Limited	Hong Kong	Finance	2010	80.8	HKD 107 mn
Associate Companies	Hong Kong International Aviation Leasing Co., Ltd	Hong Kong	Leasing	2010	24.0	HKD 1,209 mn
	Silverlake Axis Limited	Malaysia	Finance	2012-2014	4.3	HKD 60 mn
	KVB Kunlun Financial Group Limited	Hong Kong	Finance	2012	5.3	-
	NH Hotels S.A.	Europe	Hotel	2013-2014	29.5	EUR 432 mn
	HNA Holding Group Co. Limited	Hong Kong	Technology	2013	9.7	HKD 678 mn
	Shengjing Bank	China	Finance	2014	5.9	HKD 620 mn
	Comair Limited	South Africa	Aviation	2015	6.2	ZAR 160 mn
	C-Quadrat Investment AG	Europe	Finance	2016	9.9	EUR 24 mn

Source: Company data, CCXAP research

The investment portfolio of HNA International displays good business and geographic diversification. By diversifying the investments into various industries, the Company could be less vulnerable to the demand shock in single industry. The Company's geographical diversity across different economic regions such as Europe, Asia, and Africa could help mitigate earning volatility and political risk.

The Company's investments covered listed companies such as NH Hotels listed in Madrid, Comair listed in Johannesburg, KVB Kunlun and Shengjing Bank listed in Hong Kong. The investments in listed companies enable the Company to dispose its assets at a reasonable price and maintain good liquidity buffer. While HNA International has kept expanding its portfolio, its investments are relatively concentrated, with the three largest investments in TIP, NH Hotels, and HKI Aviation Leasing.

3. Core business of leasing services achieve solid market position

HNA International currently operates trailer leasing through TIP, and operates aviation leasing through HKI Aviation Leasing. In 2016, leasing services income accounted for about 56% of the Company's gross income. The Company's solid market position and strong pricing power in core business are supportive for its rating.

Headquartered in Amsterdam, Netherland, TIP was acquired by HNA International from GE Capital in October 2013. TIP provides customers with leasing, rental, maintenance, and other value-added services. TIP is the largest leasing company in Europe with more than 40 years of experience. By end-2016, TIP had 74 branches located in 16 countries across Europe and Canada in North America, with a fleet of over 60,000 trailers. Among its serviced regions, TIP is the market leader in 12 countries, with more than 10% market share in Europe in terms of operating leases.

Exhibit 2. TIP's Revenue Breakdown by Service in 2014-2016 and 2017H1

Service	Revenue (HKD mn)				% of Total			
	2017H1	2016	2015	2014	2017H1	2016	2015	2014
Rental	538	830	834	755	23%	24%	27%	24%
Leasing	980	1,552	1,457	1,446	43%	45%	46%	45%
Maintenance and Repair	487	873	738	653	21%	25%	23%	20%
Others	290	217	112	341	13%	6%	4%	11%
Total	**2,295**	**3,473**	**3,140**	**3,195**	**100%**	**100%**	**100%**	**100%**

Source: Company data, CCXAP research

In terms of services, trailer rental and leasing contributes the largest share of revenue. TIP's business model focus on providing operating leases. The contracts with duration of less than 12 months are classified as short-term rentals, while those with longer duration are classified as long-term leases. Most of TIP's contracts are long-term, of which 89% has duration of more than 2 years, and the average contract duration was 5.5 years. TIP also provides maintenance service to both self-owned trailers and third-party trailers. In 2016, TIP generated revenue from rental, leasing, and maintenance services of HKD 830 million, HKD 1,552 million and HKD 873 million, accounting for 24%, 45% and 25% of total revenue, respectively.

Exhibit 3. TIP's Revenue Breakdown by Region in 2014-2016 and 2017H1

Region	Revenue (HKD mn)				% of Total			
	2017H1	2016	2015	2014	2017H1	2016	2015	2014
Benelux	585	903	816	895	25%	26%	26%	28%
UK and Ireland	606	938	848	735	26%	27%	27%	23%
Mediterranean	461	695	597	607	20%	20%	19%	19%
Central Europe	374	521	565	575	16%	15%	18%	18%
Nordics	225	347	314	383	10%	10%	10%	12%
North America	44	69	-	-	2%	2%	-	-
Total	**2,295**	**3,473**	**3,140**	**3,195**	**100%**	**100%**	**100%**	**100%**

Source: Company data, CCXAP research

In terms of regions, TIP mainly operates in 16 countries across Europe, and expands to North America. In 2016, TIP generated revenue from Benelux (Netherland, Belgium, and Luxemburg), UK and Ireland, Mediterranean (France, Italy, and Spain), Central Europe (Germany, Austria, Poland, and Romania) and Nordics (Denmark, Norway, Finland, and Sweden) regions of HKD 903 million, HKD 938 million, HKD 695 million, HKD 521 million and HKD 347 million, accounting for 26%, 27%, 20%, 15% and 10% of total revenue, respectively. In addition, revenue from North America recorded HKD 69 million in 2016.

TIP has retained a solid customer base of more than 6,000 customers, which are generally global or regional transportation, logistic, and retail companies, including DHL and TESCO. TIP has maintained business relationship with most of its top 10 customers for more than 20 years. As for customer concentration, revenue from top 5 customers accounted for 10.6% of total revenue in 2016, showing a relatively low degree of concentration risk. As for credit quality, TIP has practiced rigorous risk management system to maintain high quality of customer credit, with 82.1% of its customers received internal credit ratings from A+ to BB- in 2016. This helped ensure stable collection of lease payments, which recorded 100% in 2016.

Apart from trailer leasing, HKI Aviation Leasing specializes in aircraft and aviation equipment leasing in Hong Kong. By end-2016, the fleet includes 33 aircrafts and one aircraft engine. The major aim of HKI Aviation Leasing is to support the business operation of aviation companies within HNA Group, and the key lessees include Hainan Airlines, Hong Kong Airlines, and Capital Airlines. HKI Aviation Leasing has established a good relationship with related-party customers, with an average contract duration of 13.3 years at end-2016.

4. Equity investments create synergies as well as challenges

HNA International actively makes investments in companies that help enhance HNA Group's strategic goals. The Company develops strategic, financial, and operational synergies with HNA Group through equity investments, and seeks to achieve vertical and horizontal integration in the value chain businesses of HNA Group through further acquisitions. However, given the investment risks, the Company's capital operation and risk management face challenges as its investment scale continues to grow. In 2016, investment income and gain accounted for 31% of the Company's gross income.

As for travel industry, HNA International acquired 29.5% shares of NH Hotels during the period from April 2013 to November 2014, becoming the largest shareholder. NH Hotels is listed on the stock exchange of Madrid, Spain. Focusing on four-star business hotels, NH Hotels opens 379 hotels (including 212 leased, 80 owned, and 87 managed hotels) with 58,472 rooms in 28 countries across Europe, America, and Africa. NH Hotels is one of the top 25 hotel chains in the world, ranking the second in Spain and the third in Europe. Furthermore, NH Hotels and HNA Group set up joint venture company in March 2016, which will convert HNA hotels to NH flagships in the Chinese market.

Exhibit 4. NH Hotels' Operating Results in 2012-2016

	2016	2015	2014	2013	2012
Average Rooms	44,718	42,617	43,460	44,927	45,932
Occupancy (%)	68.4	68.1	67.7	66.1	63.9
ADR (€)	90.6	87.1	78.9	77.5	79.3
RevPar (€)	62.0	59.3	53.4	51.2	50.7

Source: Company data, CCXAP research

NH Hotels' proper management and good branding help enhance its competing position in the hotel chain. In 2016, the occupancy rate of hotels operated by NH Hotels increased to 68.4%, and the hotel revenue increased to EUR 62.0 per available room. NH Hotels recorded total revenue of EUR 1.4 billion and net income of EUR 14.9 million during the year.

In addition to direct investment, HNA International also leverages the investment and management ability of asset management companies. In December 2016, HNA International acquired 9.9% shares of C-Quadrat Investment AG, which is a global asset management company based in Austria. This investment will further improve the synergies with HNA Group through offshore asset management.

5. Financial services mainly provided for related parties within HNA Group

HNA International acts as the offshore investment and capital management platform as well as the capital pool management platform for HNA Group. Apart from leasing services, general financial services of HNA International include investment banking advisory services and standby letter of credits services, mainly provided for affiliate companies within HNA Group. The share of service fee from related parties relative to total financial services income was 35.8% in 2016, coming from financial services, bond issuances and mergers & acquisitions. The share of revenue from related parties relative to total revenue was 22.5% in 2016.

HNA International provides the service of standby letter of credits for HNA Group. Since 2008, HNA Group has been using standby letter of credits finance offshore debts, which are backed by 100% cash deposits of HNA Group in onshore banks. HNA International uses such standby letter of credits to obtain loans from offshore banks, with the same amount and tenor. The Company charges a service fee rate of 0.5%-1% during this process while these debts are shown on its balance sheet. In addition, HNA International makes offshore payments on behalf of HNA Group and its subsidiaries/affiliates. The Company also charges a service fee rate of 0.5%-1% during this process while these advances are shown on its balance sheet.

However, given its close relationship with HNA Group, HNA International reported relatively large amount due from holding company and related parties on its balance sheet. With the expansion of offshore business, the Company's receivables and advances amount continued to climb, which would affect its own capital use and turnover.

6. Stable revenue growth with relatively weak profitability

HNA International recorded gross revenue (turnover plus other income and gains) of HKD 6.1 billion in 2016, HKD 4.8 billion in 2015 and HKD 4.5 billion in 2014, respectively. In terms of segment breakdown, leasing service, equity investment and financial service accounted for 56.5%, 31.5% and 10.5% of total revenue in 2016. The Company registered a steady growth in leasing services revenue, from HKD 3.1 billion in 2015 to HKD 3.5 billion in 2016. Meanwhile, there was a significant increase in equity investment gains, from HKD 1.3 billion in 2015 to HKD 1.9 billion in 2016. The equity investment is inherent with larger risk exposure and higher reliance on market conditions. The rising proportion of equity investment will bring upside potential as well as business risks to the Company.

Exhibit 5. Breakdown of Gross Revenue and Operating Profit in 2014-2016 and 2017H1

	Amount (HKD mn)				**% of Total**			
	2017H1	**2016**	**2015**	**2014**	**2017H1**	**2016**	**2015**	**2014**
Gross Revenue								
Leasing service	2,295	3,473	3,140	3,231	54%	56%	66%	71%
Equity investment	590	1,935	1,268	939	14%	31%	27%	21%
Financial service	874	647	353	258	21%	11%	7%	6%
Others	495	94	0	113	12%	2%	0%	2%
Total	**4,255**	**6,149**	**4,762**	**4,541**	**100%**	**100%**	**100%**	**100%**
Operating profit								
Leasing service	163	298	298	672	14%	14%	23%	39%
Equity investment	217	1,507	870	847	19%	70%	67%	49%
Financial service	840	462	142	146	74%	22%	11%	8%
Others	-83	-128	-15	62	-7%	-6%	-1%	4%
Total	**1,137**	**2,140**	**1,294**	**1,726**	**100%**	**100%**	**100%**	**100%**

Source: Company data, CCXAP research

The Company's profitability is relatively weak but improving. The operating profit recorded HKD 2.1 billion in 2016, as compared to HKD 1.3 billion in 2015 and HKD 1.7 billion in 2014. The net profit recognized HKD 0.6 billion in 2016, as compared with HKD 0.5 billion in 2015 and HKD 0.7 billion in 2014. The return on equity (ROE) of the Company was calculated as 1.8% in 2016, 2.1% in 2015 and 2.5% in 2014, respectively. With the business expansion, the Company's operating expenses and finance costs continued to increase. Nevertheless, the decline in ROE mainly resulted from the rise in the Company's total equity.

In the six months ended 30 June 2017, HNA International recorded gross revenue of HKD 4.3 billion, increasing by 71.6% YoY. The revenue growth was mainly contributed by its leasing services and financial services. The Company recorded operating profit of HKD 1.1 billion and net profit of HKD 0.3 billion in 2017H1, respectively.

7. Moderate debt leverage but vulnerable credit metrics

HNA International has expanded its balance sheet through debt financing. The Company's total debt amounted to HKD 36.4 billion as of 31 December 2016, which increased by HKD 16.9 billion YoY. The debt to capital ratio also rose from 33.2% in 2014 and 43.0% in 2015 to 46.8% in 2016. With the business expansion, the Company's financial leverage continued to grow, but still in a relatively reasonable range.

As for the maturity profile, the Company's debt largely concentrated in the near term. The short-term debt accounted for 50.4% of total debt as of 31 December 2016. The Company reported bank loans of HKD 14.3 billion at end-2016, of which 79.3% coming from its service of standby letter of credits. Since these loans are secured by standby letter of credits which in turn are fully backed by cash deposits, HNA International's borrowing risk would be limited.

HNA International exhibited deteriorated debt servicing capability. Along with the debt-financed expansion, the Company's debt and interest burden heightened in the past three years. The adjusted total debt to EBITDA ratio was 12.9x in 2016, 10.6x in 2015 and 6.5x in 2014, while the adjusted EBITDA interest coverage ratio was 2.1x, 3.2x and 4.1x over the same period, respectively. We will continue to monitor the Company's ability to repay its debt obligations.

The Company's liquidity profile remained adequate. As of 31 December 2016, the Company held cash reserve of HKD 10.8 billion. As mentioned above, the majority of the Company's short-term debt resulted from its financial services of standby letter of credits. The Company's short-term liquidity inflows are considered as adequate to cover outflows. In addition, HNA International had credit facilities of HKD 19.2 billion on a consolidated basis, of which HKD 7.5 billion remained unutilized.

The Company has good access to diversified funding channels. The Company maintained a good relationship with domestic and foreign financial institutions. The Company has also tapped into the onshore and offshore bond markets. As of 31 December 2016, the Company has issued debt securities denominated in RMB, USD and SGD in mainland China, Singapore and Korea. The bonds bear interest at 5.2% to 8.125% per annum with tenor of 2 to 5 years, some of which are unconditionally and irrecoverably guaranteed by HNA Group. Meanwhile, the Company is exposed to the potential risk of foreign exchange rates changes.

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ **AAg** **AAg-**	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ **Ag** **Ag-**	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ **BBBg** **BBBg-**	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ **BBg** **BBg-**	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ **Bg** **Bg-**	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

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