

S&P Global (China) Ratings--Project Finance Methodology

English Summary:

SCOPE AND OVERVIEW

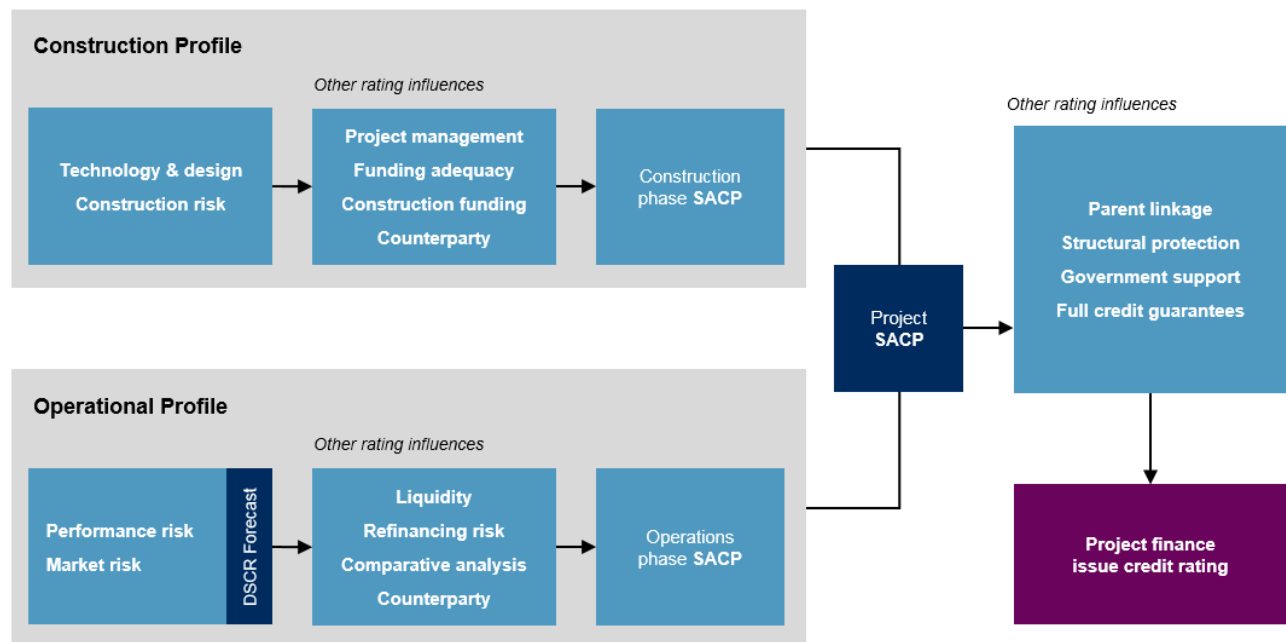
This S&P Global (China) Ratings methodology applies to project financings in China. Sectors that the methodology can apply to include: transportation infrastructure, social projects, energy and water infrastructure, and commodity-based projects such as oil and gas and mining projects, amongst others. This methodology may also apply to other sectors where we deem it appropriate for the analysis.

The analysis of project financings involves multiple aspects that typically include:

- Establishing the project's stand-alone credit profile (SACP), which is typically the lower of either our assessment of the project's construction phase SACP or operations phase SACP. If construction risk is not present, the operations SACP typically establishes the project SACP.
- Factoring in any strengths and weaknesses in the transaction structure due to other factors such as parent linkages or structural deficiencies, cross-default and debt acceleration linkages, subordination (if any) as well as any external support and government considerations.
- Considering any credit guarantees.
- Determining the project finance issue credit ratings.

The diagram provides an overview of our methodology for determining project finance issue credit ratings.

Project Finance Methodology Framework



METHODOLOGY

Features of Project Finance

Typical features of a project finance transaction may include:

- A project finance transaction typically would have a transaction structure and/or features, with certain characteristics around asset isolation, covenants, cash flow allocation and restricted purpose.
- Recourse and security to the project's assets, cash flows, and contractual agreements.
- A project's ability to service, repay, or refinance debt is typically dependent on the future cash flows generated by the operations of the asset, once constructed and operational.
- Project finance transactions typically have established and specified responsibilities that limit risk through contracts and transaction documents over the project life.

Determining A Project's Stand-Alone Credit Profile (SACP)

Our analysis of the SACP and issue credit ratings of project financings, typically reflect the credit quality of a project during its weakest period over the remaining term of the financial obligation and until the obligation is repaid. In project structures with bullet or balloon maturities, we may assess the credit quality beyond the scheduled bullet debt maturities.

As a result, a project SACP is typically the lower of the construction phase SACP or the operations phase SACP.

In cases where the construction phase SACP is the weak link, once construction is completed and we consider that construction-related issues are resolved, we may adjust the project SACP to the operations phase SACP. The initial operations phase SACP may reflect start-up risks. If a project has completed construction at the time of assigning the rating, only an operations SACP would typically apply.

Once we establish the project SACP, we may apply additional adjustments to arrive at a final rating.

Determining the Construction Phase SACP

The construction phase SACP typically assesses the likelihood that a project will be adequately funded for it to be built and completed on time and within budget, and that the project will be capable of operating as designed and as expected. The construction and funding assessment is important to consider whether a project is expected to be built and completed with sufficient committed funding, but also to consider whether a project meets its operational and contractual deadlines in a timely manner (i.e., before any potential contractual termination events) to produce sufficient net cash flows to meet debt service and any other financing commitments.

Construction risk factors that we may consider include: technology choice and design profile; construction scope; construction contractual arrangements; contractor experience; project management; the level of available funding; and any counterparty considerations.

We analyze whether construction funding or support is adequate to complete a project so that it is ready to begin operations even if there is a cost overrun or a delay in commissioning. A shortfall in the amount of funds or support available is most commonly due to cost underestimation, design changes, permit conditions, adverse weather, or force majeure events.

The overall construction phase SACP is typically determined by:

- Analyzing the construction phase risks, which typically involves considering technology and design risk, construction risk, and project management.
- Analyzing financial risk, including a project's funding adequacy and construction funding.
- Considering any construction and financing counterparty risks.

Determining the Operations Phase SACP

The operations phase SACP typically reflects our analysis of the likelihood that a project would meet its financial commitments during the operations phase. The operations phase normally begins when the construction phase ends and continues until the end of a project's life or until full repayment of the project's debt. For debt structures with bullet or balloon maturities the analysis may include risks after scheduled debt maturities (including refinance risk). A project's operations risk is typically considered by evaluating the business/performance stability (adjusting for factors, such as project-specific contractual terms and risk attributes, performance standards, and resource and raw material risk) of the underlying assets, exposure to market risk, debt service coverage and financial performance, capital structure, counterparty considerations, and liquidity. These attributes are typically correlated with a project's overall operating credit risk.

OTHER CONSIDERATIONS

This methodology is not intended to be an exhaustive list of all factors we may consider in our analysis. Where appropriate, we may apply additional and/or different, quantitative and/or qualitative, considerations in our analysis to reflect the circumstances of the analysis for a particular issuer, issue or security type. A rating committee may adjust the application of the methodology to reflect individual circumstances in our analysis.