



## ROAD KING INFRASTRUCTURE'S 'BB' RATING AFFIRMED; OUTLOOK REMAINS STABLE

### Credit Profile

#### Rating Affirmed

Road King Infrastructure Ltd.  
Corp credit rtg BB/Stable/—  
Road King Infrastructure Finance  
(1997) Ltd.  
US\$140 mil nts due 2007 BB

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HONG KONG (Standard & Poor's CreditWire) Aug. 11, 1999—Standard & Poor's today affirmed the double-'B' corporate credit rating on Road King Infrastructure Ltd. (RKI). The outlook on the rating remains stable. At the same time, Standard & Poor's affirmed the double-'B' rating assigned to the US\$140 million notes due 2007 issued by and guaranteed by RKI. Road King Infrastructure Finance (1997) Ltd. is a wholly owned subsidiary of RKI.

Road King Infrastructure Ltd. (RKI) is a Hong Kong-listed infrastructure company. Through cooperative joint ventures, it holds interests in 22 toll road and bridge projects in mainland China totaling 975km. The roads and bridges are located in eight provinces in China, and all are in operation and collecting tolls. RKI's joint venture partners are entities affiliated with the respective local transport bureaus. RKI's rating reflects the following risks:

- Exposure to potential Chinese devaluation. RKI has primarily Chinese currency revenue sources, while all its debt outstanding of HK\$1.6 billion (US\$206 million equivalent) is denominated in U.S. dollars. A devaluation of the renminbi would weaken RKI's debt service ability unless there was an immediate and commensurate increase in toll rates.
- Reliance on minimum income undertakings (MIUs) and the legal ambiguities of MIUs. In various projects, RKI's Chinese partners provide it with MIUs in case toll revenues fall short of RKI's specified return. Eleven projects still rely on MIUs from Chinese partners to satisfy RKI's required return, though the MIU percentage is declining. In 1998, MIUs accounted for 26% of all cash

flow to RKI. Given the tightening scrutiny the Chinese government has given to guaranteed return arrangements, RKI's cash flow could be disrupted over MIU disputes. Furthermore, the ability of Chinese partners to pay MIUs also remains uncertain. In 1998, a HK\$38 million provision was established for MIUs receivable from two projects in Yulin Guangxi Province.

- Inherent risks in transport projects. Risks for such projects include volatility in projected traffic flows, uncertain tariff increases, and uncertain franchise structures. Although four projects obtained 7%-50% toll increases in 1998, annual toll increases are subject to local price bureau approval. The procedure and policies followed by price bureau lack transparency and give rise to uncertainty.
- Susceptibility to economic cycles. Slower economic growth in China could have a negative impact on traffic growth. For example, traffic dropped in 1998 on RKI's two projects in Shanxi Province, China's primary coal base, due to the sluggish coal mining industry that caused a significant drop in the number of coal trucks using the roads. These risks are balanced by the following strengths:
- Geographical diversification. RKI's well-distributed project portfolio limits vulnerability to a single project's traffic fluctuations, toll rate adjustments, and risk of nonperformance on MIUs by joint venture partners. RKI's projects, which include expressways and other classes of highways, are spread across eight provinces in China—Guangdong, Anhui, Hunan, Hebei, Shanxi, Henan, Jiangsu, and Guangxi.
- Adequate financial performance. Without

project additions, RKI's revenues and cash flow from projects increased substantially in 1998 due to toll increases and traffic growth. This was sufficient to generate gross interest coverage of 3.42 times (x) in 1998. Cash flow coverage from projects is expected to stay above 4x over the next five years. RKI has low leverage, as its debt-to-capital ratio improved to 30% as a result of the placement of convertible preferred shares with Stagecoach Holding PLC (BBB/Positive/A-2) and the divestiture of its interest in Meiguan Expressway.

- Financial flexibility. Despite the weak economic environment in 1998, RKI maintains financial flexibility from its substantial cash holdings and its prudent investment commitments. As of July 15, 1999, RKI had cash holdings of approximately HK\$1 billion. The company did not make any new investment in 1998, and no substantial committed investments are forthcoming over the next year.
- Management. RKI has an experienced and professional management team with a

hands-on approach. Staff is deployed to each project site and involved in day-to-day project operation and financial management, which benefits RKI's toll collection effectiveness, operating efficiency, and relationship maintenance with local partners.

#### **Outlook: Stable**

The potential for a rating downgrade is low given RKI's current relatively strong financial position and stable operating record for its rating category. Moreover, RKI's repurchase of U.S. dollar-denominated bonds and its strategy of using renminbi financing for future projects would mitigate to some extent currency mismatch risk. However, an upward rating adjustment may be impeded due to the impact on traffic flow of slower economic development in China, uncertainty of MIUs under the tightened regulatory scrutiny, and RKI's resumed investments in toll road and other infrastructure-related projects, which could potentially involve new and higher risks, Standard & Poor's said.

— CreditWire