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Technology Services – China

Proposed antitrust regulations are credit negative for internet companies

On 10 November, China's State Administration for Market Regulation issued draft regulations that define, for the first time, practices the regulator views as anticompetitive in the internet sector. The proposed regulations are credit negative for leading internet companies because they have the potential to limit the companies' revenue and earnings growth.

The regulations are meant to foster competition and prevent leading internet companies from abusing their market power. The practices defined as anticompetitive include collusion, price fixing, exclusivity clauses that aim to limit competition, and treating customers differently based on their spending. Market and industry participants can submit comments on the draft until November 30.

If implemented as proposed, the regulations will constrain companies' ability to increase their market share and may require them to alter some of their existing practices to ensure compliance. Companies' revenue and earnings may slow or decline as a result. The regulations will also increase competition, which will cause companies to increase their investments in an effort to maintain their market positions.

We believe rated internet companies have buffers against these challenges. Most of them have track records of working with regulators, resolving differences and making changes without hurting their solid business profiles. These companies also have strong financial profiles (Exhibit 1) and good access to funding, which will help them navigate near-term business fluctuations.

Exhibit 1

Rated internet companies have strong financial profiles

Leverage metrics are low and cash flow to debt coverage ratios are high

Company	Rating	Outlook	Adjusted Debt/EBITDA (LTM to June 2020) [1]	Retained Cash Flow /Net Debt (2019) [3]
Alibaba Group Holding Limited [2]	A1	Stable	1.0x	-82%
Baidu Inc.	A3	Positive	2.0x	93%
JD.com, Inc.	Baa1	Stable	2.3x	-893%
Meituan	Baa3	Stable	0.7x	-116%
Tencent Holdings Limited	A1	Stable	1.8x	127%
Tencent Music Entertainment Group [4]	A2	Stable	0.0x	-33%
Vipshop Holdings Limited	Baa1	Stable	0.6x	-196%
Weibo Corporation [4]	Baa2	Negative	2.4x	292%

[1] LTM = Last Twelve Months

[2] Adjusted Debt/EBITDA and RCF/Debt for Alibaba Group Holding Limited are for the fiscal year ended 31 March 2020.

[3] Negative RCF/Net debt ratio means the company holds more cash than debt since net debt = total debt – cash. For computation of net debt, reported short-term investments are not included.

[4] Adjusted Debt/EBITDA for Tencent Music Entertainment Group and Weibo Corporation are for the twelve months ended 31 December 2019.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

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