

ISSUER COMMENT

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CRRC Corporation Limited

IPO registration approval of CRRC's overseas-listed subsidiary is credit positive

On 23 June, [CRRC Corporation Limited](#) (CRRC, A1 stable) announced the China Securities Regulatory Commission had approved the initial public offering registration of CRRC's equipment manufacturing subsidiary, Zhuzhou CRRC Times Electric Co., Ltd. (Times Electric), on the Science and Technology Innovation Board of the Shanghai Stock Exchange. Times Electric aims to raise RMB7.76 billion from the listing.

The proposed transaction is credit positive for CRRC because it broadens the company's funding channels and reduces its need for new debt to develop the rail transit and new industries sectors, where working capital requirements are usually high. We estimate the transaction will lower CRRC's leverage, as measured by adjusted debt/EBITDA, by 0.1x-0.2x from our previous estimate of 1.8x-1.9x over the next 12-18 months, if all other factors remain unchanged.

According to its prospectus, Times Electric plans to issue no more than 17% of its total share capital before the exercise of an overallotment option, which would be below 15% of the issued shares. Times Electric will use the proceeds for research and development (R&D) application projects in rail transit, investment in new industries such as new energy vehicles and the replenishment of working capital. If the proceeds exceed the capital needs of these projects, it will use the surplus for its core businesses.

As of year-end 2020, CRRC indirectly held a 53.18% stake in Times Electric through fully owned subsidiaries. After the transaction, CRRC will remain Times Electric's controlling shareholder.

Times Electric is mainly engaged in the R&D, design, manufacturing, sales and service provision of rail transit equipment products, including rail transit electrical equipment, track engineering machinery and communication signal systems. Listed on the Hong Kong Stock Exchange in 2006, Times Electric is the first overseas-listed company in the rail transit equipment manufacturing industry in China. In 2020, it reported RMB33.9 billion in assets accounting for around 9% CRRC's total assets, RMB16.0 billion in revenue accounting for 7% and RMB2.5 billion in net profit accounting for 18%.

Moody's related publications

[Credit Opinion: CRRC Corporation Limited](#), 08 July 2020

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