中証鵬元國際
CSPI Ratings

Corporate Issuance Rating Criteria

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Summary

(***Editor's Note:*** *This criteria report was originally published on 11 March 2022. We have republished it following our review on 11 March 2023.)*

CSPI Ratings believes that the fundamental credit risks associated with a particular debt obligation are not always fully captured by the rated issuer's long-term issuer credit rating (ICR). Since each debt obligation has a unique priority and ranking within the issuer's capital structure and its entitlement on value payback also varies based on its ranking in a liquidation process, the recovery prospects for each debt obligation typically vary as well. The issuer credit ratings do not reflect any preference or priority for particular debt obligations over others.

CSPI Ratings assigns the long-term issuance credit ratings to reflect both default risk and recovery prospect associated with one specific debt instrument. The issuance credit rating will be assigned based on an assessment of the issuer's capital structure and its liability profile, the debt instrument may be assigned at the same level of the long-term issuer credit rating if it is highly ranked, and higher rating than the issuer credit rating if credit enhancement and securement features are in place with the debt instrument, and lower rating than the issuer credit rating if the debt is lower-ranked or subordinate.

In this methodology, CSPI Ratings differentiates the issuance credit ratings based on the issuer credit ratings. The issuance credit ratings are determined by notching up and down the issuer's long-term issuer credit rating in accordance with the recovery prospects of each debt obligation. Notching approaches also vary according to the rating category of the issuer credit rating. For debt obligations for issuers with issuer credit rating of B+ and lower, CSPI Ratings conducts an issuer-specific recovery analysis in a hypothetical default scenario to determine the recovery prospects and issuance credit ratings. For debt obligations for issuers with issuer credit rating of BB- and higher, where the issuer-specific recovery analysis is less meaningful, the issuance credit ratings are assigned based on generic assumptions on their recovery prospects in the event of bankruptcy.

Notching for Issuers with a BB- and Higher ICR

CSPI Raings assigns issuance credit ratings to debt obligations for issuers with a BB- and higher ICR based on their debt structure and jurisdiction. The approach focuses on generic recovery prospects in the market instead of issuer-specific recovery analysis. Under this approach, The issuance credit ratings on senior unsecured debt typically equal to the issuer credit ratings, assuming a recovery rate of 30% to 50% on the debt.

Notching Up

For 'AAA' and 'AA' category issuers, we generally do not apply notching-up for their debt obligations. We believe that such highly rated issuers should have full ability to meet all their senior debt obligations and the recovery prospects are identical for these senior debts.

For 'A' and 'BBB' category issuers, the maximum allowed notching-up is one notch if we believe, in high confidence, that the debt is well secured. The actual uplift will be dependent on the collateral coverage associated with the specific debt obligation.

For 'BB' category issuers, the issuance rating may be one or two notches higher than the issuer credit rating if we believe, in high confidence, the debt is well secured and protected and its recovery prospect is much higher than what the issuer credit rating implies. The actual uplift will be dependent on the collateral coverage and legal protection associated with the specific debt obligation.

Notching Down

For 'AAA' and 'AA' category issuers, we usually will allow maximum one-notch downward adjustment to the issuer credit rating as we believe the default risk of such highly rated issuer is very low and the recovery prospects associated with its debt obligations should not be too low; otherwise, the issuer's long-term issuer credit rating cannot be justified.

For 'A' to 'BB' category issuers, we may rate the debt obligation one or two notches lower than the issuer credit rating depending on the recovery prospects associated with this specific debt obligation.

Exhibit 1 illustrates the notching guidelines for issuers with issuer credit rating of BB- and higher.

Exhibit 1: Notching for Issuers with a BB- and Higher Issuer Credit Rating

Rating Category	Senior Secured	Senior Unsecured	Subordinated
AAA/AA	0	0	-1
A/BBB	0 to +1	0	-2 to -1
BB	0 to +2	0	-2 to -1

Notching for Issuers with a B+ and Lower ICR

For Issuers with a B+ and lower issuer credit ratings, the likelihood of default is significantly higher, making issuer-specific recovery analysis more relevant. The process of the making issuer-specific recovery analysis consists of three steps:

- Establish a default scenario and assess the issuer's value;
- Estimate the creditors' claims;
- Distribute the issuer's value from the defaulted issuer among the creditors and determine the recovery prospects.

Issuer-specific Recovery Analysis

To determine the recovery prospects of each debt issue, CSPI Ratings conducts the issuer-specific recovery analysis in a hypothetical default scenario, which assumes the residual value of each asset that can be recouped to repay the debt. The analytical method that we adopt to determine the residual value includes, not limited to, market multiple analysis, discount cash flow analysis and enterprise value analysis, etc.

We also estimate the value of debts and non-debt claims in the simulated default scenario, which includes 1) the principal and accrued interests on all outstanding debt; 2) bankruptcy related claims like debtor-in-possession (DIP) financing, legal and accountant fees, administrative expenses, and other bankruptcy costs; 3) non-debt claims such as payables, taxes, leases, litigation liabilities, underfunded postretirement obligations and others.

Once the residual asset and liability values have been estimated, we determine the value distribution based on a waterfall approach that assumes higher-ranking debts or liabilities receive payments first, followed by lower ranking liabilities. In addition to the relative seniority of the debts, we also take into account the specific insolvency regime practices, laws, cultures and customs in the jurisdiction in which the insolvent company operates. After estimating the recovery prospect for each of the debt issue, we apply the recovery table (Exhibit2) to determine the notching up and down.

Exhibit 2: Recovery Prospects and Notching for Issuers with a B+ and Lower Issuer Credit Rating

Recovery Description	Recovery Prospects (%)	Issue Rating Notches Relative to Issuer Credit Rating
Outstanding	100	+3
Excellent	90-100	+2
Superior	70-90	+1
Good	50-70	0/+1
Average	30-50	0
Below Average	10-30	-1
Poor	0-10	-2

The above guidelines apply to the majority of issuers. The rating committee may deviate from the guidelines, however, based on the risks associated with a specific debt or issuer, or the legal, regulatory, and bankruptcy framework in the issuer's jurisdictions. Such deviations are always subject to rating committee approval and are disclosed in the respective rating action reports.

Related Criteria

General Corporate Rating Criteria, *15 March 2018*

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