FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms AVIC Innovation at 'A-; Outlook Stable

Fri 27 Jun, 2025 - 7:01 AM ET

Fitch Ratings - Hong Kong - 27 Jun 2025: Fitch Ratings has affirmed China-based AVIC Innovation Holding Limited's (AVIC Innovation) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) and senior unsecured rating at 'A-'. The Outlook is Stable.

AVIC Innovation is rated on a top-down basis from Fitch's internal assessment of its parent, Aviation Industry Corporation of China, Ltd. (AVIC), under the strong parent, weak subsidiary approach in accordance with Fitch's Parent and Subsidiary Linkage Rating Criteria. We assess that AVIC has 'High' operational and 'Medium' strategic incentives to support AVIC Innovation, while the legal incentive is 'Weak'.

AVIC is wholly owned by the Chinese government and its credit profile reflects potential support from the Chinese sovereign (A/Stable) under Fitch's Government-Related Entities (GRE) Rating Criteria. We expect state support to flow down to AVIC Innovation.

KEY RATING DRIVERS

Parent Integral to National Defense: AVIC, originally established as a state-owned aircraft manufacturer, is deemed highly strategic to China's national defence due to its central role in the country's military and civilian aviation manufacturing sector. It maintains a monopoly in the production and maintenance of military aircrafts and is one of only two domestic manufacturers of civilian aircraft, with the other being Commercial Aircraft Corporation of China, Ltd, in which AVIC is the third-largest shareholder.

'High' Operational Incentive: We believe AVIC has a 'High' operational incentive to support AVIC Innovation, which is an important platform for AVIC's aviation-related imports and exports, and is an important link between China and the global aviation industry. AVIC Innovation is positioned as a key aviation supply-chain platform in AVIC with increasing

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synergies and co-operation with other group subsidiaries. AVIC has absolute management control over the subsidiary and the group has highly centralised treasury management.

'Medium' Strategic Incentive: Our assessment of AVIC's 'Medium' strategic incentive to provide support reflects AVIC Innovation's meaningful financial contribution to the group. The company is one of AVIC's largest revenue and dividend contributors. We expect AVIC Innovation's business to grow steadily with its advanced manufacturing business to have higher growth potential in the longer term, given increasing technology applications and its strong market position.

'Low' Legal Incentive: We assess the 'Legal' incentive as low as the parent does not guarantee the subsidiary's debt given the latter's proven financing capability.

Stable Operations: AVIC Innovation's diversified operations in aviation, advanced manufacturing, international infrastructure, and modern services and trading mitigate volatility. Revenue fell by 2.4% yoy in 2024, but AVIC Innovation reported a 30% increase in EBITDA, supported by improved profitability in the advanced manufacturing business due to recovering demand for electronic products and downstream inventory restocking.

We expect steady revenue growth and EBITDA margin over the next few years, supported by continued recovery in advanced manufacturing and stable aviation business growth.

Standalone Credit Profile of 'bb-': AVIC Innovation's Standalone Credit Profile (SCP) reflects its diversified business, leadership in aviation importing and exporting and niche electronics markets, as well as strong funding access with low financing costs. The SCP is constrained by its moderately high leverage.

EBITDA net leverage, on a proportionally consolidated basis, increased to 4.7x in 2024 from 3.4x in 2023, due to higher holding company debt. We expect leverage to decline and stabilise at around 4.5 over 2025-2027, supported by steady EBITDA growth and controlled capex. Fitch proportionally consolidates AVIC Innovation's listed subsidiaries, including 24%-owned Tianma Microelectronics and 42%-owned Shennan Circuit, reflecting the presence of significant minority interests.

PEER ANALYSIS

AVIC Innovation is rated on a top-down basis from its parent, AVIC, as per the Parent and Subsidiary Linkage Rating Criteria. The strong linkage between AVIC Innovation and AVIC is supported by the subsidiary being an integral part of the parent's aviation manufacturing

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through undertaking the majority of the parent's aviation-related imports and exports and providing integrated supply-chain services for the parent and its subsidiaries.

The linkage between the two entities is similar to that of peers rated one notch below their parents, such as Baosteel Resources International Company Limited (A-/Stable), which has a similar role importing key raw materials for its parent, China Baowu Steel Group Corporation Limited (A/Stable), and is highly integrated into its parent's operations.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue growth of 5.4% in 2025, 2.3% in 2026 and 2% in 2027 (2024: -2.4%)

- EBITDA margin of around 10% in 2025-2027 (2024: 10.5%)

- Capex to remain at around 5.5% of revenue in 2025-2027 (2024: 4.0%), or CNY9 billion-10 billion per year

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade

- Positive rating action on Chinese sovereign

- Strengthening linkages between AVIC Innovation and AVIC

Factors that could, individually or collectively, lead to negative rating action/downgrade

- Negative rating action on Chinese sovereign

- Weakening linkage between AVIC Innovation and AVIC

- Weakening likelihood of support from the Chinese sovereign to AVIC

LIQUIDITY AND DEBT STRUCTURE

At end-2024, AVIC Innovation had CNY28.6 billion in unrestricted cash. This, together with Fitch-expected FCF of CNY645 million in 2025, is close to its short-term debt of CNY30 billion. Liquidity is not an issue for AVIC Innovation due to its close relationships with

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Chinese banks, access to the onshore bond market and support from AVIC's group centralised treasury.

ISSUER PROFILE

AVIC Innovation undertakes important responsibilities for AVIC's aviation-related import and export business and is a key integrated aviation supply-chain platform within the AVIC group. AVIC Innovation also operates the majority of the group's non-aviation businesses, other than financial services.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

China's sovereign rating drives AVIC's rating and indirectly drives AVIC Innovation's rating.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

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AVIC Innovation Holding Limited	LT IDR Affirmed	A- Rating Outlook Stable	A- Rating Outlook Stable
	LC LT IDR Affirmed	A- Rating Outlook Stable	A- Rating Outlook Stable
senior unsecured	LT	A- Affirmed	A-

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

Parent and Subsidiary Linkage Rating Criteria - Effective from 16 June 2023 to 27 June 2025 (pub. 16 Jun 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 06 Dec 2024) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 6 December 2024 to 27 June 2025 (pub. 06 Dec 2024)

Corporate Hybrids Treatment and Notching Criteria (pub. 08 Apr 2025)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (08 Apr 2025, 06 Dec 2024)

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ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

AVIC Innovation Holding Limited	EU Endorsed, UK Endorsed

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