CCXAP assigns first-time long-term credit rating of A_g+ to Metallurgical Corporation of China Limited, with stable outlook; and assigns A_g+ to its proposed senior perpetual securities

Hong Kong, 12 April 2021 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) first-time assigns A_g+ long-term credit rating of Metallurgical Corporation of China Limited (“MCC” or the “Company”), with stable outlook; and assigns A_g+ to its proposed senior perpetual securities.

The proposed perpetual securities will be issued by MCC Holding (Hong Kong) Corporation Limited and guaranteed by MCC. Net proceeds will be used for refinancing and general corporate purposes. The ultimate rating on the proposed senior perpetual securities is contingent upon the receipt of final documents conforming to information already received.

Corporate Profile

Headquartered in Beijing, MCC (Stock code: 1618.HK and 601618.SH) is a Chinese state-owned enterprise that principally engages in engineering and construction related projects. MCC is one of the largest engineering and construction (“E&C”) companies in China as well as the market leader in metallurgical construction. The Company’s A shares and H shares were listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively, in September 2009. E&C projects contribute a majority of the Company’s revenue (around 90% in 2020). The Company’s E&C projects include metallurgical, housing, transportation, and infrastructure construction. It also engages in property development, equipment manufacturing, and resource development businesses.

The Company was 49.18% held by China Metallurgical Group Corporation (“CMGC”) as of 31 December 2020, which is wholly owned by China Minmetals Corporation (“China Minmetals”). China Minmetals is in turn fully held by the State-owned Assets Supervision and Administration Commission (“SASAC”) of the State Council of China. MCC is the core subsidiary of CMGC, representing close to 100% of CMGC’s total assets and revenue in 2020.

Rating Rationale

The A_g+ long-term credit rating of MCC reflects the Company’s (1) strong strategic position as the core subsidiary CMGC and the high likelihood of strong support from its parent; (2) strong market position and large operating scale in metallurgical construction projects; (3) diversified engineering contracting business and sufficient order backlog; and (4) good access to capital with multiple financing channels.

However, the rating is also constrained by the Company’s (1) risk exposures related to property development and steel industries; (2) overseas projects which face uncertainties due to execution and financial risks; and (3) high level of debt, which is alleviated by its ongoing deleveraging effort.

CCXAP assigns A_g+ rating to MCC's proposed senior perpetual securities, which is equal to its senior unsecured debt rating and its long-term credit rating.

Although MCC has a large amount of debt held by operating subsidiaries, we have not notched down its debt rating for structural subordination risks. The ultimate shareholder or its parent is very likely to directly provide support to the Company instead of the operating subsidiaries, when necessary, thereby reducing structural subordination risks. This in turn improves the position of MCC's creditors at the holding company level over the operating subsidiaries.

We treat the proposed senior perpetual securities as 100% debt-like securities as the securities have a high step-up cost (of 300bps) after the first call date and contain a dividend suspension clause that encourages the Company to prepay the securities. The securities demonstrate certain hybrid-like features such as deferred coupons on a cumulative basis and no put options for investors.

However, we may notch down the rating on the perpetual securities, if the Company raises further debt with deferral features which comes to represent a substantial portion of its capital structure, or we deem that the Company is likely to defer a large number of coupon payments in advance of a default.

Rating Outlook

The stable outlook on MCC's rating reflects our expectation that the Company's important position to its parent is unlikely to change. We also expect the Company to maintain its strong market position and stable credit metrics over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the credit quality of CMGC materially improves, given their very close business and financial linkage; and (2) MCC's standalone credit quality significantly improves, including stronger market position, larger operating scale and improved credit metrics.

What could downgrade the rating?

The rating could be downgraded if (1) the credit quality of CMGC deteriorates or if there is an expectation of weakening shareholder support; and (2) MCC's standalone credit quality significantly worsens, including a material drop in market share, deteriorations in credit metrics and poor liquidity management.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Engineering and Construction Companies (December 2016).

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:
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