

## CCXAP affirms Metallurgical Corporation of China's long-term credit rating at A<sub>g</sub>+, with stable outlook

Hong Kong, 17 June 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed A<sub>g</sub>+ long-term credit rating of Metallurgical Corporation of China Limited ("MCC" or the "Company"), with stable outlook.

At the same time, CCXAP has affirmed the A<sub>g</sub>+ senior unsecured debt rating on its USD500 million 2.95% senior perpetual securities, which are issued by MCC Holding (Hong Kong) Corporation Limited and unconditionally and irrevocably guaranteed by MCC.

The A<sub>g</sub>+ long-term credit rating of MCC reflects the Company's (1) strong strategic position as the core subsidiary of its parent, China Metallurgical Group Corporation ("CMGC"), and the high likelihood of receiving support from CMGC when necessary; (2) solid market position and large operating scale in metallurgical construction; (3) diversified engineering construction business and sufficient order backlog; and (4) good access to various funding sources.

However, the rating is constrained by the Company's (1) overseas projects with higher business risks; (2) exposure to volatility in the homebuilding and steel industries; and (3) high levels of debt, which are mitigated by ongoing deleveraging efforts.

### Corporate Profile

Headquartered in Beijing, MCC (Stock codes: 1618.HK and 601618.SH) is a Chinese state-owned enterprise mainly engaged in engineering construction-related businesses. MCC is one of the largest engineering and construction ("E&C") companies in China and a market leader in metallurgical construction. 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 CMGC as of 31 December 2021, 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.

### Rating Rationale

#### Credit Strengths

**Strong market position and large operating scale in E&C, particularly metallurgical construction.** MCC is one of the largest E&C companies in China and the country's largest metallurgical contractor and service provider. It ranked 6th in ENR's 2021 Top 250 Global Contractors. The Company has a long track record in the E&C industry with very strong presence in the construction of steel plants in China and is deemed to be the "Metallurgical Construction National Team".

**Diversified engineering construction business and sufficient order backlog.** MCC has also gradually expanded into non-metallurgical construction businesses, which cover housing, transportation, and infrastructure construction. Its non-metallurgical construction projects include building roads, bridges, government buildings, stadiums, logistic centers and affordable housing, contributing to 75.1% of MCC's construction revenue in 2021. In addition, MCC has sufficient order backlog to support business growth. The value of new orders in 2021 increased by 18.2% YoY to RMB1,205.0 billion, which was more than double of its total revenue for the year.

**Good access to various funding sources.** MCC has diversified financing channels, supported by its listed status in both Shanghai and Hong Kong exchanges and its state-owned background. The Company remained a strong presence in the onshore and offshore debt capital markets. In 2021, the Company issued four tranches of onshore medium-term notes, totaling RMB6.5 billion, with an average maturity of 3 years and coupon rates ranging from 3.3% to 3.55%. It also issued an offshore USD500 million senior perpetual bonds, with a coupon rate of 2.95%. With its strong state-owned background and leading market position, we believe MCC will be able to maintain good access to multiple financing channels.

**High likelihood of receiving strong support from its shareholders when necessary.** We believe that CMGC's willingness and ability to support MCC is high, given its (1) ultimate government ownership and strong policy functions; (2) core subsidiary to and close linkages with its parent company; and (3) good track record of strong support from its parent company in the past.

### **Credit Challenges**

**Exposure to volatility in the homebuilding and steel industries.** MCC's involvement in property development and metallurgical construction added volatilities to its business profile. The Company mainly develops residential housing in key cities in the Pearl River Delta, the Yangtze River Delta, and the Beijing-Tianjin-Hebei Region. Despite a high project margin, homebuilding business is more riskier than construction business due to the volatile nature of the real estate segment. MCC is required to reserve additional cash for replenishing inventories and developing real estate projects. In addition, the Company's metallurgical construction business is heavily exposed to the cyclical steel industry.

**Higher business risks from overseas projects.** MCC's overseas business has exposure to operational, financial, legal and geopolitical risks, posing uncertainties on the Company's ability to deliver projects on time and within budget. As of 31 December 2021, the Company had a total of 13,782 projects under construction, of which 1,592 were overseas projects. The intensification of geopolitical and political situations, as well as the worldwide spread of the coronavirus, could disrupt domestic production and global logistics, resulting in higher operating costs and lower capacity.

**High debt levels amid ongoing deleveraging efforts.** MCC remained relatively high debt levels while it continued to deleverage by controlling debt growth and improving earnings. The Company's total debt (including perpetual capital) was flat at RMB131.8 billion as of 31



December 2021. Its total capitalization ratio dropped further to 52.9% at end-2021 from 54.2% at end-2020.

### **Rating Outlook**

The stable outlook on MCC's rating reflects our expectation that the Company's importance to the parent company is unlikely to change. We also expect the Company to maintain stable credit metrics and sufficient liquidity over the next 12 to 18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) there are signs of improved parental support from CMGC, given their closer business and financial linkages; or (2) MCC's standalone credit quality improves significantly, 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 parental support is expected to be weakened; or (2) MCC's standalone credit quality worsens significantly, including material drop in market share, deterioration 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**

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