

CCXAP assigns first-time long-term credit rating of BBB_g- to MCC Tongsin Resources Ltd., with stable outlook.

Hong Kong, 19 January 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned a first-time BBB_g- long-term credit rating to MCC Tongsin Resources Ltd. (“MCCT” or the “Company”), with stable outlook.

The BBB_g- long-term credit rating of MCCT is underpinned by the Company’s (1) sufficient copper reserves for future operation; and (2) improved profitability due to the rise of copper prices. However, the rating is also constrained by the Company’s (1) earnings vulnerable to global economic conditions and copper price volatility; (2) low product diversification and high overseas operating risks; and (3) low revenue scale.

The rating also reflects the medium likelihood of support from its parent company Metallurgical Corporation of China Limited (“MCC”, Stock codes: 1618.HK and 601618.SH), which is based on the Company’s (1) strategic role as the only overseas copper mining company of MCC, owning all of MCC’s copper resources; and (2) track record of receiving capital support from MCC.

Corporate Profile

Founded in 2007, MCCT is an overseas mining company, engaged in investment, development, construction, production, operation and management of mineral resources, especially copper mines in Pakistan and Afghanistan. As of 30 September 2022, MCC directly held 100% of the equity interest in MCCT. MCC was 49.18% held by China Metallurgical Group Corporation, which is wholly owned by China Minmetals Corporation (“China Minmetals”). China Minmetals is in turn wholly owned by the State-owned Assets Supervision and Administration Commission (“SASAC”) of the State Council of China.

Rating Rationale

Credit Strengths

Sufficient copper reserves for future operation, but with relatively low copper grade.

MCCT is engaged in the mining and smelting of non-ferrous metals, mainly including copper, in overseas countries, especially in Pakistan and Afghanistan. Through making a lease agreement with the Pakistan Government, the Company and MCC have operated the Saindak Copper-Gold Mine in Pakistan for over 20 years. In addition, the Company owns the mining right of Aynak Copper Mine in Afghanistan, one of the largest untapped high-grade copper mines in the world.

Moderate support from parent company. The rating also reflects the medium likelihood of support from its parent company MCC, which is based on the Company’s (1) strategic role as the only overseas copper mining company of MCC, owning all of MCC’s copper resources; and (2) track record of receiving capital support from MCC. MCCT has a proven track record of support from its parent company, in terms of capital injections and resource acquisition.



Through capital injections from MCC and the Company's operating revenue, it has sufficient own funds for current operations, with low financing needs and good credit metrics.

Credit Challenges

Earnings vulnerable to global economic conditions and copper price volatility.

Considering that non-ferrous metal mining is a cyclical industry, base metal prices have shown a strong correlation with global economic cycles. Commodity metal prices have experienced large volatility during the economic downturn and recovery period in recent years. MCCT's revenue and earnings are vulnerable to the fluctuations of base metal prices, especially copper. We expect that the rising expectations of global economic recession and China's macroeconomic downturn will exert certain downward pressure on copper prices, and hence, on the revenue and profitability of the Company.

Low product diversification and high overseas operating risks. The Company currently concentrates in the mining of copper, whose profitability is susceptible to the fluctuation of copper prices. Besides, the Company's copper mines are concentrated in Afghanistan and Pakistan, posing high operational, currency, legal and geopolitical risks. For instance, the political changes in Afghanistan have halted the construction of Aynak copper mine.

Low revenue scale, but with improved profitability due to the rise of copper prices. With only one mine in operation, the revenue scale of the Company is relatively low, but showing rapid growth. Supported by the increasing copper price in recent years, the Company's profitability has improved. As for the production cost, according to the scale expansion plan of Saindak Copper-Gold Mine, the unit cost of copper production will be reduced, increasing the Company's competitiveness in copper mining industry.

Rating Outlook

The stable outlook on MCCT's rating reflects our expectation that the Company will maintain sufficient resource reserves to support its operation, with steady growth in its production volumes over the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if (1) the Company's market position strengthens with material increase in products production; (2) the Company demonstrates lower debt leverage and improved credit metrics; or (3) parental support from MCC improved, such as increase in strategic importance of the Company.

What could downgrade the rating?

The rating could be downgraded if (1) the Company's overseas operations encounter material operating, geopolitical or environmental issues; (2) the Company indicates deteriorated credit metrics and weakened liquidity profile; or (3) parental support weakened, such as reduction of financial support from parent company.



Rating Methodology

The methodology used in this rating is the Rating Methodology for [Mining Industry \(December 2017\)](#).

Regulatory Disclosures

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