

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

Hong Kong, 30 June 2023 -- 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) solid market position and large operating scale in metallurgical construction; (2) diversified engineering construction business and sufficient order backlog; and (3) good access to various funding sources.

However, the rating is constrained by the Company's (1) overseas projects with high business risks; and (2) exposure to volatility in the homebuilding and steel industries.

The rating also reflects our expectation of a high likelihood of support from MCC's parent, China Metallurgical Group Corporation ("CMGC"), given (1) its high strategic importance to CMGC; and (2) the close business and financial linkages with CMGC. We believe that CMGC has strong capacity to support MCC by dint of (1) ultimate ownership by the central government; (2) close relationship with China Minmetals Corporation ("China Minmetals") as its core subsidiary; and (3) good track record of strong shareholder and government support.

### 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 2022, which is wholly owned by 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

**Solid market position and large operating scale in 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 The Engineering News-Record's 2022 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 76.4% of MCC’s construction revenue in 2022. In addition, MCC has sufficient order backlog to support business growth. The value of new orders in 2022 increased by 11.5% YoY to RMB1,343.6 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. MCC has maintained good relationships with major domestic financial institutions, such as large state-owned banks and policy banks. 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 support from its shareholders when necessary.** MCC has a very important position in CMGC’s operations as the primary construction company for domestic steel producers and its strategic role in the production upgrade of China’s steel industry. We believe that CMGC has strong capacity to support MCC by dint of (1) ultimate ownership by the central government; (2) close relationship with China Minmetals as its core subsidiary; and (3) good track record of strong shareholder and government support.

### **Credit Challenges**

**Overseas projects with high business risks.** 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 end-2022, the Company had a total of 14,099 projects under construction, including 1,506 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.

**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. The gross margin for property development sector in 2022 decreased from 2021. MCC is also 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.

## Rating Outlook

The stable outlook on MCC's rating reflects our expectation that the Company's importance to CMGC is unlikely to change. We also expect the Company to maintain stable credit metrics and sufficient liquidity buffers 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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