

Credit Opinion

30 June 2023

Ratings

Senior Unsecured Debt Rating	A _g +
Long-Term Credit Rating	A _g +
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

Analyst Contacts

Vincent Tong +852-2860 7125
Assistant Director of Credit Ratings
vincent_tong@ccxap.com

Christy Liu +852-2860 7130
Credit Analyst
christy_liu@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Metallurgical Corporation of China Limited

Surveillance credit rating report

CCXAP affirms Metallurgical Corporation of China Limited's long-term credit rating at A_g+, with stable outlook.

Summary

The A_g+ long-term credit rating of Metallurgical Corporation of China Limited ("MCC" or the "Company") 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.

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.

Rating Drivers

- High likelihood of support from its parent when necessary
- Solid market position and large operating scale in metallurgical construction
- Diversified engineering construction business and sufficient order backlog
- Exposure to volatility in the homebuilding and steel industries
- High business risks from overseas projects
- Good access to various funding sources

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY
Total Assets (RMB billion)	506.4	543.5	585.4
Total Equity (RMB billion)	140.4	151.4	161.9
Total Revenue (RMB billion)	400.1	500.6	592.7
Net Profits (RMB billion)	9.4	11.6	12.9
EBITDA/Revenue (%)	4.6	4.0	3.6
Return on Net Assets (%)	7.3	7.7	8.0
Total Debt/Total Capital (%)	54.2	52.9	53.2
Total Debt/EBITDA (x)	7.1	6.6	6.5
EBITDA/Interest (x)	4.2	4.9	5.7

All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

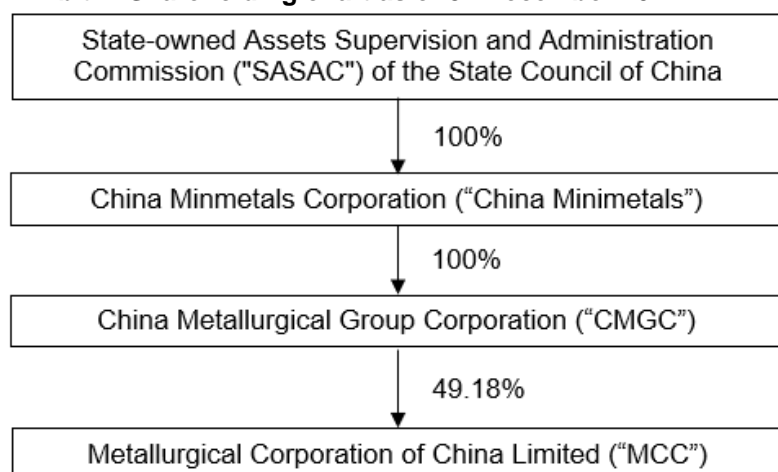
Corporate Profile

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. In September 2009, the Company's A shares and H shares were listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, respectively. E&C projects contributed most of the Company's revenue, accounting for about 92% in 2022. The Company's E&C projects include metallurgical, building and transportation infrastructure construction. MCC also engages in property development, equipment manufacturing and resource development.

As of 31 December 2022, the Company was 49.18% directly held by CMGC, which is wholly owned by 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. MCC is the core subsidiary of CMGC, accounting for nearly 100% of CMGC’s total assets and revenue in 2022.

Exhibit 1. Shareholding chart as of 31 December 2022



Source: Company information, CCXAP research

Rating Considerations

Solid market position and large operating scale in E&C, particularly metallurgical construction

MCC has a strong market position in China’s E&C industry, particularly in the metallurgical construction segment. The Company 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.

MCC 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”. It offers a full range of services from planning, design to construction of production facilities, and has participated in most of the medium and large-scale iron and steel plant projects in China.

With profound experience in the construction of metallurgical projects, MCC has maintained prevailing technical capabilities and qualifications as well as strong market reputation. As of 31 December 2022, the Company had received a total of 42 special grade qualifications in engineering construction and 5 integrated Class-A qualifications in engineering design. In 2022, the Company added 8,963 effective patents with over 40,000 effective patents in total. Moreover, it has over 60,000 engineers and technicians, 1 academician of the Chinese Academy of Engineering and 13 national exploration and design masters. MCC’s strong technological and talent advantages enable it to meet a wide range of construction needs.

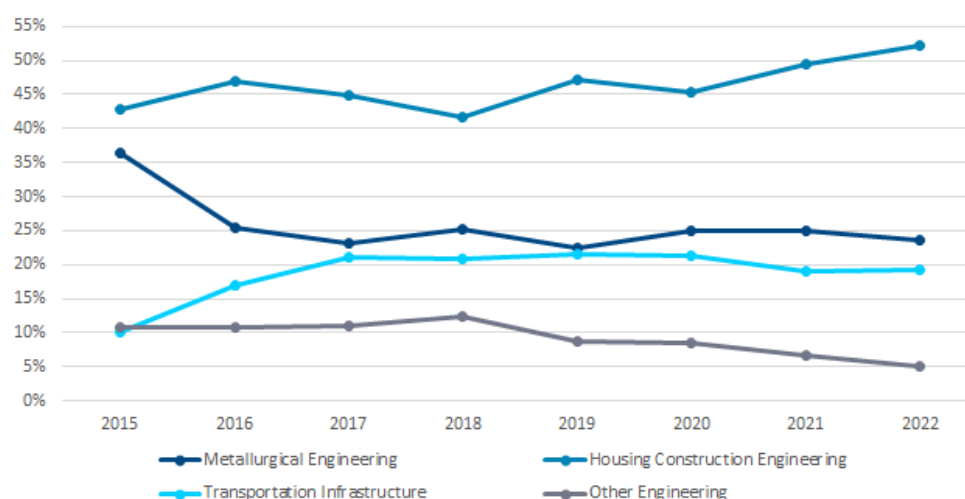
Metallurgical construction has high barriers to entry, with high technology requirements and strict regulations. These will deter new competitors from entering the industry and protect the Company with relatively stable profit margins on its projects. MCC’s strong market position in metallurgical projects also supports its access to new tendered projects and its stronger negotiating power with smaller subcontractors during the construction phase.

Diversified engineering construction business and sufficient order backlog

In the past few years, MCC has maintained a stable revenue in metallurgical construction businesses, with its strong technical expertise and dominant market position. MCC has also gradually expanded into non-metallurgical construction businesses, which cover housing, transportation, and infrastructure construction. The

expanded non-metallurgical construction businesses include infrastructure projects such as building roads, bridges, government buildings, stadiums, logistic centers and affordable housing. Furthermore, the Company continued to improve the degree of diversification in its non-metallurgical businesses in 2022, by accelerating the construction of photovoltaic and wind power plants and ecological environment-oriented development projects. The non-metallurgical construction businesses contributed 76.4% of MCC's construction revenue in 2022, compared with 63.6% in 2015. By increasing non-metallurgical construction projects, MCC reduces its dependence on traditional metallurgical construction.

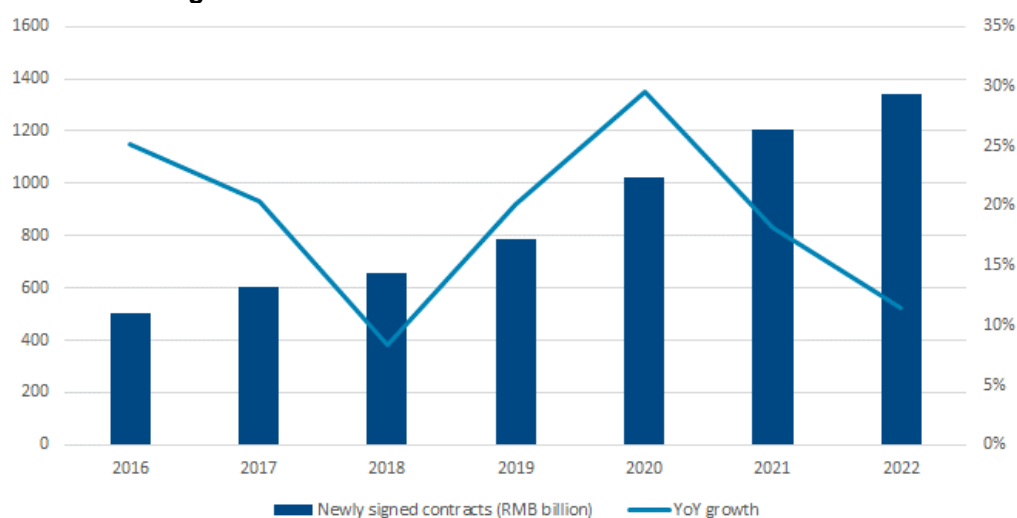
Exhibit 2. Revenue composition of MCC's construction businesses from 2015 to 2022



Source: Company information, CCXAP research

MCC demonstrates a strong capability in obtaining new orders and sustained sufficient order backlog. The value of new orders in 2022 increased by 11.5% Year-on-Year ("YoY") to RMB1,343.6 billion, more than double of the total revenue for the year. New orders mainly came from the growth of the non-metallurgical construction segment, which grew by 10.5% YoY during the year. In the first quarter of 2023, MCC recorded RMB325.8 billion in new orders, growing by 2.1% YoY.

Exhibit 3. Value growth of MCC's new orders from 2015 to 2022



Source: Company information, CCXAP research

Under the broad economic slowdown, downward pressure in real estate market, and the increasing fiscal pressure on China's local governments, the payment period of MCC's construction projects may extend as the Company's clients mainly consists of local infrastructure investment and financing companies, state-owned enterprises and large steel mills. Nonetheless, MCC's diversified client base with nationwide geographic coverage can mitigate part of the adverse impact. As of 31 December 2022, the Company had 12,593 projects under construction in China, covering key economic regions such as the Bohai Rim Area, the Greater Bay Area, the Yangtze River Delta region, the Chengdu-Chongqing Twin City region, and the Central City Clusters. It also had 1,506 overseas projects in construction globally. MCC's extensive client base will help mitigate risks from a single project or client exposure. Its top five clients accounted for less than 5% of the Company's total revenue in 2022.

We believe that the Company's business generation capabilities and its sufficient order backlog can provide solid revenue growth and earning generation for the next two to three years.

Exposure to volatility in the homebuilding and steel industries

MCC's construction business has a large exposure to cyclical industries, including property development and metallurgical construction.

MCC's involvement in property development added volatilities to its business profile, which accounted for approximately 3.8% of its total revenue in 2022. The Company mainly develops residential housing in key cities in the Pearl River Delta, the Yangtze River Delta, and the Beijing-Tianjin-Hebei Region. Homebuilding business is riskier than construction business due to the volatile nature of the real estate segment. The gross margin for property development sector decreased from 23.5% in 2021 to 11.0% in 2022. In addition, MCC is required to reserve additional cash for replenishing inventories and developing real estate projects. MCC invested RMB28.9 billion in real estate projects in 2022, grew by 89.7% YoY. Affected by the weakened property market for the recent year, the Company recorded total contracted sales of RMB9.3 billion in 2022, representing a YoY decrease of 42.9%, while the total completed area and newly started development projects were increasing.

The cooldown of China's broad real estate market also adversely affected MCC's homebuilding construction business, which weakened the payment ability of property owners and the growth momentum of the building construction.

In addition, the Company's metallurgical construction business is heavily exposed to the cyclical steel industry, which has witnessed a contraction from 2012 to 2017 due to the Chinese government's measures to ease excess capacity in the steel industry. However, driven by increased domestic investments in upgrading steel plants such as environmental protection installation and facility relocation, MCC's revenue from metallurgical construction increased by 12.5% YoY to RMB129.6 billion in 2022. Meanwhile, the Company's ongoing expansion in overseas markets, particularly in countries along the "Belt and Road", could help support its business growth.

Given the volatile nature of these segments, we believe the Company's risk exposure to the homebuilding and steel industries will remain a concern.

High business risks from overseas projects

MCC's overseas business increases its exposure to operational, financial, legal and geopolitical risks, posing uncertainties on the Company's ability to deliver projects on time and within budget. The value of new orders for overseas projects grew 19% YoY in 2022, while it still represented a small proportion to the total projects.

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 could disrupt domestic production and global logistics, resulting in higher operating costs and lower capacity. For example, MCC experienced capacity constraints in most of its overseas mines due to the catastrophic flood and external safety problems in Pakistan, and earthquake in Papua New Guinea. The political changes in Afghanistan also halted the copper mine production project in Aynak.

Nevertheless, we expect the Company's exposure to overseas projects to remain manageable, which accounted for approximately 3.3% of total revenue in 2022. The potential risks related to overseas business could also be mitigated by the Company's limited exposure in each country and its strong technical expertise in the construction industry.

Solid credit metrics driven by improving earnings

MCC reported a rising debt level because of its investment in metallurgical construction and property development in 2022. As of end-2022, the Company's total debt (including perpetual capital) slightly increased to RMB139.2 billion from RMB131.8 billion at end-2021, while its capitalization ratio remained largely stable at 53.2%, which was lower than other large E&C companies in China.

MCC's credit metrics were improved with increasing earnings. In 2022, the Company's revenue increased by 18.4% YoY to RMB592.7 billion and its bottom-line profit increased by 11.4% YoY to RMB12.9 billion. MCC's debt to EBITDA decreased to 6.5x in 2022 from 6.6x in 2021, and its EBITDA interest coverage increased to 5.7x in 2022 from 4.9x in 2021.

However, MCC had lower business margins due to intense market competition, higher material and labor costs, and the volatile real estate market. In fact, MCC's gross profit margin decreased from 10.6% in 2021 to 9.6% in 2022. The increasing pressure on advance funding and needs for impairment loss may further weaken the profitability of E&C companies. Nevertheless, we believe the Company's good project management and diversified business profile could help mitigate some of the negative factors on its profitability.

We expect MCC's debt level will increase in the next 12 to 18 months, given its continuous investment in property development, build-operate-transfer and public-private partnership projects, but the debt leverage and credit metrics will remain stable.

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. On 6 January 2017, the Company completed the non-public issuance of additional A-shares to 8 designated investors, raising a total of approximately RMB6.2 billion. MCC is also planning to issue preferred shares of no more than RMB15 billion to designated investors in 2023. Moreover, the Company remains a strong presence in the onshore and offshore debt capital markets. In 2022, the Company issued 7 tranches of onshore bonds, including MTNs and SCPs, totaling RMB13.3 billion, with coupon rates ranging from 1.78% to 4.23%. The Company also issued RMB22.0 billion of onshore bonds from January to May 2023. Furthermore, MCC has maintained good relationships with major domestic financial institutions, such as large state-owned banks and policy banks. As of 31 March 2023, the Company had obtained total bank credit facilities of RMB902.6 billion, with an unutilized amount of RMB502.2 billion, indicating sufficient liquidity buffer.

With its strong state-owned background and leading market position, we believe that MCC will be able to maintain good access to multiple financing channels.

External Support

MCC is highly likely to receive support from its parent when necessary, 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 as its core subsidiary; and (3) good track record of strong shareholder and government support.

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. CMGC was originally owned by the SASAC of the State Council of China. In 2019, CMGC was consolidated to China Minmetals as a wholly owned subsidiary. China Minmetals is an international metals and mining corporation that is wholly owned by the SASAC of the State Council of China. It primarily engages in metals and mining businesses including the exploration, mining, smelting, processing, and trading of metals and minerals. We believe the ownership transfer will not affect the willingness or ability of CMGC to provide support to MCC. The merger of CMGC into China Minmetals aimed to improve operational efficiency and create business synergies through their business coverages in the industry chain. Therefore, we believe that MCC will be able to obtain new business opportunities as well as improve its cost control through the merger.

MCC continues to benefit from its state-owned background in project generation and financing. For example, in 2022, the Company successfully won a large EPC construction in Nanyang's Zhongjing Area and Hengshui-Xiyang Highway Construction Project between Zhaoxian and Zanhuang, with a contract value of RMB18.7 billion and RMB7.0 billion, respectively. It also won the bid for a contract for Nickel-Cobalt Hydroxide Project in Indonesia, with a contract value of RMB8.1 billion.

Structural Consideration

MCC's senior unsecured debt rating is the same as 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. It is very likely that the ultimate shareholder or its parent will provide direct support to the Company rather than 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 relative to the operating subsidiaries.

Rating Methodology

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

Copyright © 2023 China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”). All rights reserved.

No part of this publication may be reproduced, resold or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP’s publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP’s publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656