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

Hong Kong, 9 May 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a $BBB_g$ long-term credit rating to MCC Tongsin Resources Ltd. ("MCCT" or the "Company"), with stable outlook.

The $BBB_g$ long-term credit rating of MCC Tongsin Resources Ltd. ("MCCT" or the "Company") is underpinned by the Company's (1) sufficient and expanding copper reserves for future operation; and (2) growth in revenue scale driven by the expanding production. 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) decrease in profitability due to the increase in operating costs.

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 31 December 2023, 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 and expanding 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. It has the operation and management capabilities and experiences of large and medium-sized mines in overseas countries. Currently, the Company owns three copper mines, one of which is in production. The Company has started supplementary exploration project in the West Mining Area, striving to further improve the resource grade and amount of the West Mining Area.

**Growth in revenue scale.** With only one mine in operation, the revenue scale of the Company is relatively low, but showing a trend of growth along with the expanding production. From 2021 to 2023, its total revenue increased from RMB1.3 billion to RMB1.8 billion, with compound annual growth rate of 15.3%.

**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. As an oversea copper mining subsidiary of MCC, the Company owns all of MCC's copper resources. 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.

**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. However, it plans to diversify product mix by acquisition of other mineral resources in the countries along Belt and Road routes, which is expected to reduce its concentration risks. 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.

**Decreasing profitability.** Owing to the increase in operating costs in recent years, the Company's profitability has decreased. The EBIT margin decreased from 13.7% in 2021 to 7.1% in 2023, and the return on total assets decreased from 4.2% to 2.4% during the same period. Given the reduced cost of copper production due to the expansion project of Saindak Copper-Gold Mine, we expect the profitability of the Company will be improved for the next two to three years.

## 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 financial support.

**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.

## Rating Methodology

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

## Regulatory Disclosures

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