

## Rating Methodology

27 April 2026

## Request for Comment: General Corporate

### Industry-specific rating methodology

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#### CCXAP publishes a Request for Comment on the proposed rating methodology for general corporate

##### Summary

China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) is requesting comments on its proposed updated rating methodology for general corporate. This proposed update is intended to replace the existing methodology published by CCXAP in April 2019. The main updates include (1) the rating methodology framework and structure; (2) certain qualitative and quantitative considerations. This proposed updated general corporate rating methodology is based on the existing methodology, generally following the original rating framework but with optimizations in certain rating factors and assessment approaches. We believe that the proposed updated rating methodology will improve the quality and transparency of our credit assessment for general corporate entities.

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The proposed updated rating methodology applies to non-financial corporates globally, including utilities and industrial enterprises. It does not apply to investment holding, real estate development, or real estate operating companies.

The rating considerations for general corporate entities include macro risk, business risk, and financial risk, while incorporating adjustment factors such as ESG factors and liquidity assessment to determine the baseline credit assessment (BCA). The model rating is then determined by considering the enhancement effect of extraordinary external support.

This proposed updated rating methodology introduces the key determinants of general corporate ratings and explains in detail our approach to assessing each key rating determinant. It also includes a discussion of the availability of external support, as well as the assumptions and limitations of the rating methodology.

## Impact on Ratings

The update of the rating methodology is not expected to lead to any rating changes for the rated entities within the scope of application of this methodology. Following this rating methodology update, some of CCXAP's sector-specific rating methodologies will no longer be used on a standalone basis, including those for electric utilities, manufacturing, mining, engineering and construction, and business and customer services.

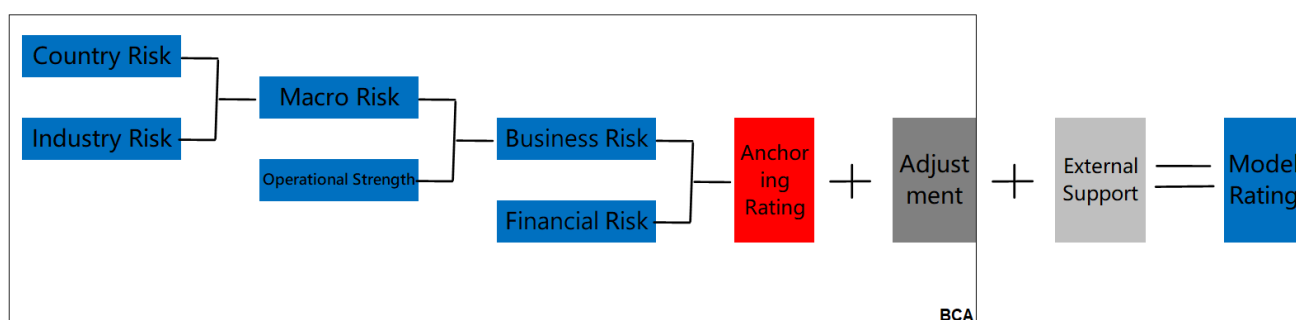
## How to Submit Comments

In this request for comment, CCXAP invites interested market participants to submit written comments on the proposed rating methodology by 27 May 2026 on the Request for Comment page or via email at [info@ccxap.com](mailto:info@ccxap.com). CCXAP will review and take all received comments into account before publishing the methodology.

## Introduction of Rating Methodology

The general corporate rating methodology and model primarily reflect the stand-alone creditworthiness of the rated entity, and then incorporate external support to form the final credit rating. Based on a comprehensive assessment of the rated entity's macro risk, business risk and financial risk, combined with adjustment factors such as ESG factors and liquidity assessment, we determine the entity's baseline credit assessment (BCA). We then consider the enhancement effect of extraordinary external support on its credit quality to arrive at the model rating, and the final issuer credit rating is assigned by the credit rating committee. Each component of the rating model contains one or more specific indicators. After standardizing the indicator results into scores, they are mapped into credit ratings through scorecards and matrices.

### Exhibit 1. Overview of CCXAP's approach to General Corporate's rating assessment



This rating methodology is a summary guide for general corporate ratings, but does not describe all factors that CCXAP may use in its rating considerations. Therefore, the mapped rating results may not be consistent with the final rating of each rated entity.

## Key Rating Factors

This section discusses the rating factors and indicators in depth, including the rationale for their consideration, measurement methods, and how they affect ratings. If a company operates in different countries and industries, those countries and industries will be considered. However, CCXAP will focus on the business from which the company derives its main revenue or profit, as it has a greater impact on the company.

### 1. Country Risk

Country risk is the first rating factor, considering macroeconomic and political risks. Country risk and sovereign risk are different concepts. Country risk primarily analyzes its impact on the business environment, while sovereign risk primarily analyzes the risk of a sovereign's failure to repay its debt. However, companies may face currency exchange risks when transferring profits or businesses, so CCXAP considers the sovereign ceiling issue in its scoring. CCXAP notes that some companies have operations spread across different countries; therefore, we will analyze all countries in which the company operates and focus on the country where the company derives its main revenue or where it primarily operates. In addition, the impact of country risk on ratings is not linear or symmetric. A favorable operating environment will not lead to an upgrade of a company's rating, but an unfavorable operating environment may have a negative impact on its score.

#### (1) Macroeconomic Risk

A company's credit quality is affected by the economic environment. For example, during an economic recession, consumer willingness to spend declines, corporate revenues fall, and resources available to service debt

decrease accordingly. Due to globalization, local economies are affected by the global economy. Therefore, when analyzing macroeconomic risk, CCXAP considers not only the impact of local economic changes but also the risks arising from global economic trends.

## **(2) Political Risk**

Political risk refers to the risk that political changes or instability affect a company's operations. A stable political environment will not enhance a company's performance, but an unstable political environment can disrupt its operations. For example, a country with civil conflict or an inadequate judicial system cannot effectively protect corporate assets. Geopolitical risks, such as relations with neighboring countries, can affect the local operating environment. Strained relations with neighboring countries increase the likelihood of conflict and thus raise political risk

## **(3) Financial System Risk**

Financial system risk relates to the functioning of a country's (or region's) macroeconomic and financial systems. An outbreak of such risk can not only cause direct fiscal losses to a government but also produce significant spillover effects, potentially triggering a global financial crisis. CCXAP's assessment of financial system risk primarily includes the regulation of the financial system, the government's intervention/support for the financial system, banking system stability (capital adequacy ratio, non-performing loan ratio, return on assets), the expansion of total social credit, and the expansion of bank lending to the private sector. Specifically, financial regulation and government intervention/support for the financial system reflect the government's efforts in building and supervising the financial system; different regulatory policies lead to different risk exposures and may have varying impacts. In addition, in many countries (or regions), the banking industry is an important component of the financial system, so it is particularly important to examine banking system stability through capital adequacy, non-performing loan ratios, and profitability. Meanwhile, the expansion of social credit typically moves with the economic cycle and can reflect economic conditions and potential financial risk trends. The level of private sector debt burden in a country (or region) can also affect the resilience of the financial system to some extent.

## **(4) Sovereign Ceiling**

A company's credit rating may be affected by the sovereign ceiling. For instance, when a government faces financial distress or default, it may impose exchange controls or other measures to restrict capital outflows, preventing companies from converting foreign currency and servicing their foreign currency debt. The sovereign ceiling is set based on the sovereign credit rating, but adjustments are made considering factors including: restrictions imposed by multilateral institutions on policies that hinder international trade and financial activities; and the credibility and characteristics of the exchange rate regime. If a company has strong underlying fundamentals and the impact of a sovereign default on the company is relatively small, its credit rating may break through the sovereign ceiling. Conversely, if exchange risk severely affects the company's debt servicing capacity, its credit rating will be constrained by the sovereign ceiling.

## **2. Industry Risk**

In industry analysis, we consider the impact of the industry's fundamental characteristics on a company's credit quality. Industry analysis provides a benchmark for evaluating a company's business and financial strength. A weak industry environment has a negative impact on a company's rating. For example, companies operating in highly competitive, volatile, or declining industries face higher operational risk than those operating in industries

with high entry barriers and sustained growth. Therefore, companies operating in high-risk industries are unlikely to achieve high ratings. In assessing the industry profile, CCXAP primarily focuses on the following aspects: regulation and policy, industry entry barriers and competitive landscape, industry characteristics, and industry trends.

### **(1) Regulation and Policy**

CCXAP considers industry regulation and policy to be important factors and will assess the impact of the maturity of regulation and policy on the company. In an industry with mature regulation, regulatory policies are stable, and companies face fewer uncertainties in their operations. In industries where regulatory policies change significantly, companies face greater uncertainties. CCXAP also considers the stringency of policies and determines whether it is favorable based on its impact on the company. For example, a stringent regulatory policy may raise the entry barriers for new companies; considering that market competition would thus decrease, CCXAP views this as a favorable factor for existing companies. Conversely, if stringent regulation hinders a company's development, it is considered an unfavorable factor.

### **(2) Industry Entry Barriers and Competitive Landscape**

The level of entry barriers reflects both the advantages of existing players in the market and the obstacles faced by new entrants. In other words, the level of entry barriers is an important factor affecting the monopoly and competitive relationship within an industry and directly reflects the market structure. In addition, intense competition within an industry implies greater operational risk for companies, so the intensity of competition affects a company's credit quality. In assessing the competitive landscape, factors considered include the status of competitors, entry barriers, and the threat of substitute products. Regarding the status of competitors, CCXAP considers factors such as the number of major competitors and market concentration. Compared to industries with low concentration and many competitors, industries that are highly concentrated with few participants are less intensely competitive. Investment scale, licensing, and technology requirements are factors considered when assessing industry entry barriers. If entry barriers are low, new companies can easily enter the industry, leading to a more competitive landscape.

### **(3) Industry Characteristics**

The assessment of industry characteristics primarily serves as a benchmark for the subsequent analysis of a company's business and financial strength. CCXAP recognizes that each industry has its own characteristics, which have a significant impact on a company's performance. For example, labor-intensive industries typically have lower profitability, while capital-intensive industries tend to have higher leverage. Therefore, it is unfair to judge the performance of companies in different industries using the same benchmark. When assessing industry characteristics, CCXAP seeks to understand the industry's features and sets a benchmark for subsequent evaluation accordingly. Industry volatility is an important consideration in analyzing industry characteristics. Highly volatile industries cause revenue instability and lower financial flexibility, thereby increasing uncertainty and credit risk for companies. CCXAP believes that the economic cycle is one factor contributing to industry volatility. For example, during an economic recession, GDP and consumption decline, leading to lower corporate revenues. Therefore, when assessing industry volatility, CCXAP focuses on the overall revenue volatility of the industry and the factors affecting revenue, such as price and demand. Additionally, CCXAP analyzes factors such as the dependence of different industries on technology and the impact of technological improvements on the industry to assess the industry's sensitivity to technology risk.

### **(4) Industry Trends**

Understanding industry trends is an important factor in assessing the industry profile. An industry in a rising phase with favorable prospects faces lower risk and is a positive credit factor for industry participants. Conversely, in a declining industry, more companies engage in price competition to sustain their business, reflecting poor business sustainability, leading to increased risk and affecting debt servicing capacity. However, rapid growth of an industry does not necessarily enhance the credit quality of participants, because rapid growth may be driven solely by the emergence of a new market. Although growth is fast, the lack of historical profitability data may imply that companies will face uncertain operational risks. Therefore, industry growth rate is not the sole factor in analyzing industry trends; CCXAP judges the impact of industry trends on a company based on the development history of each industry.

### **3. Operational Strength**

Operational strength primarily assesses the operating condition of the rated entity. Conclusions are drawn by analyzing factors such as the company's scale and market position, resource endowment and controlling power, technical level and R&D capabilities, procurement channels and bargaining power, production equipment and product mix, and sales channel stability. The emphasis of operational strength assessment varies across industries. A high operational strength score typically indicates that the company is a leader in its industry with stronger resilience to risk. We focus on the following factors: (1) market position, scale, and competitive advantage; (2) business diversity; and (3) resource control. In addition, we may adjust our assessment of operational strength based on factors such as whether the company receives special industry policy support, the stability of demand for its products or services, R&D investment, and technological innovation.

#### **(1) Market Position, Scale, and Competitive Advantage**

We examine the company's current market share and its future sustainability. Companies with high market share are superior to their peers in product pricing, new product development, and possess positive influential brands; or companies that possess new technologies, processes, materials, or products that can significantly enhance cost advantages or materially increase market share in the future will receive higher scores. Enterprise scale reflects its ability to withstand industry cyclical fluctuations and maintain a relatively stable market competitive position. Scale plays an important role in enhancing bargaining power and achieving economies of scale. Companies with higher total assets will receive higher scores.

#### **(2) Business Diversity**

We primarily examine the degree of diversification of the company's core business. Typically, companies with a low proportion of a single product/service, possessing multiple other product/service categories that can generate good synergies or effectively diversify operational risk, or companies that have diversified into other industries with favorable prospects, will receive higher scores.

#### **(3) Resource Control**

We primarily examine the company's resource endowment and its ability to allocate and utilize resources. The quality of resource reserves/core factors determines the types of products the company can produce and the scope of business it can undertake, and is an important indicator for differentiating a company's operational strength. Control over resources affects the stability and profitability of the company's operations. Companies that can reasonably utilize resource reserves to maximize benefits possess stronger competitiveness and resilience to risk.

## 4. Financial Risk

We evaluate the financial risk profile of the rated entity primarily from the perspectives of profitability, capital structure, and debt servicing capacity. Profitability is an important factor in assessing a company's credit quality. More profitable companies are better able to accumulate capital internally, generate cash flow, and maintain a relatively favorable competitive position during industry downturns. Capital structure primarily examines the company's debt burden and leverage. Companies with a heavy debt burden and high leverage typically have less flexible financial policies, lower capacity to absorb losses through equity capital, and are more vulnerable to cyclical industry fluctuations. Debt servicing capacity directly examines the ability of cash flow to cover debt service. The higher the ratio of cash flow to debt service, the lower the company's debt service pressure. In practice, financial risk includes both an analysis of recent historical financial performance and a forecast of the company's financial position over the next one to two years. Additionally, we may adjust our assessment of financial risk based on factors such as asset quality, operational efficiency, financial policy, debt structure, and financing capacity.

### (1) EBIT Margin

The pre-interest and pre-tax profit margin of the enterprise, primarily used to reflect the profitability of the company's operating activities. CCXAP evaluates a company's profitability by comparing its profitability relative to other entities in the same industry. Entities with profitability significantly higher than the industry average will receive higher scores.

### (2) Return on Total Assets

Reflects the company's ability to generate profits from its assets, which is particularly important for capital-intensive industries with a high proportion of fixed assets. Companies with a higher return on total assets generally receive higher scores. CCXAP evaluates a company's profitability by comparing its profitability relative to other entities in the same industry. Entities with profitability significantly higher than the industry average will receive higher scores.

### (3) Total Capitalization Ratio

Reflects the company's financial policy, capital structure profile, and ability to withstand cyclical industry downturns. A higher total capitalization ratio indicates a more aggressive financial policy and heavier debt burden. Conversely, companies with a lower total capitalization ratio typically receive higher scores.

### (4) Total Debt / EBITDA

Reflects the ability of cash flow generated from earnings to cover all interest-bearing debt. A lower ratio indicates a higher level of coverage of total debt by EBITDA. For the same financial leverage, companies with different profitability and cash generation capabilities face different financial risks.

### (5) EBITDA Interest Coverage

Primarily examines the extent to which earnings before interest and tax (after adding back non-cash operating costs such as depreciation and amortization) cover interest expense. A higher EBITDA interest coverage ratio will receive a higher score.

### (6) FFO / Total Debt

Measures the ability of operating cash flow (after adjusting for changes in working capital such as inventory, operating receivables/payables, prepayments, and advances) to cover total debt. A higher coverage ratio will receive a higher score.

## 5. Other Adjustment Factors

CCXAP may consider other factors not included in the rating factors above, which in certain circumstances could have a material impact on a company's creditworthiness. Other considerations include, but are not limited to, factors such as liquidity, event risk, and ESG assessment.

### (1) Liquidity

Liquidity reflects the coverage of cash uses by cash sources over a short-term horizon (typically within 12 months), indicating the company's ability to obtain sufficient funds in a timely manner to meet its current cash payment obligations. Historical default cases show that even companies with favorable long-term financial indicators and strong profitability may default due to short-term funding chain disruptions or tight liquidity. Therefore, the liquidity assessment focuses more on short-term credit risk. If a company has short-term liquidity risks that are sufficient to affect its medium- to long-term creditworthiness, we will downgrade its credit rating.

### (2) Event Risk

We also recognize that sudden or unexpected events could cause a sharp decline in a company's creditworthiness, potentially resulting in actual credit quality that is worse than the scorecard-indicated rating. Unexpected events may include mergers and acquisitions, asset sales, spin-offs, litigation, pandemics, and major cybercrime incidents. Such events could overwhelm even a stable and financially sound company.

### (3) ESG Assessment

ESG assessment primarily analyzes the impact of environmental, social, and governance factors related to credit risk on a company's credit strength. ESG factors are broad and dynamic. The ESG risk exposure faced by various industries is often common, but the impact of ESG factors on credit risk tends to be entity-specific. Meanwhile, the impact of ESG factors on corporate credit risk is often negative rather than positive, such as regulatory penalties for severe pollution from emissions or corporate governance issues affecting normal operations. Therefore, we treat ESG factors as a rating adjustment item, downgrading companies that perform extremely poorly in one aspect of environmental, social, or governance, or have poor overall performance.

## External Support

In terms of external support, CCXAP considers both shareholder support and government support that may reduce the likelihood of a company defaulting.

### Shareholder Support

Shareholder support is beneficial to a company's future development and overall creditworthiness. In assessing shareholder support, CCXAP considers the nature of the controlling shareholder, business competitiveness, and financial condition. In addition, we consider the company's development strategy, market position, ownership structure, and importance to the shareholder to assess the likelihood of receiving shareholder support when needed.

### Government Support

Government support refers to the provision of support by the government to pay a company's debt or take other measures to avoid a default when the company faces severe debt service pressure. In assessing government support, CCXAP considers factors such as the importance of the company's assets to the government, the government's legal requirements and degree of regulation, the government's support and bailout history, and the government's fiscal strength.

## Assumptions and Limitations

The final ratings assigned are based on CCXAP's forward-looking opinions, which we assume any changes in the macro environment are aligned with our expectations, and do not incorporate any unanticipated changes, such as the outbreak of war and destructive natural disaster.

CCXAP assumes that there is a strong correlation between the sovereign credit risk and the rated entity while refinancing capability is the key driver of credit risk. The debt rating assigned is based on our view that the legal priority of claims is the key factor affecting the ratings for different classes of debt issued by the same issuer. Also, we assume that the data used in the rating is true, legal and does not incorporate misleading statements.

The ratings incorporate our expectations of the rated entity's future performance, which are mainly deduced from the historical information via our forward-looking model. Under some circumstances, the expectations would incorporate confidential information. In addition, our expectations would consider the industrial trend, rival analysis, and other considerations. In any case, prediction is subject to substantial uncertainty. Therefore, the mapped ratings may not match our final ratings. The ratings may include some qualitative factors. CCXAP would evaluate these factors in an objective and precise approach, but the assessment may be unavoidably affected by subjective views in some cases. Therefore, the weighting of rating considerations could be varied. Specifically, the variation in weighting would happen if the rated entity were in default or approaching to be in default.

Furthermore, the ratings rely on public information and information provided by the rated entity and underwriters. Despite the fact that CCXAP can ensure the integrity, truthiness, and completeness of the data, due to the delay of information, the ratings may on some occasions not reflect the rated entity's credit risk in a timely manner.

Apart from that, the ratings are decided by our rating committee and could be influenced by their empirical views which may not be incorporated in the rating methodology. As a result, the final ratings could be varied with the mapped rating from the methodology.

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