

Credit Opinion

3 January 2025

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB _g -
Outlook	Stable

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Guangxi Baise Rundong Industrial Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Guangxi Baise Rundong Industrial Co., Ltd., with stable outlook

Summary

The BBB_g- long-term credit rating of Guangxi Baise Rundong Industrial Co., Ltd. ("Baise Rundong" or the "Company") reflects the Company's (1) status as a major state-owned commodity trading company in Baise City; (2) trading business supported by sound development of the aluminum industry in Baise City; and (3) increasing profits.

However, the rating is constrained by the Company's (1) modest business diversification, with a concentration on aluminum products; (2) weak profitability in trading business; and (3) weak credit metrics.

The rating also reflects a high likelihood of receiving support from its parent, Guangxi Baise Urban Industrial Development Group Co. Ltd ("BUID"), which is based on the Company's (1) status as the important subsidiary in commodity trading of BUID; (2) track record of receiving support from BUID; and (3) medium parent-subsidiary linkage.

The stable outlook on Baise Rundong's rating reflects our expectation that the Company will maintain its good market position in commodity trading in Baise City as well as a stable relationship with BUID over the next 12-18 months.

Rating Drivers

- Major state-owned commodity trading company in Baise City
- Trading business supported by sound development of the aluminum industry in Baise City
- Modest business diversification, with a concentration on aluminum products
- Increasing profits, but weak profitability
- High debt leverage and short-term repayment pressure
- Weak credit metrics
- High likelihood of support from the parent company

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) BUID's willingness and capacity to provide support increases; and (2) the Company's stand-alone credit profile improves significantly, such as having a more diversified business profile or improved credit metrics.

What could downgrade the rating?

The rating could be downgraded if (1) BUID's willingness and capacity to provide support decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in credit metrics or weakened liquidity position.

Key Indicators

	2021FY	2022FY	2023FY	2024Q3
Total Assets (RMB billion)	1.8	2.6	8.5	8.5
Total Equity (RMB billion)	0.6	0.6	3.0	3.0
Total Revenue (RMB billion)	2.5	2.8	2.6	1.8
Net Profit (RMB million)	3.8	3.8	41.0	19.7
EBIT Margin (%)	2.5	2.2	7.1	4.6
Return on Assets (%)	-	2.9	3.3	-
Total Debt/Total Capital (%)	65.3	67.8	54.2	53.3
Total Debt/EBITDA (x)	16.2	18.7	19.3	-
EBITDA/Interest (x)	1.0	1.0	1.4	-
FFO/Total debt (%)	5.2	5.5	4.5	-

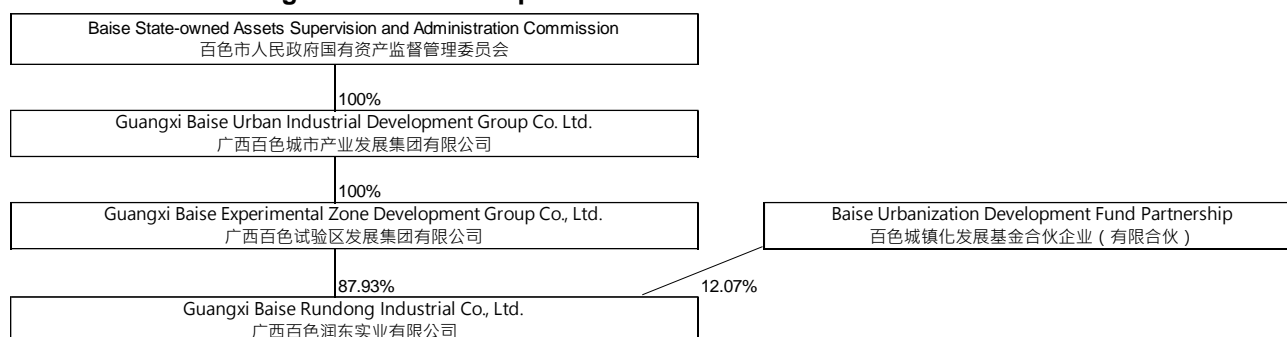
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

Founded in 2014, Baise Rundong is an important state-owned trading enterprise in Baise City. Relying on the aluminum resources in Baise City, the Company's trading portfolio mainly consists of aluminum products. As of 30 September 2024, the Company was wholly owned by Guangxi Baise Experimental Zone Development Group Co., Ltd. and actively managed by BUID. Baise State-owned Assets Supervision and Administration Commission ("Baise SASAC") is the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 30 September 2024



Source: Company information, CCXAP research

Rating Considerations

Business Profile

Major state-owned commodity trading company in Baise City

Baise Rundong is one of the major state-owned commodity trading companies in Baise City, Guangxi Province. As of 30 September 2024, the trading products of the Company mainly consist of non-ferrous metals (aluminum, zinc), coal, cement, and steel. The Company adopts the sales-driven procurement strategy, whereby the Company establishes its purchasing plans upon understanding the needs and price preferences of downstream customers. The Company will then negotiate prices with upstream suppliers to ensure that the sales price will not fall below procurement cost. As the Company is operating via agency trading model, it is subject to less price fluctuation risk as peers conducting self-operating trading do. However, it does not collect service charges by providing a full range of services along the supply chain, such as agency purchasing and sales, processing, logistics delivery, supply chain financing, and information advice, as top-tier supply chain peers do. Therefore, the profitability of its trading business relies on the pricing negotiation ability with upstream and downstream counterparties, which is normally thin. Meanwhile, the Company relies on third-party logistics, implying a relatively weak control over the supply chain operation.

Trading business supported by sound development of the aluminum industry in Baise City

The aluminum industry has been a pillar industry in Baise City. As of July 2024, Baise City has proven bauxite resources totaling RMB750.0 million tons, alongside prospective reserves exceeding 1 billion tons, which represents approximately 25% of the total reserves in China. In 2023, the industrial production of major aluminum products in Baise City all recorded double-digit growth, signaling a strong rebound from 2022.

In 2023, Baise City achieved a gross regional product of RMB184.9 billion, ranking in the middle of the region, up by 6.1% year-on-year. In 2023, Baise City achieved a general budget revenue of RMB11.3 billion, up by 16.8% year-on-year and ranking fourth among the prefecture-level cities in Guangxi Province.

We believe the ongoing economic growth and sound development of the aluminum industry of Baise City can provide a good external environment for the Company's development.

Modest business diversification, with a concentration on aluminum products

Aluminum products have traditionally been the largest portion of the Company's product portfolio, accounting for more than 80% of its total trading volume in the past few years. Therefore, the Company faces certain single-product concentration risks. The fluctuation of the industry cycle has a great impact on performance, and a sharp drop in demand or prices of aluminum products will be detrimental to the Company's business performance.

Meanwhile, the top 5 suppliers and customers accounted for around 70%-80% of total procurement and sales in the past few years, indicating certain counterparty concentration risks. Besides benefiting from the local aluminum resource, the Company has stable demand from downstream customers, which are mainly concentrated in areas with relatively strong consumption in South China and East China, such as Guangdong and Zhejiang. The Company mainly purchases raw materials locally, while downstream sales are mainly made to other provinces because the local consumption of these products is relatively small.

Exhibit 2. Major products in the trading portfolio

Revenue (RMB million)	2021	2022	2023	2024Q1-Q3
Aluminum	1,908.1	1,958.6	5,653.5	3,147.2
Zinc	-	-	780.3	128.5
Steel	24.8	64.8	57.2	-
Coal	-	-	-	64.0
Oil	134.8	134.4	-	-

Source: Company information, CCXAP research

Financial Profile

Increasing profits

Due to solid demands for aluminum products, the revenue of the Company increased from RMB2.5 billion to RMB2.6 billion from 2021 to 2023. In the first three quarters of 2024, the Company recorded a total revenue of RMB1.8 billion. In addition, the Company's gross profit has increased since 2021. From 2021 to 2023, its gross profit rose from RMB61.2 million to RMB186.1 million. Along with the increasing gross profit, the net income has increased from RMB3.8 million in 2021 to RMB41.0 million in 2023. We expect the total revenue in 2024 to be close to the 2023 level, given the continued sales performance in aluminum ingot.

In addition, the Company has seen an increase in prepaid expenses in the first three quarters of 2024, up by 113% from 2023. From 2021 to 2023, the average ratio of prepaid expenses to operating costs was 19.1%, while the ratio rose to 68.9% as of 30 September 2024, indicating the Company's relatively weak bargaining power along the supply chain.

Weak profitability

Due to the business nature, the profitability of the Company is weak. From 2021 to 2023, the average EBIT margin of the Company was 4.0%, while the average return on total asset recorded 3.3%. In order to boost profitability of its trading business, the Company is current attempting to develop cross-border business,

including the export of coal to Indonesia and agricultural products to countries within Association of Southeast Asian Nations.

High debt leverage and short-term repayment pressure

The Company's debt burden has increased with business expansion. From 2021 to 2024Q3, the Company's total debt rose from RMB1.1 billion to RMB3.5 billion. However, due to the asset injection from the parent company, its total capitalization ratio declined from 65.3% to 53.3% over the same period but remaining at a relatively high level. Meanwhile, the Company has high short-term debt repayment pressure. As of 30 September 2024, its short-term debt accounted for 77.1% of total debt and cash to short-term debt ratio was 0.4x. However, we believe the parent company is likely to provide support to the Company to contain the leverage level and debt repayment pressure.

In addition, the Company has ongoing litigation against certain downstream customer with delayed payments. As of 30 September 2024, the associated litigation amount was RMB368.6 million. As of 30 September 2024, the associated accounts receivable was RMB17.5 million, while RMB3.5 million had been recorded as an impairment loss.

Weak credit metrics

The Company's debt-serving metrics are weak, given its large debt burden and modest ability to generate sufficient cash flow. From 2021 to 2023, the Company recorded average EBITDA interest coverage ratio and average total debt/EBITDA ratio of 1.2x and 18.1x, respectively. As a result of the agency trading model with a thin margin, the Company's cash generation capacity has been weak over the past three years. As a result of the thin-margin business model, the funds from operation ("FFO"), which excluded the working capital changes from operating cash flow, stayed at a low level between 2021 and 2023, with the average FFO/total debt ratio between 2021 and 2023 recording 5.1%.

Meanwhile, the Company had large amounts of other receivables, mainly between the Company and other group affiliates. The balance of other receivables has increased dramatically since 2021, from RMB1.1 billion to RMB3.4 billion at the end-2024Q3. The timing of the collection of these receivables remains unclear. In addition, the unrestricted cash balance was only RMB4.1 million as of 30 September 2024. The occupation of funds by the group affiliates has weakened the Company's liquidity.

External Support

High likelihood of support from the parent company

Baise Rundong has a high likelihood of receiving support from its parent, BUID, given its (1) status as the important subsidiary in commodity trading of BUID; (2) track record of receiving support from BUID; and (3) the medium parent-subsidiary linkage.

BUID is the largest local infrastructure and investment financing company ("LIIFC") in Baise City with a diversified income structure and strong business sustainability. BUID has undertaken tasks such as infrastructure construction, affordable housing construction, and land development and consolidation in Baise City and Baidong New District. Given its dominant role in the development of Baise City, we believe the ability to provide support of BUID is strong.

Among the different business segments of BUID, the Company plays an important role in the trading business of BUID. The Company accounted for around 10% of BUID's total assets. The importance of the Company has

been strengthened as BUID's another subsidiary responsible for trading business, Guangxi Baise Guangda Industrial Development Co., Ltd., suspended business in late 2022. This can be further evidenced by BUID's decision to inject a limestone mine of RMB2.4 billion to cut its leverage, as well as BUID's guarantee on the bank facilities of the Company.

Overall, we believe that Baise Rundong will remain an important subsidiary of BUID, and BUID's strong willingness to support the Company is unlikely to change in the near to medium term.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [General Corporate \(April 2019\)](#).

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