
CCXAP upgrades Metallurgical Corporation of China Limited's long-term credit rating to AA_g-, with stable outlook

Hong Kong, 31 July 2024 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has upgraded the long-term credit rating of Metallurgical Corporation of China Limited ("MCC" or the "Company") to AA_g- from A_g+, with stable outlook.

The rating upgrade is based on MCC's strong operational and strategic linkages with China Minmetals Corporation ("China Minmetals") and its core subsidiary, China Metallurgical Group Corporation ("CMGC"). China Minmetals is an international metals and mining corporation that is wholly owned by the SASAC of the State Council of China, with a strong policy role of securing base metal supply in China.

The AA_g- 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; (3) diversified client structure and geographic coverage; and (4) good access to various funding sources. However, the rating is constrained by the Company's (1) overseas projects with high business risks; and (2) vulnerability to the fluctuations in cyclical industries such as steel and homebuilding.

The rating also reflects our expectation of a high likelihood of support from CMGC, given (1) its high strategic importance to CMGC; and (2) the close business and financial linkages with CMGC. We believe that CMGC has a strong capacity to support MCC by dint of (1) ultimate ownership by the central government; (2) a close relationship with 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. 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. 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 2023, MCC is the core subsidiary of and 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.

Rating Rationale

Credit Strengths

Solid market position and large operating scale in E&C. 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. CMGC, MCC's parent company, ranked 5th in The Engineering News-Record's 2023 Top 250 Global Contractors, ranking among the top ten for 15 consecutive years.

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. The expanded non-metallurgical construction businesses include infrastructure projects such as building roads, bridges, government buildings, stadiums, logistic centers and affordable housing. By increasing non-metallurgical construction projects, MCC reduces its dependence on traditional metallurgical construction.

Diversified client structure and geographic coverage. As of 31 December 2023, the Company had 11,704 domestic projects and 331 overseas projects under construction. The domestic business focuses on 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. MCC's extensive client base will help mitigate risks from a single project or client exposure.

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. Moreover, the Company remains a strong presence in the onshore and offshore debt capital markets. Furthermore, 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 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 43.7% YoY in 2023, while it only represented 4.4% of the total projects.

The intensification of geopolitical and political situations could disrupt domestic production and global logistics, resulting in higher operating costs and lower capacity.

Vulnerable to the fluctuations in cyclical industries. MCC's construction business has a large exposure to cyclical industries, including property development and metallurgical construction. Given the volatile nature of these segments, we believe the Company's risk exposure to the homebuilding and steel industries will remain a concern.

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 China Minmetals and 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 China Minmetals and CMGC deteriorates or the likelihood of 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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