

Credit Opinion

13 December 2024

Xiamen Xindeco Ltd.

Initial credit rating report

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

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CCXAP assigns first-time long-term credit rating of BBB_g to Xiamen Xindeco Ltd., with stable outlook

Summary

The BBB_g long-term credit rating of Xiamen Xindeco Ltd. ("Xiamen Xindeco" or the "Company") reflects the Company's (1) good market position in supply chain trading with strong channel advantage; (2) good access to capital; and (3) support from its parent company in terms of business operations and financing.

However, the rating is constrained by the Company's (1) earnings vulnerable to commodity price volatility and global economic conditions; (2) decreasing revenue with weak profitability; and (3) high debt leverage.

The rating also reflects a high likelihood of receiving support from its parent, Xiamen ITG Holding Group Co., Ltd. ("Xiamen ITG Group"), which is based on (1) the Company's status as the important subsidiary in commodity trading and automobile distribution of Xiamen ITG Group; (2) good track record of receiving support from Xiamen ITG Group; and (3) medium parent-subsidiary linkage. It also reflects the high likelihood of receiving support from Xiamen Municipal Government, given the Company's (1) ultimate ownership by Xiamen Municipal Government; and (2) important position in local economic development.

The stable outlook on Xiamen Xindeco's rating reflects our expectation that the Company will maintain its good market position in supply chain trading business in over the next 12-18 months.

Rating Drivers

- Good market position in supply chain trading with strong channel advantage
- Earnings vulnerable to commodity price volatility and global economic condition
- Automobile distribution business challenged by intensified market competition
- Decreasing revenue with weak profitability
- High debt leverage and moderate credit metrics but partly mitigated by good access to capital
- High likelihood of support from the parent company

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Xiamen ITG Group'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) Xiamen ITG Group'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	2024H1
Total Assets (RMB billion)	15.7	16.1	16.0	21.8
Total Equity (RMB billion)	3.5	3.6	3.6	3.5
Total Revenue (RMB billion)	108.5	94.0	71.5	25.1
Net Profit (RMB billion)	0.2	0.2	-0.6	-0.1
EBIT Margin (%)	0.7	0.7	-0.5	-
Return on Assets (%)	4.3	3.9	-2.2	-
Total Debt/Total Capital (%)	73.9	76.0	75.7	83.7
Total Debt/EBITDA (x)	9.4	12.2	253.2	-
EBITDA/Interest (x)	2.2	2.6	0.1	-
FFO/Total debt (%)	7.8	4.1	-3.3	-

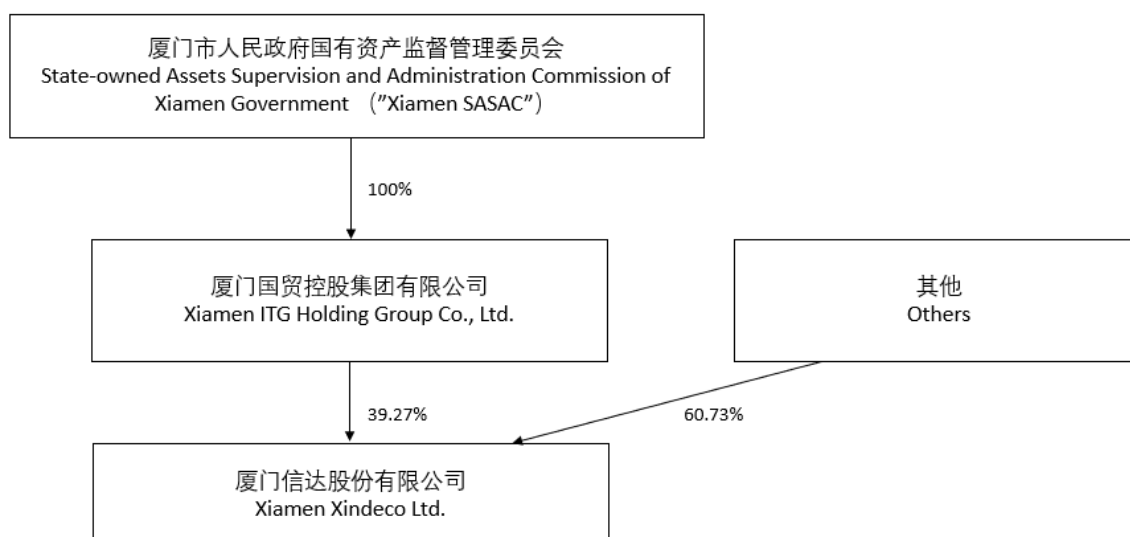
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

Corporate Profile

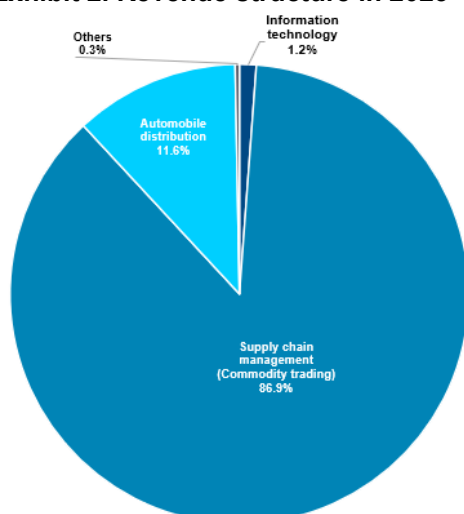
Xiamen Xindeco (Stock Code: 000701.SZ) was founded in 1984 and listed on the Shenzhen Stock Exchange in 1997. The Company is a core member of Xiamen ITG Group, with main business covering automobile distribution, supply chain, and information technology. It has been consecutively selected as one of the top 500 listed companies in China. As of 30 June 2024, Xiamen ITG Group is the largest shareholder of the Company, holding 38.47% of the Company. State-owned Assets Supervision and Administration Commission of Xiamen Government ("Xiamen SASAC") is the ultimate controller of the Company.

Exhibit 1. Shareholding chart as of 30 June 2024



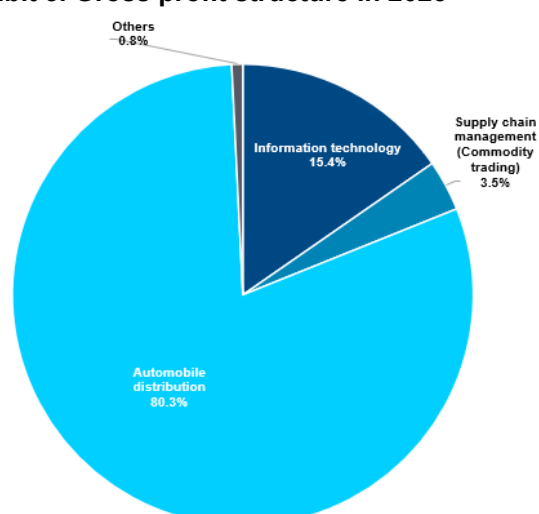
Source: Company information, CCXAP research

Exhibit 2. Revenue structure in 2023



Source: Company information, CCXAP research

Exhibit 3. Gross profit structure in 2023



Rating Considerations

Business Profile

Good market position in supply chain trading with strong channel advantage

Xiamen Xindeco is primarily engaged in supply chain trading, and it mainly comprised of the trading of non-ferrous metals (copper, aluminum, zinc) and ferrous metals (iron ore, steel and coal). The Company has demonstrated a good market position in commodity trading business with core emphasis on non-ferrous metals and ferrous metals. According to 2023 Fortune China Top 500 Listed Companies Ranking, the Company ranked 7th in trading sub-group. Meanwhile, the Company is also one of the 2023 Top 20 Global Iron Ore Trading Suppliers. The Company mainly adopts self-operated approach with a focus on domestic trading, and supported by import trading, while the scale of export trading is relatively small.

Exhibit 4. Revenue breakdown of commodity trading from 2021 to 2024H1

	2021	2022	2023	2024H1
Domestic (Rmb billion)	79.1	65.6	46.5	13.8
Import (Rmb billion)	19.8	18.9	14.6	6.5
Export (Rmb billion)	0.7	1.2	1.1	0.2
Total	99.6	85.7	62.2	20.5

Source: Company information, CCXAP research

Non-ferrous metals mainly include copper, aluminum and zinc. The Company has strong competitive edge on electrolytic copper. However, the copper trade has been significantly impacted by the influence of a key partner, Xi'an Maike Metal International Group Co., Ltd., coupled with the price fluctuations of major commodities, the Company recorded a noticeable decline in trade volume in 2023. Ferrous metals mainly include iron ore, steel and coal. The company's ferrous metals trading is progressively transitioning towards an integrated supply chain service model. For instance, the Company now offers raw material procurement and finished product sales services for its steel clients. Additionally, the Company is providing more value-added services such as the establishment of proprietary steel storage facilities, the provision of customized coal processing services, and the promotion of integrated supply chain processing, warehousing, and logistics. As a result of aforementioned factors, the revenue of commodity trading segment in 2023 declined by 27.4% on a YoY basis.

Benefited from its long operating track record, the Company has a strong resource channel advantage. The Company has relatively abundant resource channels. Most of its upstream suppliers are resource-based enterprises, and most of its downstream customers are production-oriented enterprises and large-scale traders, so it has strong channel advantages. The Company also closely monitors the exposure to each counterparty. Therefore, the top 5 upstream and downstream enterprises only accounted for 20.7% and 12.8% of the total procurement and total sales in 2023, respectively.

Meanwhile, given several default cases by the Company's trading partners, relevant overdue payments have yet to be fully repaid by these trading partners. The asset impairment loss amounted to RMB497.6 million in 2023, which weakened the Company's profitability.

Earnings vulnerable to commodity price volatility and global economic conditions

The commodity trading business is highly cyclical, as the underlying goods mainly sensitive to economic cycles, resulting in large price volatility during the economic downturn and recovery period in recent years. Major commodities of the Company's trading portfolio, especially ferrous commodities, have seen price fluctuations in

recent years and the trend may persist. Affected by the slowdown in the China property sector and weak demand, ferrous metals (such as steel and coal) experienced a downward momentum since 2022. In contrast, nonferrous metal (such as copper) demonstrated relatively resilience compared to ferrous metal, mainly due to tight supply.

Consider the recent large scale stimulus package carried out by the central government, the property and infrastructure construction sector may demonstrate certain resilience, which may provide certain support to the price of the major commodities in the Company's business portfolio.

Exhibit 5. Major commodities prices pertinent with the Company's portfolio



Source: iFind, CCXAP research

In addition, the commodity price volatility risk can be partly offset by its risk management measures. The Company uses commodity and foreign exchange derivative instruments to hedge against price and exchange rate fluctuation risks.

Automobile distribution business challenged by intensified market competition

Xiamen Xindeco also participated in automobile distribution business, and it involves in operating traditional automobile 4s store, new energy vehicle services, secondhand car distributions. According to the China Automobile Dealers Association's "2023 China Automobile Dealer Group Top 100 Ranking", the Company ranked 49th out of top 100. The Company focused on mid-high end fuel car market. As of 30 June 2024, the Company owned 29 mid-high end automobile brand distribution rights.

In recent years, diminishing purchasing power of customers and evolving domestic environmental policies weighed on the performance of the Company's automobile business. In addition, as the penetration rate of affordable new energy vehicles continues to rise in China, traditional fuel vehicle market has been under

pressure. The performance of the Company's automobile segment is consistent with the general slowdown in sales of the traditional fuel vehicle industry in China. Due to the intensified market competition and the new cars sales price under pressure, which leads to the losses in automobile distribution business. The Company is now seeking expansion in new energy vehicle market and providing more value-added service to offset downside risks.

Supplementary income from information technology segment

The information technology segment consisted of optoelectronic business (LED packaging and its applications) and Internet of Things business (RFID electronic and Smart City). In 2023, the sales volume of LED packaging and its corresponding application products experienced a further decline, influenced by factors such as the heightened competition and overcapacity in the LED market, and the rapid evolution of new technologies and products. Nevertheless, the Internet of Things business provided certain buffer as RFID segment demonstrated resilient gross margin over the past few years (2023: 25.7%). Smart City segment, in which the Company provided electronic solutions, generated supplementary revenue of RMB158 million in 2023 with net profit margin of around 10%.

Financial Profile

Decreasing revenue with weak profitability

Affected by the intensified market competition in automobile industry, and commodity price volatility, the Company's total revenue has been dropping since 2021, from RMB108.5 billion in 2021 to RMB71.5 billion in 2023. In terms of the industry, supply chain trading is the main contributor, accounting for 86.9% of total revenue in 2023, followed by automobile distribution (11.6%) and information technology (1.2%). The decline in revenue was primarily due to the contraction of the Company's supply chain trading business, from RMB99.6 billion to RMB62.2 billion over the same period. In 2024H1, with the continuous contraction of major business lines such as commodity trading and automobile distribution, the Company's total revenue dropped by 34.4% YoY.

As a result of the challenges on the major business lines, Xiamen Xindeco's profitability profile is weak. The Company's return on total assets decreased from 4.3% in 2021 to -2.2% in 2023, while the EBIT margin also dropped from 0.68% to -0.5% over the same period. The Company's weakened profitability was mainly driven by the contraction of supply chain trading business and asset impairment loss. The gross profit margin of the commodity trading segment decreased to 0.04% in 2023, and asset impairment loss almost doubled in 2023. In 2024H1, the aggregated gross margin of commodity trading and automobile distribution business rebounded marginally, but still at a low level at 2.1%. Although the gross profit margin of information technology segment remained at a relatively high level, its contribution to the overall profit is limited due to small scale. Overall, the Company's profitability is expected to remain relatively weak due to the challenges on the major business lines.

High debt leverage with small volume of equity

Companies engaging in trading business typically demonstrate high debt leverage, we assess the Company's debt leverage is at a relatively high level. From 2021 to 2024H1, the Company's total debt (including perpetual debt) increased from RMB9.9 billion to RMB17.8 billion. The total capitalization ratio, calculated by total debt to total capital, increased from 73.9% to 83.7%, reaching a high level that may negatively impact its financing flexibility. The increase in leverage is mainly due to new short-term borrowings to facilitate the supply chain management business in the first quarter of 2024. Due to the business nature of commodity trading, the Company have a large reliance on short-term financing. As of 30 June 2024, the Company's short-term debt accounted for 69.8% of its total debt, which is at a relatively high level. The Company's debt structure needs to

be improved.

Moderate credit metrics but partly mitigated by good access to capital

The Company's debt-serving metrics are weak given its large debt burden. From 2021 to 2023, the Company recorded EBITDA interest coverage ratio of 2.2x, 2.6x and 0.1x, respectively. Over the same period, the total debt/EBITDA ratio were 9.4x, 12.2x and 253.2x, mainly due to the sharp decline in EBITDA in 2023. The weak debt-servicing metrics are mainly due to the weak performance in the automobile distribution and supply chain trading business, which made up the majority of EBITDA in the past few financial years. Affected by the weak profitability, the Company's core business cash generation capacity also weakened over the past three years. Its funds from operation ("FFO")/total debt ratio decreased from 7.8% in 2021 to -3.3% in 2023. The Company's restricted assets were large that may negative influence its financing flexibility. As of 30 June 2024, the Company had pledged assets of RMB4.3 billion, which is mainly pledged for loans, accounting for 19.8% of total assets.

Xiamen Xindeco's weak credit metrics can be partially mitigated by its good access to capital. Its external financing channels concentrated on indirect financing channels such as bank loans, which provided stable source to the Company. As of 30 June 2024, the Company has ample liquidity support from banks, with a total credit facility of RMB34.9 billion and an unutilized amount of RMB18.2 billion. In addition, as a listed company in Shenzhen Stock Exchange, the Company has smooth access to direct financing. In 2023, the Company completed a private offering to selected investors, with a total raised amount of RMB709 million. Meanwhile, the Company has outstanding perpetual bonds with a total outstanding amount of RMB1.0 billion. The Company also has exposure to non-standard perpetual loan facilities with trustee institutions, and the facility size was RMB1.0 billion.

External Support

High likelihood of support from the parent company

Xiamen Xindeco has a high likelihood of receiving support from its parent, Xiamen ITG Group, given its (1) status as the important subsidiary in commodity trading and automobile distribution of Xiamen ITG Group; (2) good track record of receiving support from Xiamen ITG Group; and (3) the medium parent-subsidiary linkage. We also believe that Xiamen Xindeco has a high likelihood of receiving support from Xiamen Municipal Government via Xiamen ITG Group, considering its (1) ultimate ownership by the local government; and (2) important position in local economic development.

Xiamen ITG Group is the second largest state-owned enterprise under Xiamen SASAC and one of the domestic CR5 of supply chain management industry. As a nation-leading supply chain management company, Xiamen ITG Group has diversified business including supply chain management, financial services, urban construction, health and consumption, and high-end manufacturing. Xiamen SASAC has positioned Xiamen ITG Group as a modern, international, and comprehensive state-owned capital investment group, which plays a key role in the local economic development. We believe the financial impact and social impact of Xiamen ITG Group's default is also very strong.

In addition, as Xiamen Xindeco is the major subsidiary of Xiamen ITG Group that focuses on non-ferrous metals and ferrous metals trading, which plays an important role in Xiamen ITG Group's supply chain management business, demonstrating medium parent-subsidiary linkage. In recent years, Xiamen ITG Group continues to provide support to the Company. For instance, the Company's publicly issued debt financing instruments are all guaranteed by Xiamen ITG Group. In 2023, the Company issued private offering to selected investors, with

Xiamen ITG Group subscribing to 27.4 million shares, with a total raised amount of RMB142.0 million. Moreover, Xiamen ITG Group has entered into a Financial Assistance Agreement with the Company, wherein it will provide funds to support the Company's liquidity needs.

We believe that Xiamen Xindeco will remain an important subsidiary of Xiamen ITG Group, and the strong willingness to support the Company from the local government and Xiamen ITG Group 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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