

Credit Opinion

9 May 2024

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

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MCC Tongsin Resources Ltd.

Initial credit rating report

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

Summary

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.

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.

Rating Drivers

- Sufficient and expanding copper reserves for future operation, but with relatively low copper grade
- Earnings vulnerable to global economic conditions and copper price volatility
- Low product diversification and high overseas operating risks
- Growth in revenue scale but with decreasing profitability
- Moderate support from parent company

Rating Sensitivities

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.

Key Indicators

	2021FY	2022FY	2023 FY
Total Assets (RMB billion)	4.4	4.9	5.3
Total Equity (RMB billion)	3.3	3.8	4.1
Total Revenue (RMB billion)	1.3	1.5	1.8
Net Profits (RMB billion)	0.2	0.1	0.1
EBIT/Revenue (%)	13.7	9.0	7.1
EBIT/Average Assets (%)	4.2	2.8	2.4
Total Debt/Total Capital (%)	0.0	0.6	0.5
Total Debt/EBITDA (x)	0.0	0.2	0.1
EBIT/Interest (x)	1689.8	102.8	118.1
(CFO-Dividend)/Total Debt (%)	-	-154.7	692.1

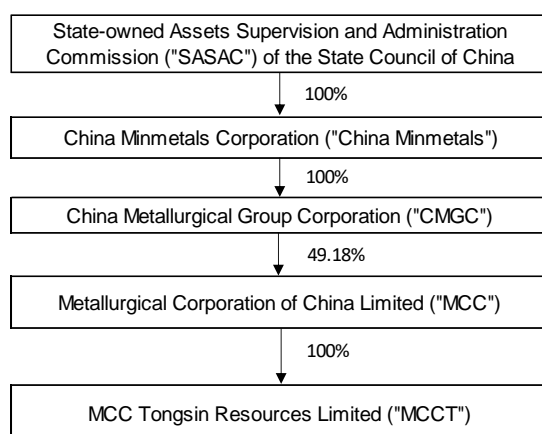
All ratios and figures are calculated using CCXAP's adjustments.

Source: Company data, CCXAP research

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.

Exhibit 1. Shareholding and organization chart as of 31 December 2023



Source: Company information, CCXAP research

Rating Considerations

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.

Through making a lease agreement with the Pakistan Government, the Company and MCC have operated the Saindak Copper-Gold Mine in Pakistan for over 20 years. As of 31 December 2023, the Saindak Copper-Gold Mine had recoverable copper reserves of 465.4 thousand tons, which could support its operation for the next 17 years, but with a relatively low copper grade of 0.38%. In order to lower the production cost and lengthen the exploitable years of Saindak Copper-Gold Mine, the Company undertook a construction project to expand the scale of the mine in 2022, which was put into production in January 2024. The cumulative production of copper decreased to 16,346 tons in 2022 from 18,806 tons in 2021 due to the disruptions of the pandemic, but it recovered to 17,042 tons in 2023. It is expected that the copper production in 2024 will continue to grow, given the completion of the expansion project.

In 2022, the Company acquired the mining right of Sialdik Copper Mine in Pakistan. As of 31 December 2023, the S1 mine section of the project has completed the detailed investigation report and exploration report, with accumulated exploration of 3.78 million tons of copper resources and an average copper grade of 0.3%. The Sialdik Copper Mine is expected to be put into production in 2025, which will increase the copper production and revenue of the Company.

In addition, the Company owns the mining right of Aynak Copper Mine in Afghanistan, which holds approximately 705 million tons of 1.56% grade copper ore, making it one of the largest untapped high-grade copper mines in the world. As of 31 December 2023, the Aynak Copper Mine had copper resources of 11.1 million tons and the recoverable copper reserves of 4.0 million tons. However, the construction of the Aynak Copper Mine has been halted due to the security situation and the protection of cultural relics in Afghanistan. The Company has been negotiating with Afghanistan Government to revive its development plan of the mine. Once the negotiation succeeds, the copper reserves and production of the Company will increase significantly,

further supporting its future development. 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.

Since 2023, the Company has also participated in engineering construction business in Eritrea of Africa, mostly undertaking infrastructure stripping projects. As of 31 December 2023, it had completed two engineering projects and had one engineering project under construction. We believe that the broadened business mix can diversify the Company's income sources.

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. Copper prices significantly dropped in 2022Q2 due to the Fed's aggressive rate hike, and it gradually recovered in the second half of 2022. In 2023, the copper prices fluctuated due to low supply and weak demand from China.

We expect that the long-term copper prices will be supported by its place in the green energy transition, where it plays a role in electric vehicle production and wind power generation. However, global economic recession and China's macroeconomic downturn will exert certain downward pressure on copper prices, and hence, on the revenue and profitability of the Company.

Exhibit 2. Copper Futures Price from January 2021 to December 2023



Source: Wind, CCXAP research

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.

Growth in revenue scale but with decreasing profitability

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%. 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.

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.

Headquartered in Beijing, MCC is a Chinese state-owned enterprise mainly engaged in engineering construction-related business, as well as property development, equipment manufacturing and resource development. MCC is one of the largest engineering and construction companies in China and a market leader in metallurgical construction.

As an overseas copper mining subsidiary of MCC, the Company owns all of MCC's copper resources. However, the asset and revenue scale of the Company are relatively small, only accounting for 0.8% and 0.3% of MCC's asset and revenue respectively. MCC has a proven track record of support from its parent company, in terms of capital injections and resource acquisition. From 2021 to 2023, MCC had injected capital of totally RMB151.8 million into the Company to support its daily operation and project construction as well as the project 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. Given its strategic role in the resource development sector of MCC, we expect the Company will continue to receive capital support from its parent company.

Rating Methodology

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

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