

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Positive Outlook to XMYG Corporation

HONG KONG, 14 September 2022 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to XMYG Corporation (formerly known as Xiamen Xiangyu Group Corporation; “XMYG” or “the company”). The Outlook is Positive.

The Issuer Rating reflects XMYG’s leading market position in comprehensive supply chain management industry and track record of revenue growth, supported by its established nationwide logistics network and the strengthening of its comprehensive service capability. Moreover, XMYG has proven track record of strong external support from Xiamen government. However, the rating is constrained by XMYG’s high financial leverage and low profit margin.

The Positive Outlook reflects our expectation that XMYG will continue to consolidate and strengthen its leading market position in the comprehensive supply chain management industry, especially with the expected increase in production of stainless-steel smelting project in Indonesia, extend its support to government function to port operation and upgrade through utilizing its nationwide and overseas logistics network, while remain prudent in its expansion pace with demonstrated efforts to maintain its operating efficiency and improve its profitability.

Key Rating Rationales

A Large-Scale State-Owned Enterprise in Xiamen with Leading Position in Comprehensive Supply Chain Management Industry: XMYG is a large state-owned enterprise in Xiamen, and is wholly owned by Xiamen State-owned Assets Supervision and Administration Commission (“Xiamen SASAC”). XMYG mainly engages in comprehensive supply chain management (including supply chain, logistics and manufacturing), property development, financial services and other businesses. According to the 2022 Fortune Global 500 list, XMYG ranked 160th with a total revenue of c. USD75.1 billion.

The comprehensive supply chain management business contributed more than 95% of XMYG’s total revenue from 2019 to the first half of 2022. XMYG operates supply chain platforms integrating the services ranging from upstream procurement of raw materials to downstream product sales and distribution, covering metal and mineral products, energy and chemical products and agricultural products. Also, XMYG owns an established nationwide transportation network covering railway, highway and shipping to provide a wide range of logistics and warehousing services. XMYG is also engaged in manufacturing businesses which consolidated the business scale and competitive advantage of its comprehensive supply chain management business.

Steady Business Growth Led by Scale Expansion: XMYG’s total revenue increased by 31.9% and 29.2% in 2020 and 2021, respectively, mainly supported by the expansion of its

comprehensive supply chain management business through extending its service capability and widening its product range. As a result, XMYG achieved growth in commodity trading volume, especially ferrous metals, aluminum products, coal and agricultural products. In addition, the increase in commodity prices contributed to the revenue growth during the period. Also, the stainless-steel smelting project in Indonesia has commenced production since 2020. The construction of this project was completed in 2021. We expect its contribution to XMYG's revenue and earnings to increase when it is able to operate in full production capacity.

Improving Profitability Amid a Relatively Low Margin Industry: Given the low profit margin nature of the comprehensive supply chain management business and the declining profit margin of its property development business, XMYG had a low reported gross margin of 2.8-4.4% in 2019-2021. Nevertheless, XMYG's gross margin recovered in 2021, supported by the extension of its comprehensive supply chain services, its concentration on manufacturing industry as its core clients and its business expansion into the manufacturing industry.

High Leverage and High Proportion of Minority Interests: XMYG's reported total debt increased to c. RMB123.2 billion at end-June 2022 from RMB68.3 and RMB79.4 billion at end-2020 and end-2021, respectively, due to higher capital expenditure. Besides, XMYG's total equity consisted of perpetual bonds of c. RMB4.8 billion at end-June 2022, which accounted for c. 7% of XMYG's total equity. XMYG's financial leverage, as measured by adjusted debt over EBITDA, improved but remained high at 8.0x in 2021, compared with 10.9-12.0x in 2019-2020, as the impact from the total debt increase was partially offset by the EBITDA growth in 2021. On the other hand, the proportion of minority interest to XMYG's total equity remained high at 64.5% at end-June 2022.

Moderate Liquidity with Reliance on Short-term Financings; Access to Wide Range of Financing Channels: XMYG relies on short-term borrowings to finance its operations. Short-term debt contributed a high proportion of c. 50-65% of XMYG's total debt from end-2019 to end-June 2022. However, XMYG is able to access equity financing through its listed subsidiary of Xiamen Xiangyu Company Limited. At end-June 2022, XMYG had c. RMB33.6 billion of cash (c. RMB28.8 billion of unrestricted cash) and unutilized credit line of c. RMB90.1 billion to cover its short-term debt of c. RMB80.5 billion.

Strong External Support from Xiamen Government: Xiamen is a prefecture city of Fujian and it is one of the Five Independent Planning Status under the National Social and Economic Development. The Xiamen government has 100% ownership of XMYG via the Xiamen SASAC. XMYG undertakes certain government functions, including food reserve, the development and construction of Free Trade Zone and logistic park, and other municipal projects. XMYG plays an important role of logistic industry development of Xiamen, and it was appointed to carry out the development of marine economy and the international development along the "Belt and Road Initiative". XMYG has proven track record of receiving supports from the local government, such as capital injection, subsidies, project funds, policy support and guidance from the government. Following the equity transfer of 35.96% stake of Fujian Provincial Port Group Co., Ltd and other port related equities in Xiamen in June 2022, XMYG will likely extend its support to government function to operation and upgrade of ports and shipping transportation.

Rating Sensitivities

We would consider downgrading XMYG's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage to consistently below 2.0x or debt over EBITDA leverage consistently to above 9.5x, or (2) it were to suffer a significant deterioration in operating performance in terms of revenue, profit margin or cash flow generation, or its liquidity profile is worsened, or (3) there is a decrease in support from or function for the local government.

We would consider upgrading XMYG's rating if (1) it were to significantly improve its operating performance, and/or (2) it demonstrates prudent financial management and maintains its financial leverage as measured by its EBITDA interest coverage at consistently above 5.0x and debt over EBITDA leverage consistently at below 6.5x, and/or (3) it were to improve its liquidity position, and/or (4) there is an increase in support from or function for the local government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this XMYG's rating is Lianhe Global's General Corporate Rating Criteria published on 31 December 2021 and its addendum published on 30 August 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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