

# XMXYG Corporation

## Initial Issuer Report

**Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to XMXYG Corporation; Outlook is Positive**

### Summary

Issuer Rating	BBB+
Outlook	Positive
Location	China
Industry	Commodity
Date	15 September 2022

### Summary

The Issuer Rating reflects XMXYG Corporation's (formerly known as Xiamen Xiangyu Group Corporation; “XMXYG” or “the company”) 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, XMXYG has proven track record of strong external support from Xiamen government. However, the rating is constrained by XMXYG’s high financial leverage and low profit margin.

The Positive Outlook reflects our expectation that XMXYG 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:** XMXYG is a large state-owned enterprise in Xiamen, and is wholly owned by Xiamen State-owned Assets Supervision and Administration Commission (“Xiamen SASAC”). XMXYG 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, XMXYG ranked 160th with a total revenue of c. USD75.1 billion.

The comprehensive supply chain management business contributed more than 95% of XMXYG’s total revenue from 2019 to the first half of 2022. XMXYG 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, XMXYG owns an established nationwide transportation network covering railway, highway and shipping to provide a wide range of logistics and warehousing services. XMXYG 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:** XMXYG’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, XMXYG 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

### Analysts

Toni Ho  
 +852 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Ben Yau  
 +852 3462 9586  
[ben.yau@lhratingsglobal.com](mailto:ben.yau@lhratingsglobal.com)

### Applicable Criteria

General Corporate Rating Criteria (31 December 2021)  
 General Corporate Rating Criteria: Addendum (30 August 2022)

construction of this project was completed in 2021. We expect its contribution to XMXYG'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, XMXYG had a low reported gross margin of 2.8-4.4% in 2019-2021. Nevertheless, XMXYG'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:** XMXYG'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, XMXYG's total equity consisted of perpetual bonds of c. RMB4.8 billion at end-June 2022, which accounted for c. 7% of XMXYG's total equity. XMXYG'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 XMXYG'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:** XMXYG relies on short-term borrowings to finance its operations. Short-term debt contributed a high proportion of c. 50-65% of XMXYG's total debt from end-2019 to end-June 2022. However, XMXYG is able to access equity financing through its listed subsidiary of Xiamen Xiangyu Company Limited. At end-June 2022, XMXYG 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 XMXYG via the Xiamen SASAC. XMXYG undertakes certain government functions, including food reserve, the development and construction of Free Trade Zone and logistic park, and other municipal projects. XMXYG 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". XMXYG 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, XMXYG will likely extend its support to government function to operation and upgrade of ports and shipping transportation.

## Rating Sensitivities

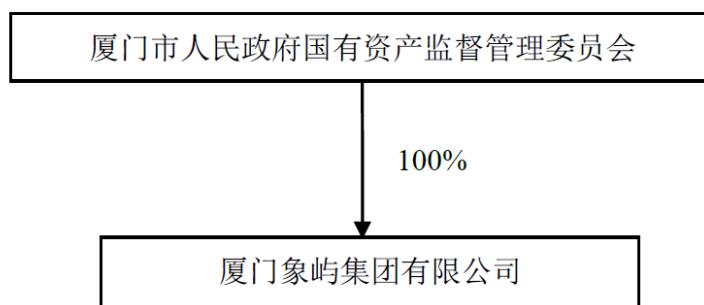
We would consider downgrading XMXYG's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage to consistently below 2.0x or debt over EBITDA leverage consistently to above 9.5x, or (2) it were to suffer a significant deterioration in operating performance 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 XMXYG'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.

## Company Profile

XMXYG is a state-owned enterprise based in Xiamen who mainly focuses on supply chain management services and commodity trade business in China. Under the approval of the Xiamen government, XMXYG was established as a state-owned enterprise that was mainly responsible for the development and state-owned assets operation of the Fujian Free Trade Zone and the Xiangyu Bonded Zone in November 1995. Xiamen SASAC directly held 100% stakes of XMXYG at end-June 2022 and the Xiamen government is XMXYG's ultimate controller. XMXYG, mainly through the capital injection by the Xiamen SASAC, had increased its registered capital to approximately RMB1,775.9 million at end-June 2022 from the initial establishment of RMB138 million.

XMXYG's Ownership Structure at end-June 2022:



Source: XMXYG

## Business Profile

In terms of geographical advantage, Fujian is located in the south-eastern of China and it is an important network of “the Belt and Road” development plan. Xiamen is one of the Independent Planning Status under the National Social and Economic Development and acts as a political and economic gateway to Taiwan.

XMXYG mainly engages in comprehensive supply chain management (including supply chain, logistics and manufacturing), property development, financial services and other businesses. XMXYG's logistics supply chain management business contributed more than 95% of its total revenue from 2019 to the first half of 2022. Xiamen Xiangyu Company Limited (“Xiamen Xiangyu”, 600057.SH), XMXYG's core subsidiary in its supply chain management and logistic services, has been listed in the Shanghai Stock Exchange (“SSE”) since August 2011. XMXYG directly and indirectly held 53.45% stake in Xiamen Xiangyu at end-June 2022.

XMXYG's comprehensive supply chain management business consists of commodity procurement and distribution services, along with logistics services, covering metal and mineral products, energy and chemical products and agricultural products. XMXYG operates supply chain platforms integrating the services ranging from upstream procurement of raw materials to downstream product sales and distribution. Income from this business is mainly generated from commodity price difference and comprehensive logistics services. On the other hand, XMXYG owns an established nationwide transportation network covering railway, highway and shipping. Together with other facilities and services such as warehouses, yards, logistics parks, etc, XMXYG is able to provide a wide range of logistics and warehousing services to support its comprehensive supply chain management business.

Moreover, XMXYG also engages in corn processing, stainless-steel smelting project in Indonesia and other manufacturing businesses, which consolidated the business scale and competitive advantage of its comprehensive supply chain management business.

XMXYG operates property development business through its wholly-owned subsidiary covering Yangtze River Delta region, Fujian province, Chongqing and Tianjin. XMXYG's financial services mainly includes industrial finance, consumer finance and asset management. This business commands a relatively higher profit margin, but it carries risk of overdue and impairment provision arising from entrusted loans and other financings.

	Revenue (RMB in million) / % of total	FY2019	FY2020		FY2021		1H2022	
Comprehensive Supply Chain	276,477	97.3%	365,330	97.5%	474,338	97.9%	260,468	98.2%
Property Development	6,458	2.3%	7,133	1.9%	7,138	1.5%	2,943	1.1%
Financial Services	661	0.2%	1,265	0.3%	1,502	0.3%	962	0.4%
Others	585	0.2%	1,108	0.3%	1,404	0.3%	795	0.3%
<b>Total</b>	<b>284,182</b>	<b>100.0%</b>	<b>374,836</b>	<b>100.0%</b>	<b>484,382</b>	<b>100.0%</b>	<b>265,168</b>	<b>100.0%</b>

Source: XMXYG and the company's annual reports

## Market Position

As the leading enterprise in the Xiamen portion of the Fujian Pilot Free Trade Zone, XMXYG is responsible for the development and operation of the Xiangyu Bonded Zone, including the modern logistics park and the small-amount commodity trading market. According to the 2022 Fortune Global 500 list, XMXYG ranked 160<sup>th</sup> with a total revenue of c. USD75.1 billion.

## Financial Profile

XMXYG's revenue grew steadily at a compound annual growth rate of 30.6% in 2019-2021, mainly driven by the scale expansion of its comprehensive supply chain management business. XMXYG strengthened its comprehensive service capability through extending its supply chain and widening its product range. As a result, XMXYG achieved growth in commodity trading volume, especially ferrous metals, aluminium products, coal and agricultural products. In addition, the increase in commodity prices contributed to the revenue growth during the period. Moreover, the stainless-steel smelting project in Indonesia has commenced production since 2020, which further supported XMXYG's revenue growth in 2020-2021.

XMXYG's comprehensive supply chain management business contributed over 95% of the total revenue from 2019 to the first half of 2022. However, the low profit margin nature of the comprehensive supply chain management business and the declining profit margin of its property development business contributed to XMXYG's low reported gross margin of 2.8-4.4% in 2019-2021. XMXYG'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.

XMXYG's EBITDA rose in 2021, which was mainly due to the revenue growth as mentioned before and the recovery in gross margin. The EBITDA growth led to improvements in both financial leverage (Debt/EBITDA) and interest coverage (EBITDA/Interest) in 2021. However, XMXYG's financial leverage remained high and its interest coverage remained low in 2021.

### Key Financial Metrics

2019A-2021A	Debt/EBITDA	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	9.1x	3.1x	66.4%	0.4x

Source: XMXYG's 2019-2021 annual reports, Lianhe Global's adjustments

### Liquidity

XMXYG has sufficient liquidity as it had RMB33.6 billion cash on hand (of which unrestricted cash of c. RMB28.8 billion) and available credit line of approximately RMB90.1 billion at end-June 2022, compared with its short-term debt of RMB80.5 billion at the same time. The company has access to a wide range of financing channels such as bank borrowings, bonds and other non-traditional financing (leasing and trust loan, etc.), and it has held a number of financial products and listing stocks to support its liquidity position, along with adequate onshore bond issuance quota in debt capital market. XMXYG had established a strong relationship with a number of banks with a total credit line of approximately RMB215.7 billion at end-June 2022.

### External Support

#### Full Government's Ownership

The Xiamen government has 100% ownership of XMXYG via the Xiamen SASAC, which is appointed by the local government to supervise state-owned enterprises. The Xiamen government has ultimate right on the final decision-making and supervision over XMXYG's operation. The company, follows the guidance from the government, carries out daily related matters such as strategy formulation, investment, asset evaluation, donation, asset leasing, etc., as authorized by the Xiamen SASAC, other unauthorized matters shall be reported to the Xiamen SASAC. The Xiamen government audits the financial of XMXYG (i.e., leverage ratio) in a periodical basis and has an assessment mechanism over the senior management of the company. In addition, the Xiamen SASAC will appoint external directors to strengthen the management of the company.

#### Ongoing Government Support

XMXYG 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, to support its business operation and management. In June 2022, XMXYG received equity transferred from the State-owned Assets Supervision and Administration Commission of the People's Government of Fujian Province ("Fujian SASAC") and the Xiamen SASAC with the total of c. RMB7 billion, mainly including 35.96% equity of Fujian Provincial Port Group Co., Ltd (福建省港口集团有限公司) and other port related equities in Xiamen, to develop the port construction, operation and upgrade. Meanwhile, the "Indonesia 2.5 million tons of Stainless-Steel Integrated Smelting Project" enjoys the preferential tax exemption of the Indonesian Ministry of Finance, given this project is one of the key projects of the "Belt and Road Initiative". We believe XMXYG will continue to receive government supports in the form of asset injection and/or operational and financial subsidies.

#### Government Function

XMXYG is one of the most important state-owned companies in Xiamen. The company undertakes certain government functions, including food reserve, the development and construction of the Free Trade Zone, the Bonded Zone and logistic park of Xiamen, and other

municipal projects such as roads and schools. XMXYG plays an important role of logistic industry development of Xiamen given its nationwide distribution of logistics network. The company is appointed to carry out the development of marine economy and the international development along the “Belt and Road Initiative”. Following the equity transfer in June 2022 as mentioned above, we believe XMXYG will likely extend its support to government function to operation and upgrade of ports and shipping transportation. We believe that the government functions of XMXYG are hard to be replaced and will not change significantly in the near future.

### Economic and Fiscal Condition of Xiamen

Xiamen is a prefecture city of Fujian and it is one of the Five Independent Planning Status under the National Social and Economic Development. It is appointed as an important central city in the southeast coast and one of the special economic zones approved by the State Council. It acts as a political and economic gateway to Taiwan and an important port for import and export trade. Xiamen's GDP reached approximately RMB703.4 billion, representing a year-over-year growth rate of 8.1% in 2021. The fiscal revenue and government-fund income increased by c. 12% and 30% year-on-year, respectively, in 2021.

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited ("Lianhe Global" or "the Company" or "us") are subject to certain terms and conditions. Please read these terms and conditions at the Company's website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company's independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2022.