

Lianhe Global has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Tongwei Co., Ltd.

HONG KONG, 21 September 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Tongwei Co., Ltd. (“Tongwei” or “the company”). The Outlook is Stable.

The Issuer Rating reflects Tongwei’s sizeable operating scale and leading market position in photovoltaic (“PV”) industry, significant advantages in cost and operating efficiency, and the strong financial performance supported by high demand in PV power. However, Tongwei’s rating is constrained by the strong cyclicity of the PV industry and the intensified market competition.

The Stable Outlook reflects our expectation that Tongwei would maintain its established market position and high operational efficiency, which could help the company to maintain its financial leverage and liquidity at a manageable level.

Key Rating Rationales

Global Leader in PV Industry: Tongwei is the world’s largest producer of high-purity polysilicon and solar cells with total production capacity of 260,000 tons and 70 GW, respectively. The production output of high-purity polysilicon reached 267,000 tons in 2022, accounting for approximately 28% of the global market share, ranking first globally for two consecutive years, while solar cells’ production output reached 49.2GW, accounting for approximately 13% of the global market share, ranking first globally for six consecutive years.

The company is also leading in production costs and technology. In 2022, the company boasted the industry lowest production costs in silicon materials of below USD8/kg, as compared to the industry average of around USD9/kg. For solar cells, Tongwei rapidly released the production capacity for 182 mm and larger PERC cells, the current mainstream product with relatively high cost efficiency, to match the market demand. In 2022, the company launched the TNC cell products based on new generation TOPCon technology, which has higher conversion efficiency. Tongwei can stably supply N-type silicon materials, the raw material for major new generation solar cells. We expect Tongwei to keep up with the fast technology updates of the PV industry given its high investment and strong ability in R&D.

Strong Market Demand but Intensified Competition: The demand for the PV power has been increasing in recent years against the background of carbon neutral and energy transition. The global installation of new PV power in 2022 reached an unprecedented level of 230 GW, marking a year-over-year growth of 35.3%. As the overall ramp-up of new production capacity could not keep pace with downstream demand, the price of silicon materials, Tongwei’s main product and a critical upstream material, skyrocketed in 2022.

However, the lucrative returns in the PV industry have been drawing new participants into the sector. The total production capacity of silicon materials is expected to achieve above 2 million tons by end-2023 (2022: 983,000 tons), which could support the production of PV modules of above 847 GW, more than twice of expected global demand of the year. The majority of both the existing and planned silicon materials production capacity is situated within China. Furthermore, Chinese producers, including Tongwei, are confronting obstacles in some overseas markets. These regions have bolstered support for their domestic PV industries and erected barriers to the import of Chinese PV products. However, we anticipate that the reliance on Chinese products will remain high in the coming years, given Chinese producers' dominant position in the supply chain of PV industry.

Ongoing Capacity Expansion and Competitive Pricing to Secure Market: Tongwei has recently unveiled an ambitious capacity expansion strategy with the objective of multiplying its high-purity polysilicon production capacity by three or even four times, targeting an annual output of 0.8-1 million tons by 2026. It also plans to double its solar cell production capacity to reach 130-150 GW. We expect Tongwei's strong cost advantage and operating efficiency enable the company to offer competitive prices to withstand intensified market competition while maintaining its market share and leading position.

Agriculture and Animal Husbandry Business Adds Diversity and Stability: Tongwei's another major business, agriculture and animal, has exhibited steady growth over the past three years. The segment produces and sells aquatic and livestock feeds with a sales network covering around China and reaching southeast countries, such as Vietnam and Bangladesh. Tongwei has managed to sustain its strong market position in the feed industry, boasting a production capacity exceeding ten million tons. This segment serves as a dependable revenue stream for Tongwei, supported by the stable demand for feed products.

Cost Advantage and Operating Efficiency Underpin Profitability: Tongwei delivered remarkable operating results in the past three years, supported by the strong demand in PV power. Its total revenue grew strongly to RMB142.42 billion in 2022 from RMB44.20 billion in 2020, representing a remarkable compound annual growth rate of 79.5%. Its gross margin also demonstrated an upward trend over the same period, reaching 38.2% in 2022, up from 17.1% in 2020.

Nevertheless, with the gradual commencement of new facilities in 2023, the price of silicon materials experienced a considerable decrease, plummeting by 76% in August 2023 compared to the same period in the previous year, and the price of solar cells also fell sharply by 42%. Amid this precipitous price drop, Tongwei faced significant pressure on its profitability. Yet we expect Tongwei to maintain gross margin at above 20% in the next two to three years, given the company's substantial cost advantages and operating efficiency.

Increasing Debts but Leverage Remains Manageable; Adequate Liquidity: Tongwei's total debt increased significantly to RMB31.52 billion at end-2022 (including convertible bonds) from RMB13.60 billion at end-2020 owing to the company heavy investments in expanding its production capacity in the past three years. Yet Tongwei's financial leverage, as measured by

debt/(debt+equity), stayed at a manageable level of approximately 30% over the same period given the company's strong profitability. We expect Tongwei's total debt to keep increasing, pushing up its financial leverage to 40%-50%, in the next two to three years to support its ongoing expansion, which necessitates substantial capital expenditure, estimated to be RMB23-27 billion annually from 2023 to 2026. We expect its debt serving capacity (as measured by total debt/EBITDA and EBITDA/Interest) to remain strong given its robust operational cash inflow and its new plants will be put into production gradually.

Tongwei's liquidity is adequate. The company had total cash on hand of RMB36.84 billion and financial assets that can be easily converted into cash of RMB4.30 billion at end-2022, compared with its short-term debt of RMB1.78 billion. In addition, Tongwei has access to multiple financing sources, including bank borrowings, with unused bank facilities amounting to a considerable sum of RMB54.21 billion at end-March 2023, bond issuances, and equity placements.

Rating Sensitivities

We would consider downgrading Tongwei's rating if (1) it were to pursue aggressive business expansions which results in an increase in its financial leverage as measured by its total debt/EBITDA consistently at above 3.5x or EBITDA interest coverage consistently at below 12x, or (2) its operating performance in terms of revenue, margin or cash flow from operations experience a material decline, or (3) its liquidity is materially worsened.

We would consider upgrading Tongwei's rating if (1) it were to improve its operating scale and market share significantly, and/or (2) it were to demonstrate its resilience and ability to maintain its operating and financial performance amid adverse market conditions.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 methodologies used in this Tongwei's rating are *Lianhe Global's General Corporate Rating Criteria* published on 31 December 2021 and *General Corporate Rating Criteria: 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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