

# XMXYG Corporation

## Surveillance Report

**Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer and Issuance Credit Ratings of XMXYG Corporation; Issuer Rating Outlook remains Positive**

### Summary

Issuer Rating	BBB+
Outlook	Positive
Location	China
Industry	Commodity
Date	14 September 2023

### Summary

The Issuer Rating reflects XMXYG’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, XMXYG has proven track record of strong external support from Xiamen government. However, the rating is constrained by XMXYG’s relatively 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, utilize its nationwide and overseas logistics network, strengthen its strategic importance to the local government in port construction and operation, while remain prudent in its expansion pace with demonstrated efforts to maintain its operating efficiency and improve its profitability.

### Rating Rationale

**A Large-Scale State-Owned Enterprise in Xiamen with a Leading Position in Comprehensive Supply Chain Management Industry:** As a large state-owned enterprise wholly owned by the State-owned Assets Supervision and Administration Commission of the Xiamen government (“Xiamen SASAC”) in Xiamen, Fujian Province (“Fujian”), XMXYG’s registered and paid-in capital was RMB1.776 billion at end-June 2023. 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 commodity trading market. According to the 2023 Fortune Global 500 list, XMXYG ranked 142<sup>th</sup> with a total revenue of USD83.6 billion, as compared with its rank of 160<sup>th</sup> in 2022. Besides, according to the 2023 Fortune China 500 list, Xiamen Xiangyu Company Limited (“Xiamen Xiangyu”, 600057.SH), XMXYG’s core subsidiary responsible for supply chain management and logistic services, ranked 25<sup>th</sup> in China, as compared with its rank of 28<sup>th</sup> in 2022.

**Profitability Under Pressure in Volatile Commodity Market Condition:** XMXYG’s total revenue increased by 31.9%, 29.2%, 16.2% in 2020, 2021 and 2022, respectively. Given the low profit margin nature of the comprehensive supply chain management business, XMXYG maintained a stable but low adjusted gross margin of 3.2-3.7% in 2020-2022. Due to the price fluctuations in commodity markets, the company recorded an inventory impairment loss of RMB937.8 million in 2022, as compared with the figure of RMB533.7 million in 2021. Besides, XMXYG’s stainless-steel smelting project in Indonesia was heavily impacted by the higher production cost and lower stainless-steel demand in the past two years. In response, the company has undertaken a series of measures, including switching stainless steel production to ferronickel production, promoting the sell-through rate and inventory turnover rate through XMXYG’s international supply chain network, cutting costs by potential M&A, etc. As the company has demonstrated effective management in business strategy and remained relatively diversified in various commodity markets, we believe that

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### Applicable Criteria

[General Corporate Rating Criteria \(31 December 2021\)](#)

[General Corporate Rating Criteria: Addendum \(30 August 2022\)](#)

XMXYG is likely to continue to face pressure in the volatile market condition, but the impacts on its profitability could be limited.

**Strengthened Strategic Importance to the Local Government:** In 2022, the Xiamen government decided to increase the port construction and development functions of XMXYG. Since then, XMXYG has received various related equity allocations from the Xiamen government, including 100% equity of Xiamen International Cruise Home Port Group Co., Ltd., Xiamen Ferry Co., Ltd., and Xiamen Heping Terminal Co., Ltd. Besides, XMXYG also received a large proportion of the equity of Fujian Provincial Port Group Co., Ltd. and became the second largest shareholder of the latter. As a result, XMXYG's net assets increased by around RMB5.8 billion and extended its business into port construction, development and operation, which is considered strategically important to the local government. We expect that XMXYG is likely to continue to receive government support and guidance related to the port construction and operation activities.

In addition to the port construction and operation business, XMXYG is further exploring other related businesses, such as international cruise line operation, maritime passenger transportation, maritime tourism, and cross-border supply chain business. Given the fast recovery in the domestic tourism economy resulting from the relaxation in China's pandemic control policy at the beginning of 2023, we expect these new businesses to be a complement to XMXYG's business diversity and profitability.

**Improving Leverage with High Proportion of Minority Interests in Equity:** XMXYG's total debt continued to increase in the past few years, due to the high capital expenditure arising from the expansion of its comprehensive supply chain management business and the construction of its property development projects. Relying on short-term borrowings to finance its operations, XMXYG's short-term debt accounted for 58.5% of XMXYG's total adjusted debt at end-2022. XMXYG's adjusted total debt (including financial leasing and perpetual bonds) increased to around RMB133 billion at end-June 2023 from RMB104 billion at end-2021. XMXYG's financial leverage, as measured by adjusted debt over EBITDA, continued to improve from 8.1x at end-2021 to 7.6x at end-2022. Moreover, XMXYG's adjusted total debt over capitalization ratio improved from 64.6% at end-2021 to 58.5% at end-2022, as a result of the increase in equity due to the aforementioned equity allocations.

The proportion of minority interest to XMXYG's total equity remained high at 66.5% at end-June 2023. It was mainly due to the minority interest held in its listed subsidiary, Xiamen Xiangyu, along with the minority stakes held in XMXYG's property development projects.

**Moderate Liquidity with Access to a Wide Range of Financing Channels:** XMXYG has access to other financing channels, including bank loans, bond issuances, asset securitization, and equity placement through its listed subsidiary. XMXYG's liquidity is moderate. At end-June 2023, XMXYG had cash of RMB40.8 billion (around RMB34.0 billion of unrestricted cash) and an unutilized credit line of RMB108.8 billion, as compared with its short-term debt of c. RMB74.5 billion.

## 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 a material 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 2023 and the Xiamen government is XMXYG's ultimate controller.

### Key Financial Metrics

2020A-2022A	Debt/EBITDA	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	8.1x	2.9x	61.0%	0.3x

Source: XMXYG's annual reports and Lianhe Global's adjustments

### Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any action on XMXYG's rating would result in a similar rating action on its USD notes:

- USD490 million 5.7% senior unsecured bonds due 2025 affirmed at 'BBB+'

### Appendix I: XMYG's Rating Factors

Rating Factors	Weight	Initial Rating
<b>I. Market Demand Analysis</b>	<b>15.0%</b>	<b>bbb-</b>
<b>II. Business Analysis<sup>1</sup></b>	<b>45.0%</b>	<b>bbb</b>
<b>III. Financial Analysis<sup>2</sup></b>	<b>40.0%</b>	<b>b-</b>
<b>IV. Base Score</b>	<b>100.0%</b>	<b>bb</b>
<b>V. Industry Risk</b>		<b>bb</b>
<b>VI. Qualifiers</b>		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
<b>Stand-Alone Creditworthiness</b>		<b>bb</b>
<b>VII. External Support</b>		
Government Support		Strong
<b>Issuer Credit Rating</b>		<b>BBB+</b>

*Source: Lianhe Global*

<sup>1</sup> Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

<sup>2</sup> Financial Analysis contains sub-factors of debt/EBITDA, EBITDA interest coverage, debt/capitalization and quick ratio.

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