Press Release
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Lianhe Global has assigned 'A' global scale Long-term Issuer Credit Rating with Stable Outlook to China Glass Holdings Limited

HONG KONG, 12 January 2024 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'A' global scale Long-term Issuer Credit Rating to China Glass Holdings Limited ("CNG" or "the company"). The Outlook is Stable.

The Issuer Rating reflects CNG's sizeable operating scale with nationwide and overseas production lines in glass industry, relatively diversified revenue underpinned by overseas expansion, and the strong support received from the major shareholders which mitigates CNG's weak standalone financial profile with weakened profitability, high financial leverage and tight liquidity.

The Stable Outlook reflects our expectation that CNG would maintain its established market position and continue to receive strong support from its major shareholders.

Key Rating Rationales

Sizable Glass Producer in China with Nationwide and Overseas Production Bases: CNG is a sizable glass producer in China, which is ranked among top ten glass producers in China in terms of production capacity. It has relatively diversified product lines on clear glass, painted glass, coated glass, and energy-saving & new energy products. The company currently has eleven production bases and one R&D center. In China, CNG's industrial layout covers Jiangsu, Shandong, Shaanxi, Inner Mongolia, Fujian, Gansu and other provinces or autonomous regions. Its overseas industrial layout covers countries such as Italy, Nigeria and Kazakhstan, etc.

Strong Shareholder Background and Strategy Alignment: Triumph Science & Technology Group Co., Ltd. ("Triumph Group") totally holds a stake of 22.68% in CNG and is the largest shareholder of the company. Focusing on the manufacturing of glass materials, Triumph Group is a direct wholly owned subsidiary of China National Building Material Group Co., Ltd., the world's largest comprehensive building materials industry group directly under the State-owned Assets Supervision and Administration Commission of the State Council. Triumph Group has deeply engaged in CNG's business strategy formulation and implementation. CNG's chairman, a non-executive director and CFO are recommended by Triumph Group and officially appointed by CNG's board.

CNG has significant synergies with Triumph Group in glass products. With plenty of core intellectual property rights in the glass industry, Triumph Group is able to provide strong technical support to CNG. The company also carries out "going global" strategy by investing and developing production capacity along the "Belt and Road" areas. In addition, Triumph Group provides low cost fundings to CNG by allowing CNG to share its bank facilities.

Overseas Expansion Underpins Revenue Diversification: CNG's "going global" strategy has achieved remarkable results in the past few years. The production base in Nigeria maintained stable operational performance and achieved outstanding operating results in the past few years, with profitability significantly ahead of the level of domestic peers. The production base in Kazakhstan stabilized its operations and has built its own mineral raw materials processing plant and other ancillary facilities, which have been put into operation successively and effectively reduced production costs. Besides, CNG has a neutral pharmaceutical glass engineering equipment and technical services company in Italy. These overseas production bases diversified CNG's capacity layout globally and significantly increased the company's overseas revenue contribution.

Weakened Profitability due to Deteriorating Market Demand: CNG's revenue and profitability was heavily impacted by the challenging market condition of China's property sector, the core downstream user of glass productions, in the past two years. CNG's revenue reached the peak of recent years in 2021, amounting to RMB5.07 billion, then dropped to RMB4.33 billion in 2022. The company's gross margin decreased to 14.7% in 2022 and 5.0% in the first half of 2023, from 34.2% in 2021.

Despite the company's efforts to further increase its revenue from the energy saving and new energy glass segment, which is expected to profit from the surging market demand in the photovoltaic industry and electric vehicle industry, we believe that CNG's gross margin is most likely to maintain at a very low level in the whole year of 2023. Nevertheless, given the marginal recovery in China's real estate sector and overall domestic economy, along with two photovoltaic rolled glass production lines expected to be put into production in 2024 to 2025, we expect that CNG's gross margin might sightly rebound in the next two years.

High Financial Leverage and Tight Liquidity: In the past three years, CNG's total debt doubled to RMB7.9 billion at end-2022 from RMB3.5 billion at end-2020, owing to the company's heavy capital expenditures in expanding its production capacity. Its financial leverage, as measured by gross debt/capitalization ratio, bumped up to 70.7% at end-2022 from 61.5% at end-2020.

Given the estimated capital expenditure (RMB1.1 billion to RMB1.4 billion annually) for the several glass production lines to be constructed in 2024 and 2025, we expect CNG's financial leverage to increase slightly to around 74.0% in the next two years. We also expect CNG's debt-serving capacity, as measured by the total debt/EBITDA ratio, to remain at a weak level, given its weakened profitability. Nonetheless, the company's EBITDA/Interest ratio might continue to maintain at a moderate level, underpinned by the company's relatively low funding costs supported by Triumph Group.

CNG's liquidity was tight. The company had total cash on hand of RMB1.17 billion at end-June 2023, compared with its short-term debts of RMB4.93 billion. Yet considering RMB2.23 billion of its short-term debts were supported by Triumph Group, we believe that CNG's short-term debt servicing pressure is manageable. In addition, CNG has access to multiple financing sources, including bank borrowings (unused bank facilities of RMB372 million at end-June 2023), and equity placements.

Rating Sensitivities

We would consider downgrading CNG's rating if (1) its operating performance in terms of revenue, margin or cash flow from operations experience a material decline, or (2) its liquidity is materially worsened, or (3) there is perceived weakening in support from Triumph Group, particularly due to its reduced strategic importance in Triumph Group, or (4) significant reduction of Triumph Group's ownership of CNG, or (5) there is a downgrade in our internal credit assessment on Triumph Group.

We would consider upgrading CNG's rating if (1) there is strengthened support from Triumph Group, or (2) there is an upgrade in our internal credit assessment on Triumph Group.

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 CNG'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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