

## China Hongqiao Group Limited

**Lianhe Ratings Global Limited (“Lianhe Global”) has upgraded the global scale Long-term Issuer and Issuance Credit Rating of China Hongqiao Group Limited to ‘BBB’ from ‘BBB-’; Issuer Rating Outlook remains Stable**

### Summary

The Issuer Rating upgrade reflects China Hongqiao Group Limited's (1378.HK) (“China Hongqiao” or “the company”) continued improvement in profitability and operating performance, improving financial performance and metrics supported by the prevailing high aluminum prices and optimized financing structure, along with its established leading market position and cost advantage backed by its vertically integrated production platform and economy of scale. Besides, the ongoing production capacity migration will further enhance the company's competitive advantage. However, China Hongqiao's rating is constrained by the cyclical nature of the aluminum industry and its regulation and concentration risks.

The Stable Outlook reflects our expectation that China Hongqiao will maintain its operating performance and operating efficiency, which enables the company to mitigate the cyclical nature of the industry.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD bonds and notes issued by China Hongqiao at the same time to ‘BBB’ from ‘BBB-’. A full list of upgraded issuance rating is included in this report.

### Rating Rationale

**Leading Market Position:** China Hongqiao maintains its market position as the world's second-largest primary aluminum producer. The company possesses large aluminum and alumina production capacities. It has 6.46 million tonnes of annual electrolytic aluminum capacity at end-2024. Its alumina capacity reaches 21 million tonnes per year, with 19 million tonnes located in China and 2 million tonnes in Indonesia, forming one of the world's largest alumina refining systems. Also, China Hongqiao establishes a vertically integrated production platform comprising a stable supply of bauxite, refinery plants (of bauxite), alumina smelters with captive power plants, as well as aluminum fabrication plants, etc.

**Continued Profitability Improvement Driven by Solid Aluminum Price:** China Hongqiao maintained a robust upward trend for its profitability in the past year, driven by its effective cost control capabilities, optimized product mix and favorable industry dynamics. China Hongqiao's segment gross margin for its major products, including aluminum alloy products, alumina products and aluminum fabrication products, recorded year-on-year increase between 0.6 and 3.4 percentage points. As a result, its reported gross margin increased to 25.7% in 1H2025, representing an increase of 1.5 percentage points compared with 24.2% in 1H2024.

Going forward, the aluminum price is likely to maintain a sustained stable trend, driven by the growth in energy storage, power infrastructure, and the steady uptake from new energy vehicles. On the other hand, China is approaching its electrolytic aluminum production cap, leaving minimal room for expansion, while overseas capacity plans (mainly in Indonesia) are delayed by power infrastructure bottlenecks. Therefore, it is unlikely that the aluminum supply will experience any significant increase driven by production capacity expansion. Given this supply-demand dynamics backdrop, together with the low global inventories and reduced deliverable supplies, should be favorable for the aluminum price to stay robust in the next 12 months.

### Summary

|                      |                                  |
|----------------------|----------------------------------|
| <b>Issuer Rating</b> | BBB                              |
| <b>Outlook</b>       | Stable                           |
| <b>Location</b>      | China                            |
| <b>Industry</b>      | Metals and Mining<br>(Aluminium) |
| <b>Date</b>          | 26 November 2025                 |

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### Applicable Criteria

General Corporate Rating Criteria (31 December 2021)

**Steady Revenue Growth:** China Hongqiao reported a year-on-year growth of 10.1% for its total revenue to RMB81.0 billion in 1H2025, while EBITDA increased by 9.2% to RMB22.6 billion during the same period. As mentioned, the revenue growth was mainly attributed to the year-on-year increase in both selling price and sales volume of aluminum alloy products and alumina products. Given the solid aluminum price and demand, we expect China Hongqiao is able to achieve a steady total revenue growth of 3-5% per annum in 2025-2027.

**Improving Debt Structure and Financial Matrix:** China Hongqiao's total debt increased to RMB80.8 billion at end-June 2025 from RMB73.0 billion at end-2024, leading to an increase in its debt to capitalization ratio to 41.0% from 38.1% at the same time. However, China Hongqiao reshaped the average duration of its debt, as the increase of the debt was driven mainly by long-term borrowings. China Hongqiao reduced the proportion of its short-term debt to the total debt to 61.8% at end-2024, compared with 77.4% at end-2023. As the company continues to secure loans with maturities of more than one year, the proportion of short-term debt to total debt is likely to keep falling over the next 12–24 months.

The company also continued to replace high-cost debt with low-cost instruments, which helped cut its financial expenses by 17.7% year-on-year in 1H2025. For instance, China Hongqiao issued a 3-year convertible bond with 1.5% coupon rate in March 2025. At the same time, given the expected improvement in profitability and earnings growth, we expect China Hongqiao's financial leverage, as measured by debt over EBITDA, to remain below 1.8x in 2025-2027.

China Hongqiao's unrestricted cash rose to RMB48.7 billion at end-June 2025 from RMB44.8 billion at end-2024. Its reported short-term debts also increased to RMB54.1 billion at end-June 2025. As a result, its unrestricted cash-to-short-term debt ratio decreased to 90.0% at end-June 2025. This ratio decreased from 99.3% at end-2024, but still higher than 64.5% at end-2023. In addition, China Hongqiao maintains smooth access to the capital market including equity placement, offshore and onshore bond issuance, convertible bond issuance, etc., which offer the company an ample buffer to the market volatility.

**Cost Advantage Remains Intact and High Self-sufficiency:** The vertically integrated production platform enables China Hongqiao to keep costs under control to stay competitive. It is highly self-sufficient in bauxite (via Guinea mines) and alumina (21mt annual capacity) and c. 50% in captive power. The company has signed long-term contracts with its upstream raw material suppliers, and it has also established long-term business relationships with its downstream clients. Given its economies of scale and vertically integrated production platform, the company enjoys a substantial cost advantage. Considering that there is little product differentiation for aluminum, we believe being the lowest-cost producer is critical in the aluminum industry. The shifting capacity from Shandong to Yunnan for clean energy also progressed smoothly, with 1.96 million tons of capacity already established in Yunnan at end-August 2025 (year-end target: 2.16 million tons).

## Rating Sensitivities

We would consider downgrading China Hongqiao's rating if (1) it were to increase its financial leverage as measured by its EBITDA interest coverage consistently below 5.0x or debt over EBITDA leverage consistently above 3.5x, or (2) it suffers a significant deterioration in operating performance in terms of revenue, margin or cash flow generation, or its liquidity is materially worsened.

We would consider upgrading China Hongqiao's rating if (1) it maintains its operating performance, and (2) it continues to demonstrate prudent financial management and maintain its financial leverage as measured by its EBITDA interest coverage and debt over EBITDA leverage consistently.

Any rating action on China Hongqiao's rating would result in a similar rating action on its USD bonds and notes.

## Company Profile

China Hongqiao is a leading large-scale aluminum producer that mainly focuses on producing and selling aluminum and aluminum products in China. It was established in 1994 by Mr. Zhang Shiping (father of the current Chairman Mr. Zhangbo) and has been listed on the Hong Kong Stock Exchange (1378.HK) since 2011.

Zhang's family was the largest shareholder and held 65.89% stake of China Hongqiao through Trust Company at end-June 2025. CITIC Group Corporation continued to be the strategic cooperator of China Hongqiao and was the second-largest shareholder, holding 6.09% shares of China Hongqiao.

### China Hongqiao's Shareholder Structure at end-June 2025

| Shareholder                            | Percentage    |
|----------------------------------------|---------------|
| Hongqiao Holdings <sup>(1)</sup>       | 65.89%        |
| CITIC Group Corporation <sup>(2)</sup> | 6.09%         |
| Other Public Shareholders              | 28.02%        |
| <b>Total</b>                           | <b>100.0%</b> |

(1) Wholly owned by a trustee who holds such interests in shares on behalf of the Zhang's Family

(2) Mainly held by CTI Capital Management Limited, a subsidiary of CITIC Group Corporation.

Source: China Hongqiao

## Key Financial Assumptions

- Revenue growth: c. 3-5% in 2025-2027
- Reported gross margin: c. 30-32% in 2025-2027
- Capital expenditure: RMB11-12 billion per annum for 2025-2027

### Key Financial Metrics

| 2023A-2027F      | Debt/EBITDA | EBITDA/Interest | Debt/Capitalization | Quick Ratio |
|------------------|-------------|-----------------|---------------------|-------------|
| Weighted Average | 1.8x        | 10.8x           | 35.5%               | 1.1x        |

Source: China Hongqiao's annual reports and Lianhe Global's adjustments and forecasts

## Full List of Issuance Ratings

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

- USD270 million 6.925% senior unsecured bonds due 2028 upgraded to 'BBB' from 'BBB-'
- USD330 million 7.05% senior unsecured notes due 2028 upgraded to 'BBB' from 'BBB-'
- USD300 million 1.5% senior unsecured convertible bonds due 2030 upgraded to 'BBB' from 'BBB-'



## Appendix I: China Hongqiao'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>bb+</b>          |
| <b>III. Financial Analysis<sup>2</sup></b> | <b>40.0%</b>  | <b>a</b>            |
| <b>IV. Base Score</b>                      | <b>100.0%</b> | <b>bbb+</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>bbb</b>          |
| <b>VII. External Support</b>               |               |                     |
| Corporate Entity Support                   |               | Nil                 |
| <b>Issuer Credit Rating</b>                |               | <b>BBB / Stable</b> |
| <i>Source: Lianhe Global</i>               |               |                     |

<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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