

Rating Action: Moody's upgrades China National Gold's issuer rating to Baa2, changes outlook to stable

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Hong Kong, July 05, 2022 -- Moody's Investors Service has upgraded the issuer rating of China National Gold Group Co., Ltd. (CNG) to Baa2 from Baa3, and its Baseline Credit Assessment (BCA) to ba3 from b1.

Moody's has also revised the rating outlook to stable from positive.

"The rating upgrade reflects CNG's improved financial profile with lower leverage and our expectation that the company's prudent financial policy and free cash flow generation will sustain its financial profile at the higher rating level over the next two years," says Kaven Tsang, a Moody's Senior Vice President.

RATINGS RATIONALE

CNG's Baa2 issuer rating incorporates its BCA of ba3, upgraded from b1, and a four-notch uplift based on Moody's assumption of CNG's high support from, and very high level of dependence on, the Government of China (A1 stable) in times of stress.

The high support assessment is underpinned by the company's critical role in executing China's gold strategy; its large scale in mined gold and copper production, particularly with leading gold reserves and domestic mined gold production in China; its important role in consolidating and upgrading China's gold industry; the history of government financial support and the government's strong ability to provide support, as reflected by China's A1 sovereign rating.

CNG's ba3 BCA reflects its leading market position in gold and copper reserves and production in China; integrated business model, diversified operations in multiple locations; demonstrated conservative financial policy, and strong access to domestic funding as a central state-owned enterprise (SOE).

However, CNG's BCA is constrained by the company's lower margin relative to global peers' due to its large trading and downstream operations, and its exposure to gold and copper price volatility.

CNG has been gradually deleveraging over the past five years. Its leverage, as measured by Moody's adjusted debt/EBITDA, improved to 4.1x as of the end of 2021 from close to 9.0x as of the end of 2016. Such improvement was indicated by consistent debt reduction under a more conservative financial policy focusing on leverage reduction, as well as favorable gold and copper prices.

CNG has refrained from large debt-funded acquisitions during the same period and significantly reduced its annual capital expenditure to RMB2.9 billion in 2021, down by about 50% from the peak in 2015. It has reduced adjusted debt by a total of RMB4.4 billion in 2020 and 2021, using free cash flow of over RMB3.0 billion each year and monetizing its assets through the public listing of its various subsidiaries.

CNG's mining operations remained largely stable over the past three years as the company increased its mined copper contribution from Jiama Mine in Tibet after the ramp-up of its expansionary project in 2018, which offset the negative impacts of lower mined gold production due to more restrictive environmental and safety measures on gold production in China.

Moody's estimates that CNG's adjusted debt/EBITDA will trend slightly higher to around 4.7x over the next two years under the assumption that gold and copper prices will retreat from the current high level, which will result in lower EBITDA. This will be partially offset by lower debt as CNG will continue to generate positive cash flows for debt repayment. Such a leverage level will appropriately position the company at the ba3 BCA.

CNG's cash balance as of end March 2022 is insufficient to cover all of its maturing debts over the next 12 months. However, CNG's liquidity is supported by its good access to domestic bank funding and capital market. Based on Moody's estimation, as of March 2022, more than 90% of CNG's interest-bearing borrowings were from leading Chinese banks and policy banks as well as domestic bond markets.

The stable outlook reflects Moody's expectation that over the next 12-18 months, CNG will sustain its operations and financial profile at a level appropriate for its rating, supported by the company's prudent financial policy, free cash flow generation and strong funding access. The stable outlook also incorporates Moody's assumption that the company's important role in China's gold industry and the high likelihood of government support will remain intact, the latter of which is reflected by the stable outlook on China's sovereign rating.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

CNG's rating could be upgraded if it improves its business and financial profile throughout the commodity cycles while maintaining its leading domestic market position, operational scale, and prudent financial policy.

Credit metrics that Moody's will consider for an upgrade include CNG's adjusted debt/EBITDA remaining below 3.0x-3.5x on sustainable basis.

A sovereign upgrade is unlikely to trigger a rating upgrade for CNG without an improvement in the company's BCA.

CNG's rating could be downgraded if the company is unable to maintain its leading domestic market position or prudent financial policy, or it significantly increases leverage through aggressive debt-funded investments and expansion.

Credit metrics that Moody's will consider for a downgrade include CNG's adjusted debt/EBITDA remaining above 5.0x-5.5x for a prolonged period.

Moody's could also downgrade CNG's rating without lowering its BCA if Moody's assesses that its importance to the government has weakened.

The methodologies used in these ratings were Mining published in October 2021 and available at <https://ratings.moodys.com/api/rmc-documents/76085>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

China National Gold Group Co., Ltd. (CNG) was founded in 2003, after the reorganization of the former China National Gold Corporation. CNG falls under the direct supervision and administration of the State-owned Assets Supervision and Administration Commission of the State Council. The company is the only central government-owned enterprise deeply engaged in China's gold industry.

CNG reported revenues of RMB130 billion and total assets of RMB113 billion in 2021.

The local market analyst for these ratings is Jin Wu, +86 (212) 057-4021.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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