

# Tongwei Co., Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB+
Outlook	Stable
Location	China
Industry	Photovoltaic and Feed
Date	9 October 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has affirmed ‘BBB+’ global scale Long-term Issuer Credit Rating of Tongwei Co., Ltd. (“Tongwei”). The Outlook is Stable.

### Summary

The Issuer Rating reflects Tongwei’s sizeable operating scale, leading market position, cost advantage, and operating efficiency in the photovoltaic (“PV”) industry. However, Tongwei’s rating is constrained by the PV industry’s strong cyclicalities and weakening financial performance amid a price downturn caused by overcapacity.

The Stable Outlook reflects our expectation that Tongwei would maintain its established market position and high operational efficiency, which could help the company withstand intensified market competition. We expect Tongwei’s operations to improve in the second half of 2025 after high-cost competitors exit the market.

### Key Rating Rationales

**Global Leader in the PV Industry:** Tongwei has developed an integrated supply chain in the PV industry. The company remained the world’s largest high-purity polysilicon and solar cell producer. It has expanded to downstream PV modules production since 2022 and was ranked in the top five globally in terms of sales volume in 2023. Tongwei is also leading in production costs. In 2023, the company boasted the industry’s lowest production costs in silicon materials, below RMB42,000 per ton, compared to the industry average of c. RMB50,000 per ton. We expect the company to maintain its cost advantage due to the scale economy. We also expect Tongwei to keep up with the rapid technology updates of the PV industry, given its high investment and strong ability in R&D.

**Increasing Demand for PV Products:** The demand for PV power remained strong, with the global installation of new PV power reaching 444GW in 2023, representing a year-over-year growth of 76%. Considering the megatrend of the energy transition, we expect the new PV power installation to reach approximately 500 GW in 2024. China is expected to contribute almost half of the global demand in the coming years. For overseas markets, although Chinese producers, including Tongwei, are facing uncertain trade policies in some countries, we believe the reliance on Chinese products will remain high in the coming years, given Chinese producers’ dominant position in the PV industry’s supply chain.

**Excess Capacity Pressures Profitability:** The PV industry faces severe overcapacity issues after aggressive capacity expansion in recent years. The prices for products along the PV’s supply chain, including high-purity polysilicon, solar cells, and PV modules, have significantly declined since the second quarter of 2023. In July 2024, the price of polysilicon material dropped to an unsustainable level, far below production costs for most producers.

As a result, the revenue and gross margin of Tongwei’s PV segment decreased by 6.4% and 14.2 ppt to RMB102.8 billion and 32.9%, respectively, in 2023. Moreover, the company suffered a net loss of RMB3.1 billion in the first half of 2024 due to the ongoing downward trend of PV product prices and inventory impairment. Nevertheless, we expect PV product prices to gradually

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### Applicable Criteria

General Corporate Rating Criteria (31 December 2021)  
General Corporate Rating Criteria: Addendum (30 August 2022)

normalize in 2025, as the current low price would squeeze high-cost producers out of the market. We forecast that Tongwei's financial performance will turn around in the second half of 2025.

**Agriculture Businesses Remained Stable:** Tongwei's agriculture segment, including feed and food production, remained largely stable in 2023. Segment revenue increased by 12% to RMB35.5 billion in 2023 from RMB31.6 billion in 2022, and gross margin stayed at 7.8%. This segment is a reliable income source, adding diversity to Tongwei's business profile.

**High Capex to Support Capacity Expansion:** Tongwei unveiled an ambitious capacity expansion strategy in 2023, with a total expected capital expenditure of approximately RMB50 billion for 2024-2026. To strengthen its market position, it plans to acquire 51% shares of Runergy, an integrated PV product producer, for no more than RMB5 billion. Nevertheless, we believe that the company will control the pace of investment based on market conditions.

**Financial and Liquidity Positions of Tongwei:** Tongwei's total debt increased significantly to RMB42.7 billion at end-2023 (including convertible bonds) from RMB31.5 billion at end-2022 for capacity expansion. Its financial leverage (Debt/(Debt+Equity)), increased to 36.6% at end-2023 from 30.1% at end-2022. Yet this was in line with our expectations, and we forecast that Tongwei's financial leverage will stay at a manageable level of approximately 45%-50% between 2024 and 2026. However, we expect its debt-serving capacity (as measured by total debt/EBITDA and EBITDA/Interest) to deteriorate in 2024 owing to the weakening profitability. This would recover gradually after that with normalized market conditions.

Tongwei's liquidity was still adequate. At the end of 2023, the company had total cash on hand of RMB19.4 billion and financial assets that can be easily converted into cash of RMB10.1 billion, compared with its short-term debt of RMB1.9 billion. In addition, Tongwei has access to multiple financing sources, including bank borrowings and bond issuances. At the end of June 2024, the company had unused bank facilities amounting to RMB53.2 billion.

## Rating Sensitivities

We would consider downgrading Tongwei's rating if (1) it were to pursue aggressive business expansions which result 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.

## Company Profile

Tongwei, initially established as Tongwei Feed Co., Ltd. in 1995, has evolved into a global leader in both the PV and feed products industries. The company, listed on the Shanghai Stock Exchange (600438.SH) since 2004, initially focused on producing and selling feed products before entering the PV industry. Tongwei has become the world's largest high-purity polysilicon and solar cell producer, leading in production capacity and output. It has expanded to downstream PV modules production since 2022 and was ranked in the top five globally in terms of sales volume in 2023. By the end of June 2024, the company had a production capacity of 650,000 tons for high-purity polysilicon, 95GW for solar cell capacity, and 75GW for PV modules.

At the end of March 2024, Mr. Liu Hanyuan, the founder of Tongwei, and his wife, Ms. Guan Yamei, collectively held a significant 43.89% stake in the company through Tongwei Group Co., Ltd. The remaining 56.11% of the shares were publicly owned. Mr. Liu Hanyuan serves as a

director and chairman of Tongwei Group Co., Ltd. In March 2023, his daughter, Ms. Liushuqi, was appointed as both the board chairperson and CEO of Tongwei.

### Key Assumptions

- Annual revenue growth rate: -20% to 15% for 2024-2026
- Gross margin: 8% to 18% 2024-2026
- Annual capital expenditure: RMB2 billion to 40 billion for 2024-2026
- Cash dividend payout ratio: 0%-30% for 2024-2026

### Key Financial Metrics

2022A-2026F	Debt/EBITDA	EBITDA/Interest	Debt/Capitalisation	Quick Ratio
Weighted Average	12.5x	7.8x	46.7%	1.0x

Source: Tongwei and Lianhe Global's adjustments and forecasts

## Appendix I: Tongwei's Rating Factors

Rating Factors	Weight	Initial Rating
<b>I. Market Demand Analysis</b>	<b>15.0%</b>	<b>a+</b>
<b>II. Business Analysis<sup>1</sup></b>	<b>45.0%</b>	<b>a-</b>
<b>III. Financial Analysis<sup>2</sup></b>	<b>40.0%</b>	<b>bb+</b>
<b>IV. Base Score</b>	<b>100.0%</b>	<b>bbb+</b>
<b>V. Industry Risk</b>		<b>bbb</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>		<b>N/A</b>
<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/capitalisation and quick ratio.

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