

Beijing State-Owned Assets Management And Hong Kong Subsidiary Ratings Affirmed On Government Support; Outlook Stable

- We believe Beijing State-Owned Assets Management Co. Ltd.'s (BSAM) asset diversity has improved. That said, the company's asset liquidity has weakened due to declining valuation of listed assets.
- We continue to assess an extremely high likelihood of extraordinary support from the Beijing municipal government to BSAM.
- On March 27, 2023, S&P Global Ratings affirmed its 'A' long-term issuer credit rating on BSAM. We also affirmed the 'A-' long-term issuer credit rating on Beijing State-Owned Assets Management (Hong Kong) Co. Ltd. (BSAM HK), the company's offshore financing and operating platform. At the same time, we affirmed the 'A-' long-term issue rating on BSAM HK's outstanding debt.
- The stable outlook on BSAM reflects our view that the company's loan-to-value (LTV) ratio will remain below 45% and that the liquidity, diversity, and credit quality of its investment portfolio will remain largely stable over the next 12-24 months. The stable outlook on BSAM HK reflects our outlook on BSAM and our expectation that BSAM HK will remain a highly strategic subsidiary of BSAM over the next two years.

HONG KONG (S&P Global Ratings) March 27, 2023--S&P Global Ratings today took the rating actions listed above. We affirmed our rating

on BSAM because we continue to see an extremely high likelihood that the company will receive support from the Beijing municipal government in the event of distress. This likelihood of support provides a five-notch rating uplift from the company's stand-alone credit profile (SACP) of 'bb+'.

We expect BSAM to maintain its role as a key investment platform for the Beijing government to support social, economic, and diplomatic objectives in a commercial manner.

BSAM supported the 2022 Winter Olympic Games. In recent years, it has tapped into niche subsectors that align with policy objectives, e.g., semiconductor, electronic authentication, and green energy. At the same time, it continues to hold large stakes in two of the city's most important banks and other non-bank financial institution assets.

BSAM's asset diversity has increased and further improvement is possible with the company's continued investment.

The company's asset diversity improved to 33.6% as of September 2022 from 38.6% the year before. Because BSAM's shareholdings in its largest and second-largest assets--Bank of Beijing Co. Ltd. and Beijing Rural Commercial Bank Co. Ltd.--have stabilized, its continual investment in other assets helps improve asset diversity. We expect a downward trend in BSAM's asset concentration if the share prices of its listed investee companies remain stable.

We believe BSAM's asset liquidity may weaken in 2023 and 2024 with the potential disposal of non-core listed assets.

Its asset liquidity ratio decreased to 30% in 2022, from about 40% in 2021. This was mainly because of weakened valuations of Dynagreen Environmental Protection Group Co. Ltd. and Bank of Beijing, and the partial disposal of BAIC BluePark New Energy Technology Co. Ltd., despite the new listing of Loongson Technology Corp. Ltd. on the Shanghai Stock Exchange. We expect BSAM's investment strategy to include the disposal of some of its listed assets in which it has a minor interest, in order to realize investment proceeds. As a result, we expect the asset liquidity ratio to hover below 40% in 2023-2024.

BSAM's asset credit quality has been affected by operational hurdles. Two former senior executives are under investigation at one of its investee companies, Beijing International Trust Co. Ltd. Meanwhile, we believe the property sector downturn has dampened the growth prospects of BSAM's third-largest asset, Beijing Science Park Development (Group) Co. Ltd. Despite these operational challenges, the

overall weighted average credit profile of BSAM's investment portfolio remains in the 'bb' category.

In our view, BSAM's financial buffer remains, although it is narrowing. BSAM's debt slightly increased to Chinese renminbi (RMB) 31.6 billion as of September 2022, from RMB26.6 billion the year before. As a result of debt growth, its LTV ratio increased to 38.2% as of September 2022, from 35% the previous year. We expect some debt increase in 2023, due to BSAM's stronger growth aspirations this year to support the economy. However, we expect the LTV ratio to stay below 45% and do not expect a spike in BSAM's debts, given its investment budget is largely stable with last year's.

We expect BSAM HK to remain a highly strategic subsidiary of BSAM. BSAM HK is the only offshore investment and financing platform for BSAM. We believe BSAM HK will remain important to BSAM. This is despite BSAM's increasing focus on domestic investments over the next two to three years.

The stable outlook on BSAM reflects our expectation that the company will continue to receive strong support from the Beijing government over the next 12-24 months. The support stems from BSAM's role as the investment platform to support social objectives and the development of strategically important industries in a commercial manner. We anticipate that BSAM's LTV ratio will be below 45% and its key portfolio characteristics will remain largely stable over the next 24 months.

The stable outlook on BSAM HK reflects that on the parent. We expect BSAM HK to remain a highly strategic subsidiary of BSAM, given its position as the parent's key financing and operating platform outside China. The rating on BSAM HK will move in tandem with that on BSAM.

We could lower the rating on BSAM if we believe the Beijing government's creditworthiness has deteriorated or if the company's link with, and importance to, the Beijing government weakens. This could be indicated by: (1) the municipal government transferring a significant amount of assets under BSAM to other state-owned enterprises or platforms; (2) our evaluation that BSAM's policy importance to the Beijing government has decreased; or (3) the Beijing government reducing its ownership of BSAM to well below 100%.

We could also downgrade BSAM if our assessment of the company's stand-alone credit profile declines by three notches or more (i.e., to 'b+' or below). This could happen if BSAM finances a very large portion of its

investments through debt, or if the value of its investments deteriorates significantly due to weakened operating performance at investee companies. BSAM's LTV ratio exceeding 60% would indicate such deterioration.

The potential for an upgrade for BSAM is limited over the next two years, at least. However, we could raise the rating if its SACP improves to 'a' or higher.

ESG credit indicators: E2; S2, G2

Related Criteria

- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [Criteria | Corporates | Industrials: Methodology: Investment Holding Companies](#), Dec. 1, 2015
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [Criteria | Corporates | General: Corporate Methodology](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013

- [General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Nov. 13, 2012
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011
- [General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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