China's Investment Holding Companies

Scale And Strong Support Underpin Creditworthiness

S&P Global Ratings

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This report does not constitute a rating action

Key Takeaways

- We expect China's central and local government-owned investment holding companies, or IHCs, will prioritize investment in strategic sectors that the government promotes.
- Finding good investment targets will remain difficult in the soft economic environment. These companies will be willing to play the long game for certain types of strategic investments that could bring longer-term productivity or competitive advantages to China.
- The IHCs' large scale, diversified exposure and favorable onshore funding environment could help navigate macro headwinds and pressure on their investees' performance.
- We anticipate the sector's credit profiles will be stable over the next 12 months. Most rated China IHCs also have adequate leverage buffers to absorb capital market volatility and ongoing investment.
- In addition, we expect extraordinary government support to continue underpin credit profiles of rated IHCs that are government-related entities.
- Rating actions in the past three years on Fosun International, the only private enterprise IHC we rate, were due to evolving funding access and liquidity amid a volatile capital market and macro uncertainties.

Risk Trend For Rated China IHCs

Sector Subscore Risk Trend

Business Risk Profile	
Asset Liquidity	Weakening
Asset Diversity	Steadily improving
Asset Credit Quality	Weakening
Financial Risk Profile	
Loan-to-value (LTV)	Unchanged
Cash Flow Adequacy	Normalizing
Liquidity	Unchanged

Key Risks

Downside

- Portfolio liquidity to weaken as valuation of listed assets stays soft amid sluggish equity capital market
- Portfolio asset credit quality to be pressured amid operational headwinds

Upside

- Sizable asset or equity injection from government
- Funding environment turns even more favorable that long-tenor financings become readily available to non-SOEs

Support Remains Key Rating Driver For China's State-Owned IHCs

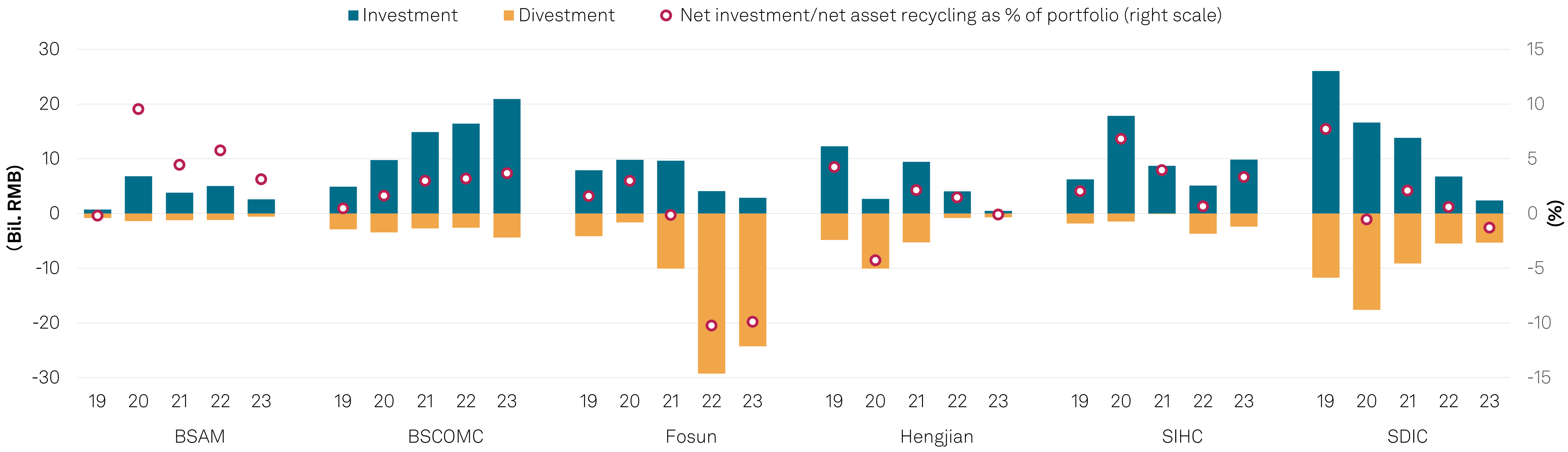
Government –related IHCs	Short name	Issuer credit rating	Outlook/ CreditWatch	Stand-alone credit profile	Related government	Likelihood of receiving extraordinary government support
Beijing State-Owned Assets Management Co. Ltd.	BSAM	A	Stable	bb+	Beijing government	Extremely high (+5 notches from SACP)
Beijing State-Owned Capital Operation and Management Co. Ltd.	BSCOMC	A+	Stable	bbb	Beijing government	Almost certain (+4 notches from SACP)
Guangdong Hengjian Investment Holding Co. Ltd.	Hengjian	A	Stable	bb+	Guangdong government	Extremely high (+5 notches from SACP)
Shenzhen Investment Holdings Co. Ltd.	SIHC	A	Stable	bbb	Shenzhen government	Very high (+3 notches from SACP)
State Development & Investment Corp.	SDIC	A	Stable	bbb-	Central government	Extremely high (+4 notches from SACP)
Privately-owned IHC						
Fosun International Ltd.	Fosun	BB-	Stable	bb-	N/A	N/A

As of Sept. 20, 2024. Source: S&P Global Ratings.

China IHCs' New Investments Will Be More Selective

- In our view, new investments will be in key strategic sectors encouraged by the government to play the long game.
- Identifying opportunities with good risk return profile could prove challenging amid broad macro pressure.
- Asset recycling is less frequent in state-owned IHCs given their policy role as custodian of government assets.

Asset recycling can only partially fund new investments for state-owned investment holding companies

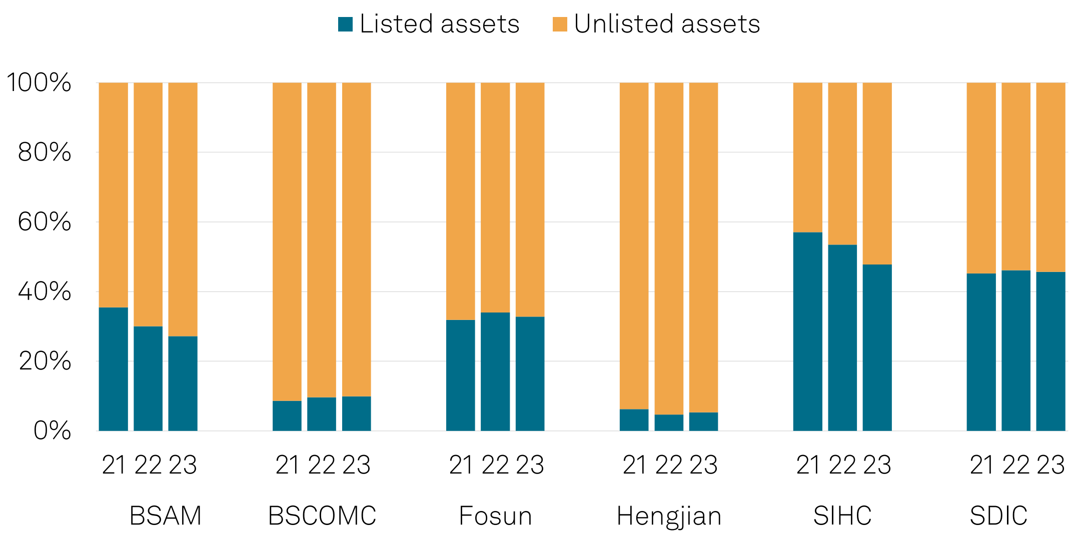


Please see slide 4 for full names of companies cited. RMB--Chinese renminbi. Sources: Company reports, S&P Global Ratings.

Limited Portfolio Liquidity Is A Constraint On SACPs

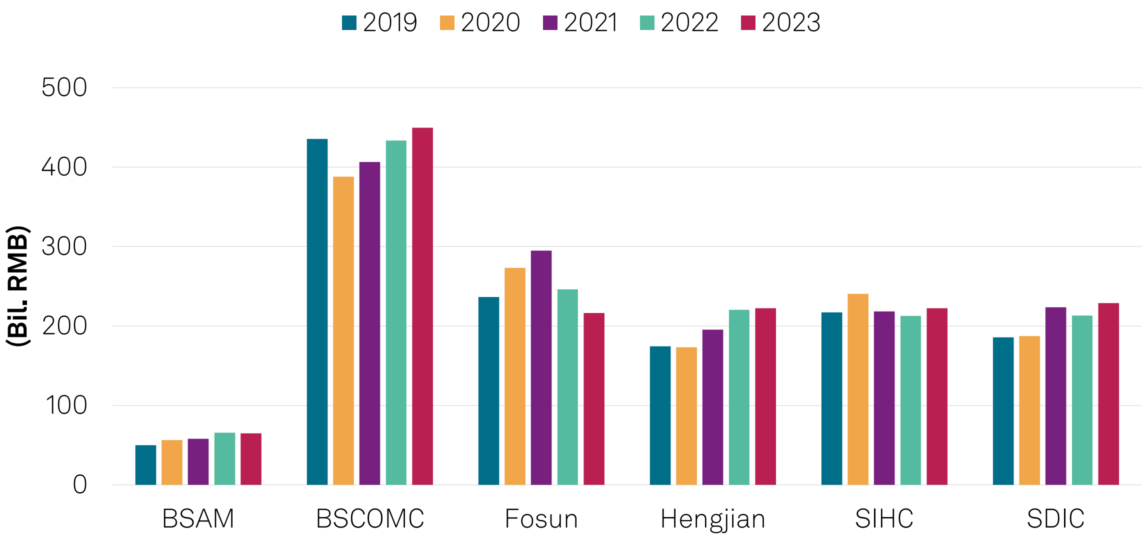
- We expect China IHCs portfolio liquidity to stay relatively weak because some of the state-owned IHCs hold listed assets via its unlisted investees. At the same time, soft markets could postpone planned listings.
- Portfolio sizes of state-owned IHCs has been gradually growing as their investments. Fosun meanwhile is moving in opposite direction as it shores up liquidity through divestments.

Listed assets make up less than half of IHCs' portfolio



Please see slide 4 for full names of companies cited. Sources: Company reports, S&P Global Ratings.

Most IHCs are seeing a gradual scale expansion



Please see slide 4 for full names of companies cited. RMB—Chinese renminbi. Sources: Company reports, S&P Global Ratings.

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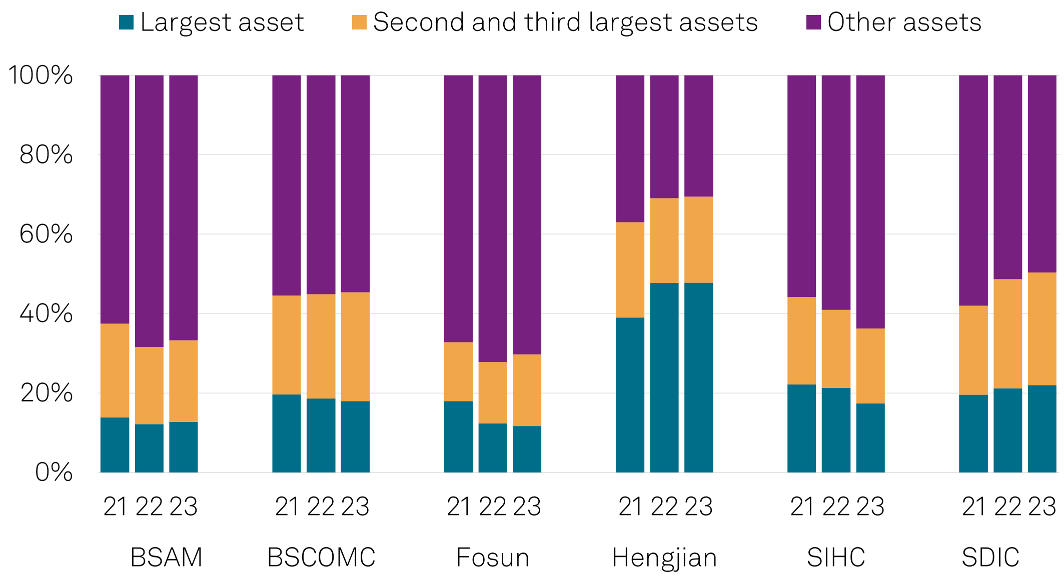
Portfolio Diversification, Asset Quality Will Support The IHCs' SACPs

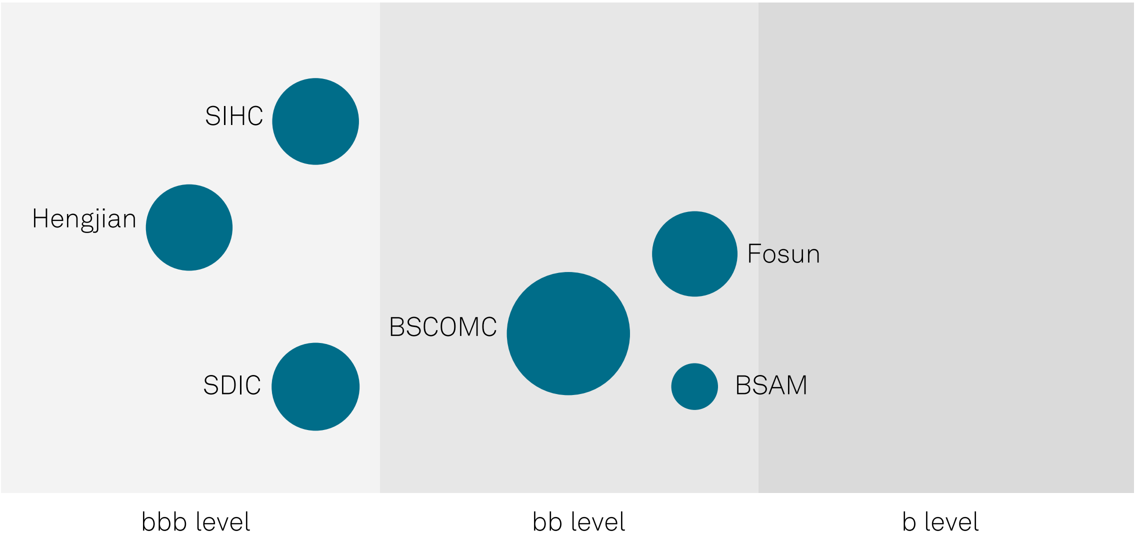
- New investments will diversify portfolio exposures. The state-owned IHCs have access to quality assets given their custodial role for government assets and ongoing support from the government.
- That said, new investments are typically made at ramp-up stage with relatively weaker creditworthiness. This combined with macroeconomic volatility can constrain creditworthiness.

Portfolio diversity is satisfactory for most China IHCs...



Please see slide 4 for full names of companies cited. Sources: Company reports, S&P Global Ratings.

...assets support credit profiles, albeit with narrowing buffers

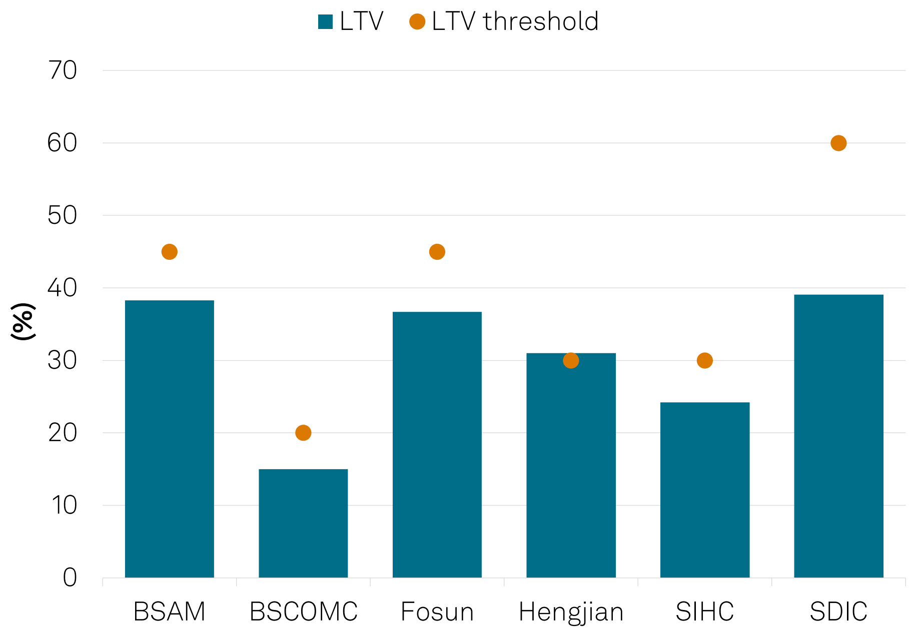


Sources: Company reports, S&P Global Ratings.

Leverage buffers to remain in place while funding conditions are improving

- Loan-to-value (LTV) ratios for state-owned IHCs will rise moderately in 2024-2025 on sustained investments. Fosun's leverage, however, could trend lower as it continues to divest assets.
- State-owned IHCs are seizing low-cost onshore environment to lock in long-tenor funding. Fosun has less scope to improve its liquidity and capital structure via longer-term issuance.

Most IHCs have leverage buffers over their SACPs



Please see slide 4 for full names of companies cited. Sources: Company reports, S&P Global Ratings.

Funding conditions are improving for rated IHCs; divergence persists

	Type	Issue date	Tenor	Amount (bil. RMB)	Coupon (%)
BSAM	Corporate bond	Aug. 8, 2024	5 years	1.5	2.10
	SCP	May 21, 2024	189 days	2.0	1.76
BSCOMC	Corporate bond	Aug. 22, 2024	5 years	1.3	2.16
	Corporate bond	Aug. 22, 2024	3 years	1.7	2.05
Fosun	SCP	July 8, 2024	270 days	0.8	4.35
	SCP	June 26, 2024	270 days	0.6	4.35
Hengjian	Corporate bond	July 23, 2024	5 years	4.0	2.20
	Corporate bond	July 10, 2024	10 years	3.0	2.52
SIHC	Corporate bond	Aug. 1, 2024	15 years	1.5	2.36
	MTN	April 18, 2024	10 years	1.5	2.65
SDIC	Corporate bond	July 23, 2024	15 years	1.5	2.45
	Corporate bond	July 3, 2024	15 years	1.5	2.49

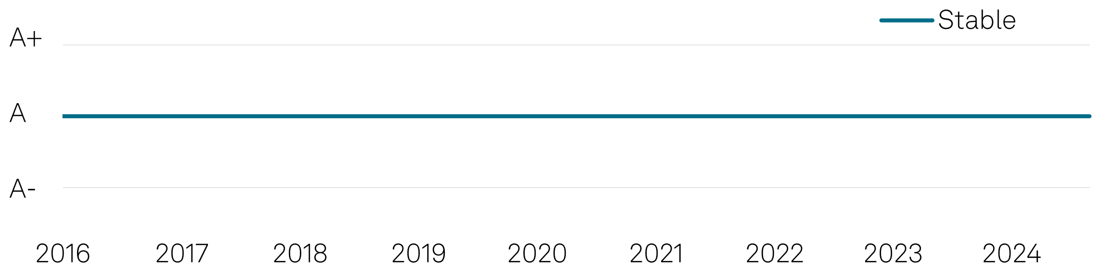
Please see slide 4 for full names of companies cited. MTN--Medium-term note. SCP--Super and short-term commercial paper.
Sources: Wind. S&P Global Ratings.

Ratings Overview Of China-Based IHCs

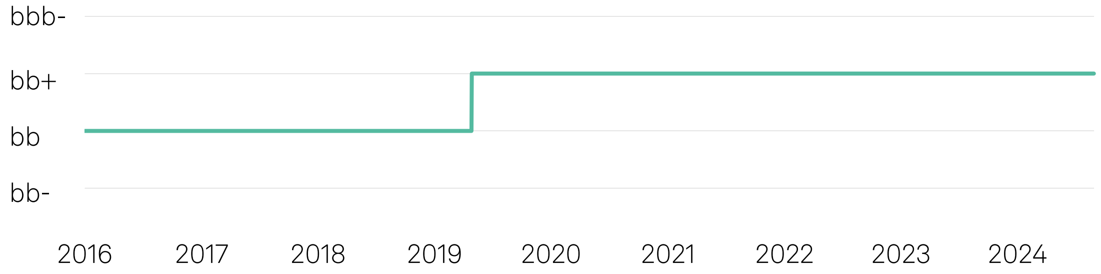
Beijing State-Owned Assets Management Co. Ltd. (A/Stable/--)

- BSAM will remain a key investment platform to support Beijing's economic, social and political objectives in a commercial manner. We see an extremely high likelihood of extraordinary support from the local government.
- Its LTV should stay below 45% as it remains selective in investments in its designated investment areas such as finance, green energy and technology.

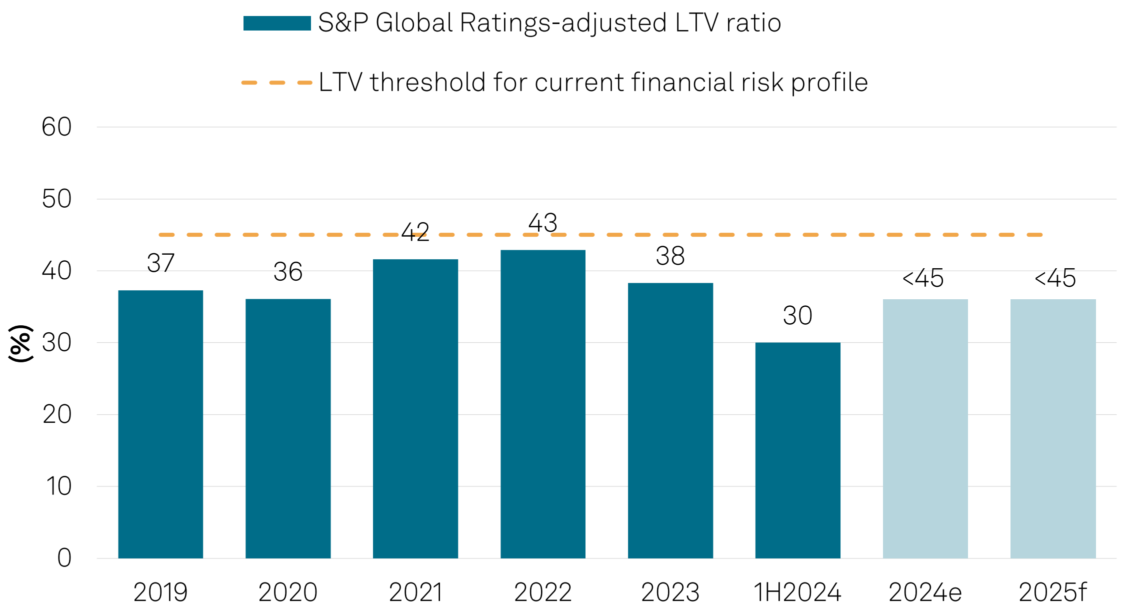
Issuer credit rating history



Stand-alone credit profile history



Base-case scenario

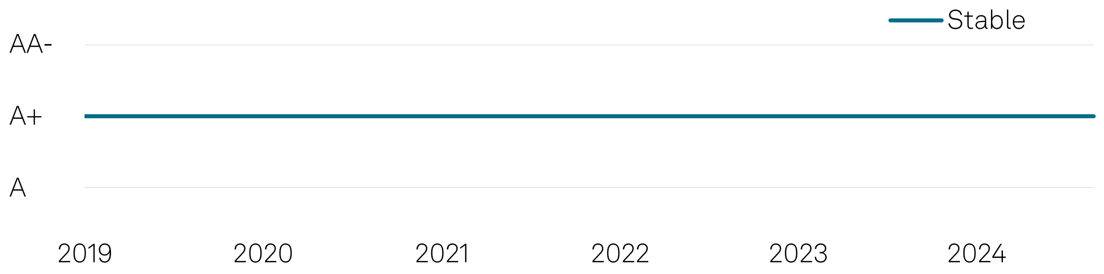


Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

Beijing State-Owned Capital Operation and Management Co. Ltd. (A+/Stable/--)

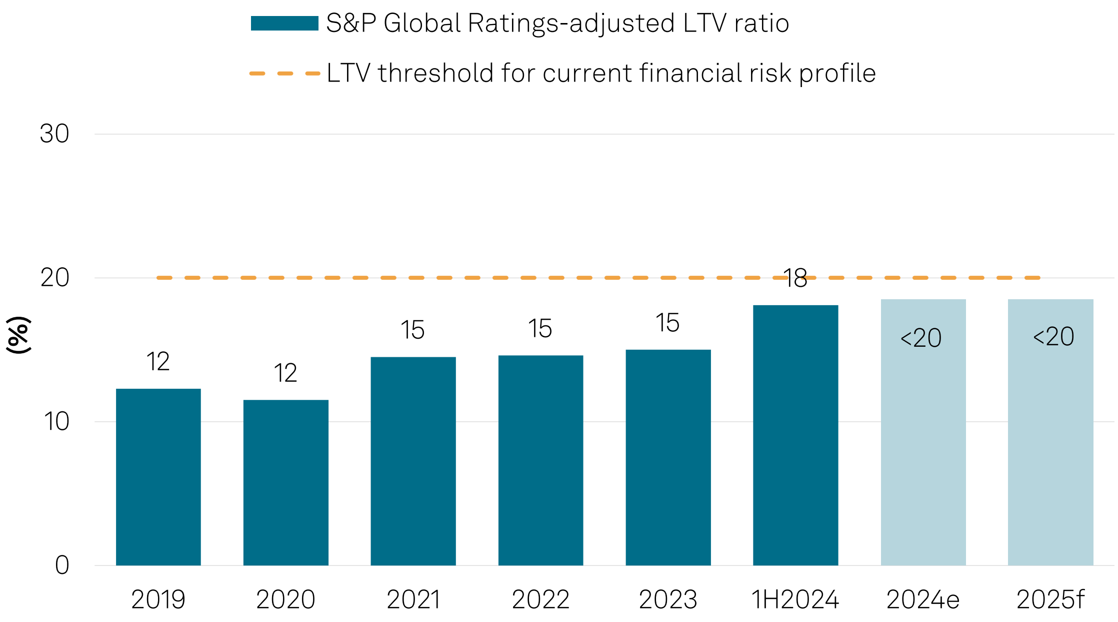
- We expect almost certain likelihood of extraordinary government support to continue as BSCOMC will remain the pivotal asset holding and policy investment company for the Beijing municipal government.
- BSCOMC will likely accelerate its spending over the next 12-18 months to invest in strategic sectors such as technology, in line with policy guidance.

Issuer credit rating history



Stand-alone credit profile history

Base-case scenario

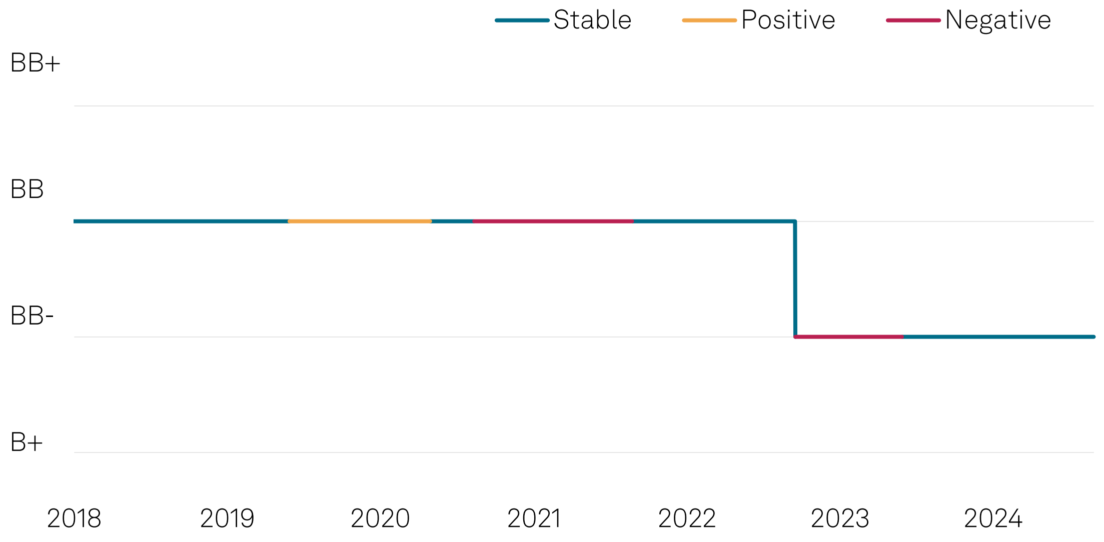


Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

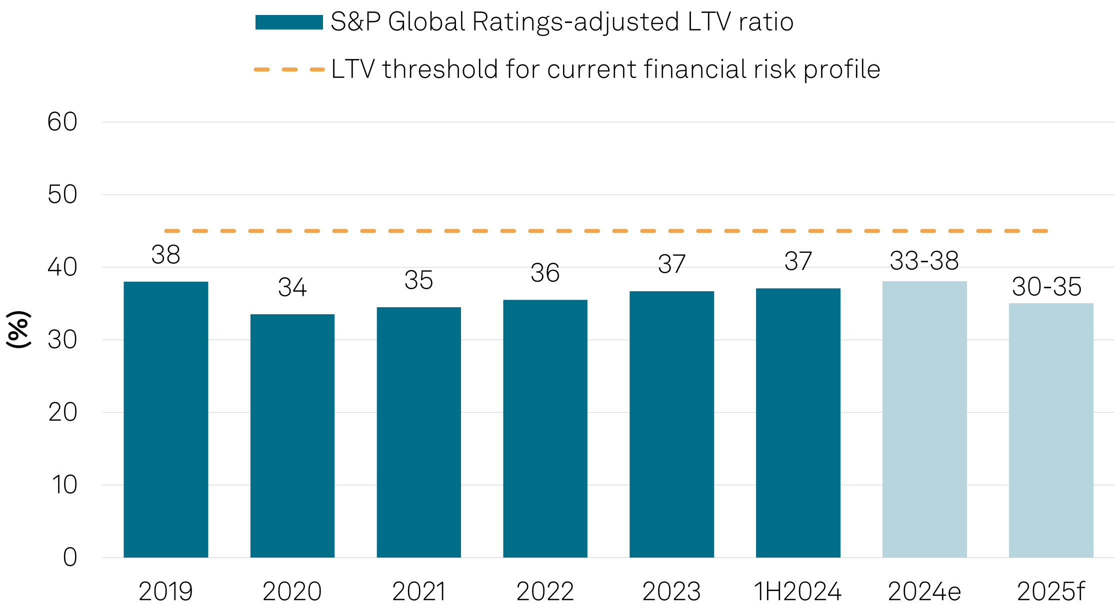
Fosun International Ltd. (BB-/Stable/--)

- Improving funding access (though mostly short-term) and Fosun's disposals of non-core assets will continue to stabilize this privately owned IHC's overall creditworthiness. Muted new investments also helps.
- Refinancing uncertainty and risk due to capital market volatility has been key to our rating actions over the past three years.

Issuer credit rating history



Base-case scenario

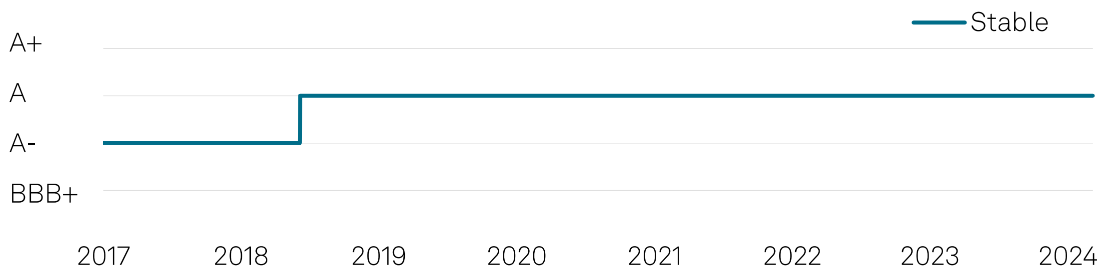


Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

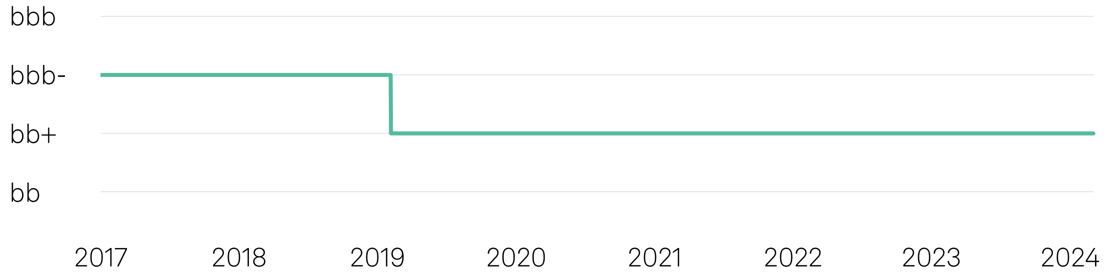
Guangdong Hengjian Investment Holding Co. Ltd. (A/Stable/--)

- Hengjian's extremely high likelihood of support should stay in place, given its critical role in supporting Guangdong government policies. The IHC also manages key state-owned assets for the province.
- Hengjian's LTV will likely hover around 30% over the next 12-18 months, due to disciplined investment approach.
- The rating upgrade in 2018 was due to our view of a stronger credit standing of Guangdong province.

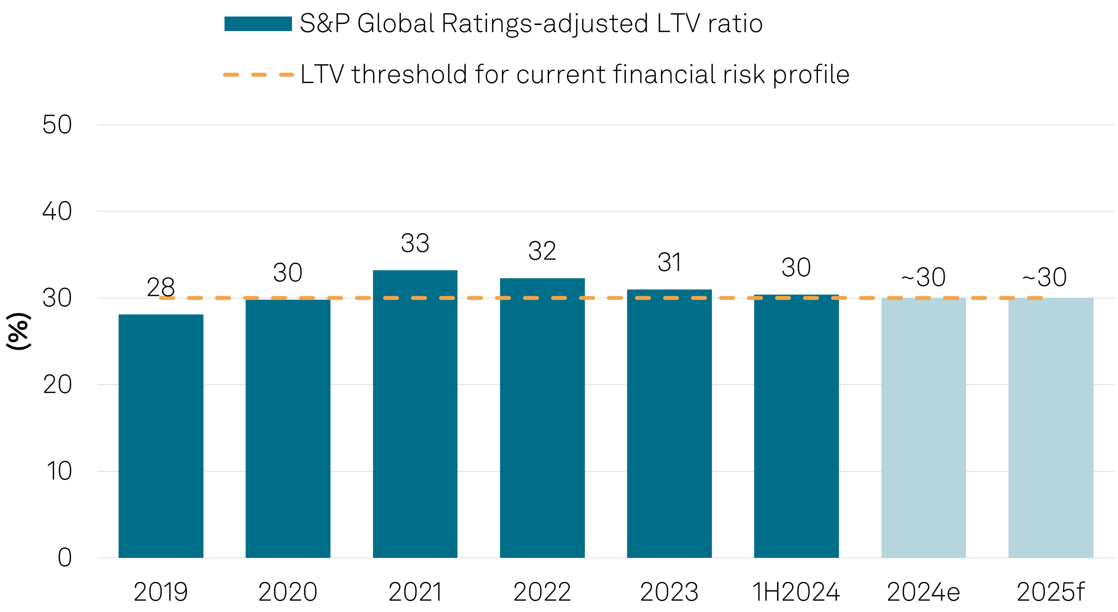
Issuer credit rating history



Stand-alone credit profile history



Base-case scenario



Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

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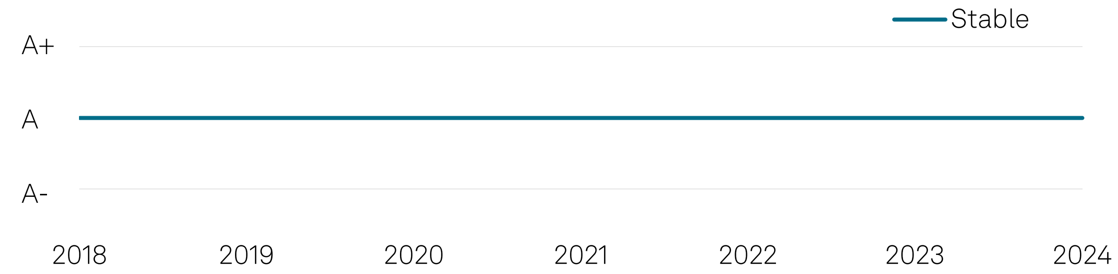
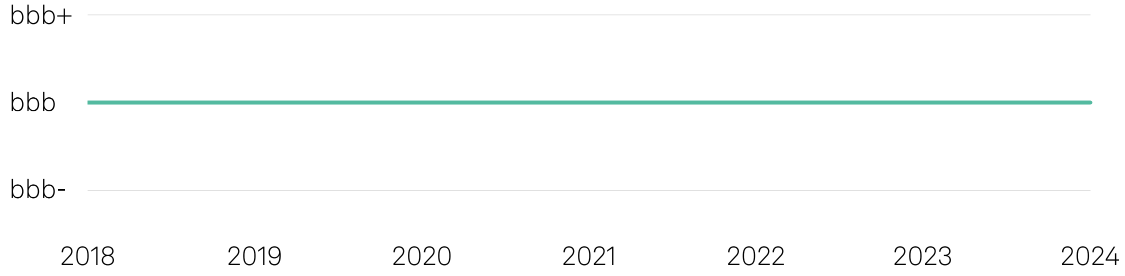
Shenzhen Investment Holdings Co. Ltd. (A/Stable/--)

- We view SIHC as the most important asset holding, investment, and management platform for the Shenzhen municipal government. As such, its likelihood of extraordinary government support is very high.
- Its stand-alone credit profile is supported by decent credit standing of key investees, though recent tough operating conditions is reducing headroom. We expect SIHC's LTV ratio is likely to remain less than 30% in 2024-2025.

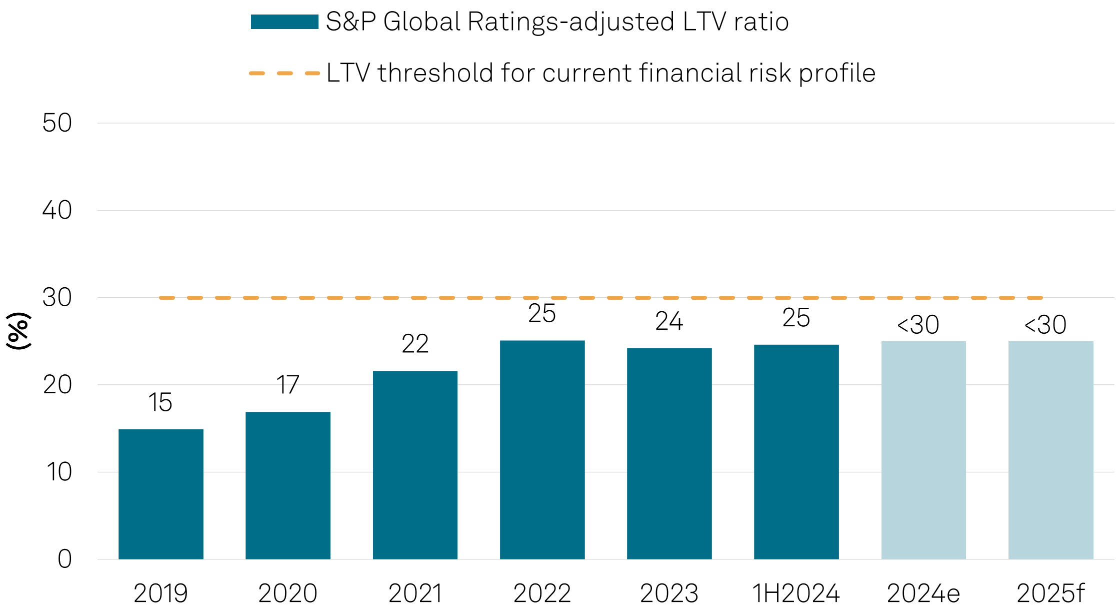
Issuer credit rating history



Stand-alone credit profile history



Base-case scenario



Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

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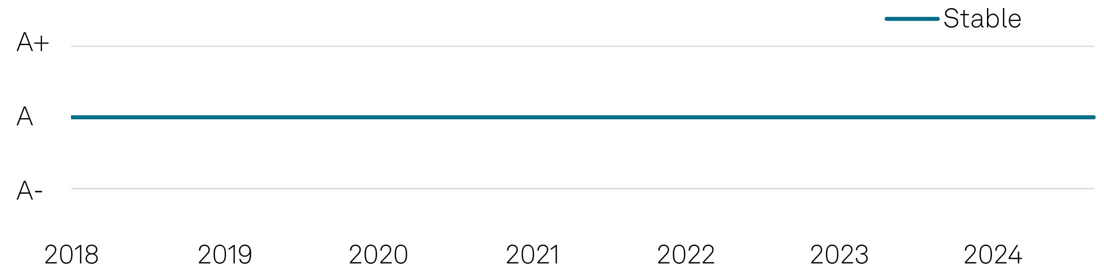
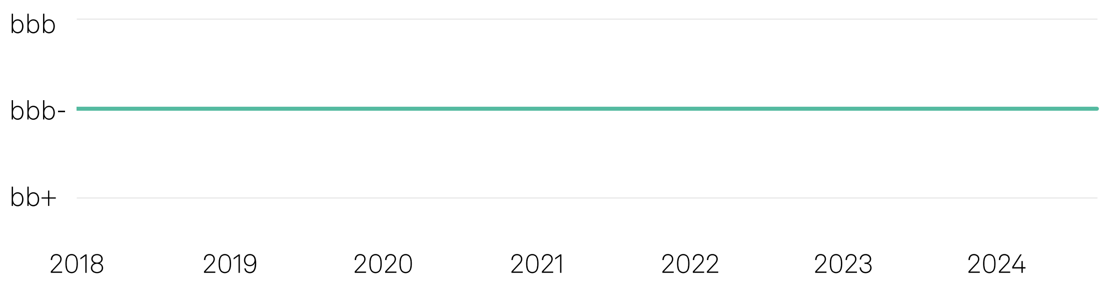
State Development & Investment Corp. (A/Stable/--)

- SDIC is a vital platform for the central government to facilitate SOE consolidation, restructuring, and execute economic policies. We see an extremely high likelihood of extraordinary support from the central government.
- The company will accelerate investments in strategic industries such as seeding and biotech amid the government's promotion of long-term capital and high-quality development.
- SDIC's sufficient leverage buffer will continue to support its SACP even as investments pick up.

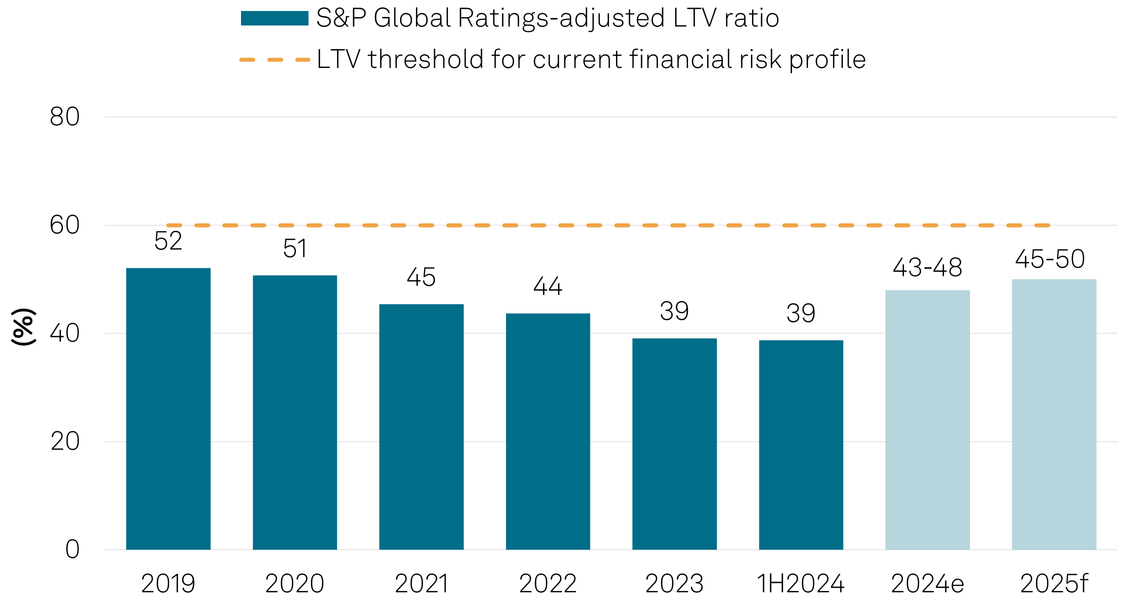
Issuer credit rating history



Stand-alone credit profile history



Base-case scenario



Ratings as of September 2024. e--Estimate. f--Forecast. Sources: Company reports, S&P Global Ratings.

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Appendix: Peer Comparison | Key Rating Components

	Beijing State-Owned Assets Management Co. Ltd.	Beijing State-Owned Capital Operation and Management Co. Ltd.	Fosun International Ltd.	Guangdong Hengjian Investment Holding Co. Ltd.	Shenzhen Investment Holdings Co. Ltd.	State Development & Investment Corp.
Long-term rating	**A**	**A+**	**BB-**	**A**	**A**	**A**
Outlook/CreditWatch	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**	**Stable**
Business risk profile	Fair	Weak	Fair	Weak	Satisfactory	Satisfactory
Financial risk profile	Significant	Modest	Aggressive	Intermediate	Intermediate	Aggressive
LTV threshold (%)	45	20	45	30	30	60
LTV ratio* (%)	30	18	37	30	25	39
Anchor	**bb**	**bb+**	**bb-**	**bb**	**bbb-**	**bb**
Liquidity	Adequate (0)	Adequate (0)	Less than adequate (-1)	Adequate (0)	Adequate (0)	Adequate (0)
Management and governance	Neutral (0)	Positive (+1)	Neutral (0)	Neutral (0)	Neutral (0)	Positive (+1)
Comparable rating analysis	Positive (+1)	Positive (+1)	Positive (+1)	Positive (+1)	Positive (+1)	Positive (+1)
Stand-alone credit profile	**bb+**	**bbb**	**bb-**	**bb+**	**bbb**	**bbb-**
Government-related entities	Extremely high (+5)	Almost certain (+4)	N/A	Extremely high (+5)	Very high (+3)	Extremely high (+4)

*Loan-to-value (LTV) ratio as of June 30, 2024. Source: S&P Global Ratings.

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