Credit Opinion

13 March 2025

Ratings	
Senior Unsecured Debt Rating	A_g+
Long-Term Credit Rating	A_g+
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Beijing Capital Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of A_g+ to Beijing Capital Group Co., Ltd., with stable outlook.

Summary

The A_g+ long-term credit rating of Beijing Capital Group Co., Ltd. ("BCG" or the "Company") is underpinned by the Company's (1) diversified business profile that tempers industry risk and provides some synergies; (2) stable and recurring cash flow from the water and infrastructure businesses; and (3) strong financing ability with various funding channels.

However, the rating is constrained by the Company's (1) real estate business that suffers from the lingering weak property market; and (2) modest financial metrics with high debt leverage.

The rating also reflects a high likelihood of government support from the Beijing Municipal Government, when needed, which is based on the Company's (1) direct ownership and ultimate control by the Beijing Municipal Government; (2) strong strategic role in China's development plan for the Beijing-Tianjin-Hebei region; (3) solid track record of receiving ongoing government support, including subsidies, capital injections and asset transfers; and (4) high reputation risk to the government.

The stable outlook on BCG's rating reflects our expectation that the Company will continue to receive solid support from the Beijing Municipal Government. We also expect the Company to maintain a stable operation and financial profile over the next 12 to 18 months.

Rating Drivers

- High likelihood of support from the Beijing Municipal Government
- Diversified business profile tempers industry risk and provides some synergies
- Stable and recurring cash flow from the water and infrastructure businesses
- Transformation on city development in part offsets the impact from its weak real estate business
- Modest financial metrics with high debt leverage
- Strong financing ability with various funding channels

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) the likelihood of receiving government support from the Beijing Municipal Government increases such as higher policy roles or greater strategic importance; and (2) the Company's standalone credit profile improves, such as materially improved financial metrics and demonstrated stronger recurring cash flows from its business segments and investments.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of receiving government support decreases such as weakened strategic importance and reputation influence to the Beijing Municipal Government; or (2) the Company's standalone credit profile worsens, such as hindered access to funding and eroded liquidity profile.

Key Indicators

Consolidated Level	**2021FY**	**2022FY**	**2023FY**
Total Assets (RMB billion)	423.5	421.0	400.9
Total Equity (RMB billion)	60.7	59.0	63.8
Total Revenue (RMB billion)	68.3	57.8	57.5
Net Profits (RMB billion)	2.4	4.4	3.0
Return on Equity (%)	3.6	7.4	4.9
Holding Company Level (HoldCo)	**2021FY**	**2022FY**	**2023FY**
Total Assets (RMB billion)	63.6	71.6	76.4
Total Equity (RMB billion)	13.0	17.3	22.1
Return on Equity (%)	5.6	33.5	13.8
Debt/Investment Income (x)	17.5	7.2	12.9
Cash/Short-term Debt (x)	0.3	0.3	0.2

All ratios and figures are calculated using CCXAP's adjustments.

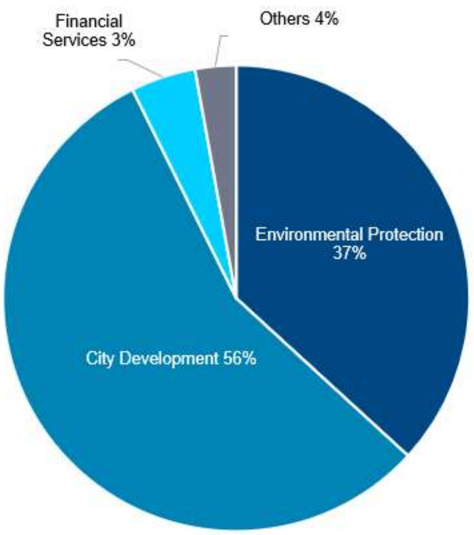
Source: Company data, CCXAP research

Corporate Profile

Established in 1994, BCG is a leading state-owned conglomerate in Beijing. It is wholly owned by the Beijing Municipal Government and directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Beijing Municipality ("Beijing SASAC"). The Company aims to promote the economic development and urban management of Beijing to establish it as a "world class city". It has formed "3+1" major business segments, covering environmental protection, city development, financial services, and cultural and creative industries. As of 31 December 2023, BCG reported total assets of RMB400.9 billion.

BCG conducts businesses mainly through its major subsidiaries, such as Beijing Capital Eco-Environment Protection Group Co., Ltd. ("BCEP") (environmental protection), Beijing Capital City Development Group Co., Ltd. ("BCCD") (city development). The Company also invests in and operates Beijing's subway lines (including Line 4, Line 14, Line 16 and Line 17) through its 49%-owned joint venture Beijing MTR Co., Ltd. ("Beijing MTR") (infrastructure). In addition, its finance business arms provide financial services from securities to guarantee to a wide range of customers.

Exhibit 1. Revenue of BCG by segments in 2023



Source: Company data, CCXAP research

Rating Considerations

Diversified business profile tempers industry risk and provides some synergies

BCG has a diversified business profile covering environmental protection, city development (includes social housing, marketable real estate and infrastructure), financial services, and cultural and creative industries. This can help temper the Company's risk exposure to individual segment and offer some synergies. Among its business segments, environmental protection and city development are the two largest revenue contributors, accounting for over 90% of BCG's total revenue in 2023.

BCG's core segments have different industry cyclicality that reduce its exposure to the operating and investment risks in a single sector. The Company's environmental protection and infrastructure segments, as utility services, provide recurring and stable sources of income in the past three years, which somewhat counterbalance the volatility related to its real estate business. These business segments also showed more resilient during China's economic slowdown.

In addition, BCG's collaboration between its segments has provided some synergies and enhanced business competitiveness. For example, BCG's real estate business is better positioned to obtain primary land development projects or quality land banks at competitive cost adjacent to its infrastructure business. With a wide geographic coverage from its diverse business segments, the Company can also negotiate with local governments for water, infrastructure and land projects at once in the same administrative region, which helps increase its bargaining power and operating efficiency across business segments.

Stable and recurring cash flow from the water and infrastructure businesses

BCG's water and infrastructure businesses provide a steady source of cash flow to service its debts over the past years. They also give BCG buffer against the weakened real estate business and more time to execute business transformation plan.

BCEP, BCG's core business arm in environmental protection, mainly engages in water supply and solid waste services. It has a leading market position in China's water service industry, with a daily water processing capacity of approximately 26.9 million tons. The Company also has competitive market position in solid waste treatment industry, with a yearly solid waste treatment capacity of approximately 15.3 million tons. BCEP's water service business has a broad geographic coverage in over 140 cities in 28 provinces/autonomous regions. Such a large operating scale and geographic diversification help alleviate the impact of potential operating and policy risks in a region, such as unfavorable regulatory measures on water tariffs or credit risks from individual local governments. Moreover, BCEP's long-term concessions for more than 20 years on average in water service business ensure its operating visibility and provide it with stable revenues and cash flow streams.

On the infrastructure front, BCG's operation in highways and MTR lines generate stable revenue and cash flow under long-term concession agreements. The Company's metro service arm, Beijing MTR, is one of the major subway operators in Beijing and currently operates four subway lines (including Line 4, Line 14, Line 16 and Line 17) in the city. Beijing MTR's ticket revenues are supported by government subsidies and guaranteed by concession agreements, leaving it with minimal exposure to fare changes and volume risk. It recorded a revenue of RMB6.6 billion in 2023, growing 15.7% year on year. The Beijing metro systems is the second busiest one in China, with a strong market demand. The opening of Line16 and Line 17 extension will also underpin Beijing MTR's revenue growth in the future.

However, BCG's highways business may expose to some policy risks. The toll revenue of one of its highways, Jingtong Highway's, dropped significantly after the Beijing Municipal Government imposed new traffic management measure by adjusting toll standard in 2022. As a result, BCG's total toll revenue declined from RMB821.9 million in 2021 to RMB546.8 million in 2023. The compensation is still being negotiated with the government.

Transformation on city development in part offsets the impact from its weak real estate business

BCG's real estate business, operated under BCCD, has suffered from the industry cyclicality since 2021, as seen by declining sales in commercialized property and losing profitability. Nevertheless, we believe that the growth of other businesses in city development segment may in part offset the decreasing commercialized property business. BCCD keeps on its progress to shift its property business towards more policy driven projects, such as primary land development, affordable housing, and public rental housing projects, after the privatization of its Beijing Capital Land Co., Ltd in 2021 and Beijing Capital Juda Limited in January 2025. BCCD has reduced its newly commercial real estate projects, with no land bank acquisition in public auction market since 2021. We also believe BCCD to receive more land resources for the development of social housing in the future, given its positioning in city development under Beijing SASAC. The business transformation will help reduce BCCD's exposure to and the impact from the volatility of property market in the future.

BCCD's contracted sales in commercialized property decreased from RMB55.1 billion in 2021 to RMB17.3 billion in 2023, and RMB5.7 billion in the first nine months of 2024. BCCD has recorded a net operating loss (adjusted for non-recurring items) since 2022, and reported a loss of RMB3.9 billion in the first nine months of 2024. Despite BCCD's land banks mostly locating in tier-1 or tier-2 cities, we expect that its contracted sales may decline further due to the still weak homebuyer market in China and BCCD's dwindling new development projects over the past two years. The material sales drop will weaken BCCD's internal resources to service its debt.

The disposal of Jingzhong (Tianjin) Investment Co., Ltd. ("Jingzhong")'s shares, in December 2023, helps relieve BCCD's financial pressure. Supported by the Beijing Municipal Government, BCCD successfully disposed of 51% of shares in Jingzhong to a joint venture co-established by four Beijing state-owned entities, including BCG. Jingzhong holds a large scale of land of 38.0 million sqm in Beijing-Tianjin Cooperation Demonstration Zone (京津合作示范區). The transaction has unearthed the value of its land development projects in Tianjin and provided a significant cash inflow of approximately RMB10.0 billion, in total, in 2023 and 2024.

Modest financial metrics with high debt leverage

BCG has sustained a high debt leverage driven by its debt-funded expansion in environmental protection and real estate business in previous years. As of 31 December 2023, BCG had a total debt (including hybrid securities and adjusted debt items in minority interests) of RMB231.7 billion, with an adjusted capitalization ratio (measured by debt/debt plus equity) of 78.4%, which is higher than most of the major state-owned enterprises in Beijing. Despite the slowdown of BCG's business expansion reducing new funding needs, we expect the Company BCG's debt leverage remain high over the next 12 to 18 months, in absence of a solid deleverage plan. The weakened real estate business will constrain the Company's debt cutting through the way of internal cash generation. While the Company's growing social housing enhances its cash flow, such business contribution will be highly subject to the Beijing Municipal Government's roll-out schedule.

We note that BCG's high leverage is also resulting from the debt raising at the holding company level to fund the investments in subsidiaries. Around 20.8% of BCG's debt belongs to the holding company itself. The risks associated with the investments made by the holding company in its subsidiaries are manageable as most of fundings used in the investments in environmental protection, subway businesses, and financial services, which have demonstrated a relatively stable profitability over the past years.

BCG's modest financial metrics are also indicated by its fair debt and interest coverages. Its debt/EBITDA ratio was 13.3x as of 31 December 2023, and its adjusted EBITDA/interest ratio was relatively low at 1.7x, on average, over the past three years.

Strong financing ability with multiple funding channels

BCG's strong financing ability can be evidenced by its good access to domestic funding, with the support of its full ownership by the Beijing Municipal Government. BCG's good access to funding provides it with financial flexibility and low cost of funding to support its business growth and reserve buffer during down markets.

BCG is a regular bond issuer in domestic debt capital market and has presence in offshore bond market. It has also raised funds through its core subsidiaries, including BCEP and BCCD. As of 31 December 2023, the outstanding bonds (including hybrid securities) of BCG and its subsidiaries were equivalent to RMB96.0 billion. Despite the unfavorable funding environment for real estate companies, BCCD is still able to issue bonds over the past twenty months. For instance, BCCD issued two tranches of 5-year private placement bonds with the amount of RMB4.0 billion in the first two months of 2025, with coupon rates ranging from 2.70% to 2.74%.

Moreover, the listed status of BCEP (600008.SH) in A shares market allows BCG to obtain funding through onshore capital market. The listing of Capital Securities Co., Ltd (601136.SH), BCG's business arm in securities, in A share market in December 2022 also opened a new funding channel for BCG's financial services business.

Given its state-owned background, BCG has received strong recognition from diverse financial institutions and has developed long-term relationship with multiple banks. The Company had total bank facilities of RMB321.5 billion and unused amount of RMB181.6 billion as of 31 December 2023.

External Support

High likelihood of government support from the Beijing Municipal Government

We expect a high likelihood of government support from the Beijing Municipal Government to BCG, in times of need. This expectation incorporates our considerations of the Company's (1) direct ownership and ultimate control by the Beijing Municipal Government; (2) strong strategic role in China's development plan for the Beijing-Tianjin-Hebei region; (3) solid track record of receiving ongoing government support from the local government, including subsidies, capital injections and asset transfers; and (4) high reputation risk to the local government.

The Beijing Municipal Government has strong decision-making and oversight of BCG as the Company is wholly and directly owned by the Beijing SASAC, which appoints senior management and has influence over the Company's strategy and key investment decisions. The Company is mandated to undertake government-directed activities, such as primary land development, social housing and rental housing projects. It maintains an important role in Beijing's economic and social development.

The government has provided ongoing support to BCG. For example, the government injected property assets that increased BCG's capitals of RMB1.0 billion in 2023. BCG has also received significant subsidies for its metro operations (RMB4.3 billion in 2023) and obtained other subsidies or tax rebate regularly (RMB319.0 million in 2023). The state-owned background enables BCG to gain low-cost funding for its long-term business development. As a major bond issuer in Beijing, we expect BCG to bring high reputation risk to the Beijing Municipal Government.

Structural Consideration

BCG's senior unsecured debt rating is equivalent to its long-term credit rating. We did not notch the rating for structural subordination, considering that (1) the Company's diversified business profile (with cash flow generation across its operating subsidiaries) can help mitigate structural subordination risk; and (2) the support from the Beijing Municipal Government will flow through directly to BCG in a financially distressed scenario given the Company's important status, thereby mitigating any differences in expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for Investment Holding Companies (December 2016).

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

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