

China Great Wall Asset Management Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	AA-
Outlook	Stable
Location	China
Industry	NBFI
Date	30 May 2024

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘AA-’ global scale Long-term Issuer Credit Rating to China Great Wall Asset Management Co., Ltd. (“China Great Wall”); Outlook is Stable

Summary

The Issuer Rating reflects a high possibility that China Great Wall would receive strong policy support if needed, in light of its strategic importance in maintaining economic and financial system stability in China as a national financial assets management company (“AMC”) and its state ownership. The state-owned shareholders have close management supervision over China Great Wall and could provide operational and financial support to China Great Wall if needed.

The Stable Outlook reflects our expectation that China Great Wall would maintain its strategic importance in preventing and resolving risks in Chinese financial system, while China Great Wall will maintain its stable operation with policy support.

Rating Rationale

A Large National Distressed Assets Management Company: China Great Wall is one of five national AMCs that has the access to nationwide market in China. Its consolidated assets size of RMB554 billion accounted for around 10% total assets of all national and local AMCs in China by end-2023. The company primarily engages in acquisition and disposal of distressed assets, such as banks’ non-performing loans and corporates’ overdue debts or receivables, and participated in restructuring of distressed enterprises. In addition, it involves in banking, security, insurance, trust, leasing and fund sectors.

High Importance in Social and Financial System Stability: China Great Wall has been playing significant strategic roles in resolving financial risks and maintaining financial system stability since its establishment. Its predecessor was set up in 1999 with the approval of the State Council to acquire and dispose non-performing loans from national banks. The company currently is actively participating in tackling an array of key issues such as resolving risks of small and medium-sized financial institutions, relieving troubled property developers and supporting state-owned enterprises (“SOEs”), following the policy’s call. In 2023, China Great Wall was recognized as one of twenty-five support institutions to revitalize stock assets and expand effective investment by National Development and Reform Commission (“NDRC”).

State Ownership and Supervision: China Great Wall is one of twenty-six central government-owned financial institutions. At end-March 2024, the Ministry of Finance (“MoF”) and National Council for Social Security Fund (“NCSSF”) held approximately 73.53% and 18.97% equity interest in China Great Wall, respectively; the remaining 7.50% shares were owned by China Property & Casualty Reinsurance Co., Ltd. (“China Re P&C”) and other SOEs. The company is under the supervision of the National Financial Regulatory Administration (“NFRA”), which also approves the company’s senior management appointments. In addition, China Great Wall needs to report its operational performance and financial position to the MoF and regulators, and is audited by the National Audit Office on a periodic basis.

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Applicable Criteria

Non-Bank Financial Institutions
Criteria (21 November 2023)



Government Support for Performing Strategic Roles: We believe China Great Wall would receive strong policy support for performing its strategic roles in preventing and resolving risks, and sustaining the social and financial system stability. China Great Wall is conducting a reform, and we expect the company to receive substantial capital replenishment upon completion to enhance its ability and capacity for sustainable business operations. China Great Wall, as a national AMC, has enjoyed more favourable policies compared with local AMCs, including a nationwide market access license and the access to re-loans of the People’s Bank of China (“PBC”). In addition, the NFRA approved the company’s RMB60 billion bond issuance in March 2023.

Capital Replenishment to Improve Financial Profile: Owing to the economy and property market downturns, China Great Wall incurred large losses in 2022 as a result of unfavourable valuation changes and credit impairments in its assets. As significant provision was made, China Great Wall’s total equity was reduced to RMB19.4 billion at end-2023. We expect China Great Wall to raise new capital to improve its capital adequacy amid its reform, and this is essential for China Great Wall to continue to perform its strategic functions.

Strong External Funding Accessibility to Support Liquidity: China Great Wall has strong access to various funding channels, including PBC re-loans, banking facilities, interbank borrowings, bond issuances, and trust loans. It maintained unused banking facilities amounting to approximately RMB400 billion at end-2023 and sufficient bond issuance quota. China Great Wall has kept a good debt repayment record, and we believe its refinancing capacity would remain intact.

Rating Sensitivities

We would consider downgrading China Great Wall’s rating if (1) there is perceived weakening in support from the Chinese government, particularly due to its reduced strategic importance, or the lack of sufficient resources to perform its strategic functions and/or to ensure its viability, or (2) there is a significant reduction of state ownership in the company, or (3) there is a downgrade in our internal credit assessment on the Chinese government.

We would consider upgrading China Great Wall’s rating if (1) there is strengthened support from the Chinese government, or (2) there is an upgrade in our internal credit assessment on the Chinese government.

Company Profile

China Great Wall was jointly established by MoF, NCSSF and China Life Insurance (Group) Company in December 2016, after the shareholding restructuring. Its predecessor, China Great Wall Corporation, was set up in 1999 with the approval of the State Council to acquire and dispose non-performing loans from national banks.

China Great Wall is one of twenty-six central government-owned financial institutions. At end-March 2024, MoF and NCSSF held approximately 73.53% and 18.97% equity interest in China Great Wall, respectively; the remaining 7.50% shares were owned by China Re P&C and other SOEs.

Exhibit 1: China Great Wall’s Shareholding Structure

Shareholder	Shareholding (%)
Ministry of Finance	73.53
National Council for Social Security Fund	18.97
China Property & Casualty Reinsurance Co., Ltd.	3.64

China Continent Property & Casualty Insurance Co., Ltd.	2.86
China Life Insurance (Group) Company	1.00
Total	100.00
<i>Source: China Great Wall and Lianhe Global's calculations</i>	

Business Profile

China Great Wall is one of five national AMC's that has the access to nationwide market in China. Its consolidated assets size of RMB554 billion accounted for around 10% total assets of all national and local AMC's in China by end-2023. The company primarily engages in acquisition and disposal of distressed assets, such as banks' non-performing loans and corporates' overdue debts or receivables, and participated in restructuring of distressed enterprises. In addition, it involves in banking, security, insurance, trust, leasing and fund sectors.

Net income from distressed assets, China Great Wall's core business, had decline to RMB10,919 million from RMB19,220 million. This was mainly due to the slowing disposition of distressed assets aimed economic downturn and the reduced in new investments aimed the company's reform. This income rebounded in 2023 and we expect China Great Wall to focus on its core distressed assets management business under the return-to-core-business strategy of the company, and to gradually retreat from other businesses that has low synergies with its core strategic functions.

Exhibit 2: China Great Wall's Main Businesses Breakdown

(RMB million)	2019		2020		2021	
	Revenue	%	Revenue	%	Revenue	%
Net Income from Distressed Assets Management	19,220	82.5	14,880	75.1	15,690	73.8
Net Interest Income from Banking and Leasing Businesses	2,368	10.2	3,106	15.7	2,711	12.7
Insurance Premium Earned	1,455	6.2	1,587	8.0	2,645	12.4
Commission and Fee Income from Security Businesses	248	1.1	255	1.3	223	1.0
Net Income from main businesses	23,291	100.0	19,827	100.0	21,268	100.0

(RMB million)	2022		2023		3M2024	
	Revenue	%	Revenue	%	Revenue	%
Net Income from Distressed Assets	10,919	69.7	13,054	76.1	-	-



Net Interest Income from Banking and Leasing Businesses	1,479	9.4	1,468	8.6	-	-
Insurance Premium Earned	3,130	20.0	2,483	14.5	-	-
Commission and Fee Income from Security Businesses	130	0.8	147	0.9	-	-
Net Income from main businesses	15,658	100.0	17,152	100.0	2,608	100.0

Source: China Great Wall and Lianhe Global's calculations

Financial Profile

Owing to the economy and property market downturns, China Great Wall incurred large losses in 2022 as a result of unfavourable valuation changes and credit impairments in its assets. As significant provision was made, China Great Wall's total equity was reduced to RMB19.4 billion at end-2023. The company's profitability has been stabilized since 2023 but still was moderately weak. We expect China Great Wall to raise new capital to improve its capital adequacy amid its reform, and this is essential for China Great Wall to continue to perform its strategic functions.

China Great Wall has strong access to various funding channels, including PBC re-loans, banking facilities, interbank borrowings, bond issuances, and trust loans. It maintained unused banking facilities amounting to approximately RMB400 billion at end-2023 and sufficient bond issuance quota. China Great Wall has kept a good debt repayment record, and we believe its refinancing capacity would remain intact.

Exhibit 3: China Great Wall's Key Financial Metrics

RMB million	2019	2020	2021
Total Asset	601,016	626,515	642,876
Total Equity	62,048	63,731	64,665
Total Revenue	32,669	35,401	22,739
-Fair Value Changes	2,252	4,334	-4,890
Credit Impairments	-7,051	-11,519	-14,088
Net Profit	1,246	2,173	-8,221
Return on Average Asset (%)	0.2	0.4	-1.3
Return on Average Equity (%)	2.0	3.5	-12.8
Common Equity to Total Asset (%)	10.3	10.2	10.1
RMB million	2022	2023	March 2024
Total Asset	568,408	553,927	562,538
Total Equity	18,288	19,443	19,795
Total Revenue	-2,303	24,845	3,738
-Fair Value Changes	-23,503	3,313	324
Credit Impairments	-20,823	-4,612	882



Net Profit	-45,382	1,849	142
Return on Average Asset (%)	-7.5	0.3	-
Return on Average Equity (%)	-109.4	9.8	-
Equity to Total Asset (%)	3.2	3.5	3.5

Source: China Great Wall and Lianhe Global's calculations

External Support

Strong External Support

State Ownership and Supervision

China Great Wall is one of twenty-six central government-owned financial institutions. At end-March 2024, MoF and NCSSF held approximately 73.53% and 18.97% equity interest in China Great Wall, respectively; the remaining 7.50% shares were owned by China Re P&C and other SOEs. The company is under the supervision of the NFRA, which also approves the company's senior management appointments. In addition, China Great Wall needs to report its operational performance and financial position to the MoF and regulators, and is audited by the National Audit Office on a periodic basis.

Strategic Importance

China Great Wall has been playing significant strategic roles in resolving financial risks and maintaining financial system stability since its establishment. Its predecessor was set up in 1999 with the approval of the State Council to acquire and dispose non-performing loans from national banks. The company currently is actively participating in tackling an array of key issues such as resolving risks of small and medium-sized financial institutions, relieving troubled property developers and SOEs, following the policy's call. In 2023, China Great Wall was recognized as one of twenty-five support institutions to revitalize stock assets and expand effective investment by National Development and Reform Commission.

Government Support

We believe China Great Wall would receive strong policy support for continuously performing its strategic roles in preventing and resolving risks, and sustaining the social and financial system stability. China Great Wall is conducting a reform, and we expect the company to receive substantial capital replenishment upon completion to enhance its ability and capacity for sustainable business operations. China Great Wall, as a national AMC, has enjoyed more favourable policies compared with local AMCs, including a nationwide market access license and the access to re-loans of PBC. In addition, the NFRA approved the company's RMB60 billion bond issuance in March 2023. NDRC also approved its overseas subsidiary, China Great Wall AMC (International) Holdings Company Limited's offshore bond issuance plan of no more than USD600 million (or equivalent other currencies) on 6 May 2024.

Appendix: China Great Wall's Rating Factors

Key Factors	Weight	Initial Rating
I. Operating Environment	15.00%	a-
II. Business Analysis	25.0%	a-
III. Governance and Management	5.0%	bb+
IV. Risk Management and Exposures	20.0%	bb



V. Financial Profile	35.0%	b+
Stand-Alone Creditworthiness	100.0%	bb+
VI. External Support		Strong
Issuer Credit Rating		AA-
<i>Source: Lianhe Global</i>		

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