

Dongtai Xixi Tourism and Cultural Scenic Area Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	21 June 2023

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Dongtai Xixi Tourism and Cultural Scenic Area Investment Development Co., Ltd. (“DXTCS” or “the company”)

Summary

The Issuer Credit Rating reflects a high possibility that the People’s Government of Dongtai City, Jiangsu Province (“Dongtai government”) would provide strong support to DXTCS if needed, in light of its indirect full ownership of DXTCS, DXTCS’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and resettlement housing construction in Dongtai City, Jiangsu Province (“Dongtai”), especially in Xixi Tourism and Cultural Scenic Area (“Xixi Area”), and the linkage between the Dongtai government and DXTCS, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Dongtai government may face significant negative impact on its reputation and financing activities if DXTCS encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that DXTCS’s strategic importance would remain intact while the Dongtai government will continue to ensure DXTCS’s stable operation.

Rating Rationale

Dongtai Government’s Ownership and Supervision: The Dongtai government indirectly holds 100% ownership of DXTCS through Dongtai Tongda Investment Co. Ltd. (“DTI”) and Dongtai Transportation Investment and Construction Group Co. Ltd. (“DTIC”), and is the actual controller of the company. The Dongtai government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dongtai government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Dongtai and Strategic Alignment: DXTCS, as the main implementation body for infrastructure investment, construction and operation in Dongtai, especially in Xixi Area, is primarily responsible for the construction of key tourism projects, municipal projects such as bridges and roads, as well as resettlement housing projects within the region. With the support of the local government, the company actively participates in tourism resource development. As the construction of Xixi Area progresses, DXTCS’s business scale is expected to further expand. The company plays an important role in promoting the economic and social development of Xixi Area. Its business operation and development have been aligned with the government’s development plans.

Ongoing Government Support: DXTCS received operational and financial support from the government. DXTCS received a total subsidy amount of c. RMB245.3 million from 2020 to 2022, mainly including operating subsidies. The Dongtai government also injected cash,

Key Figures of Dongtai and DXTCS

(RMB billion)	2021	2022
Dongtai		
GDP	98.6	105.1
GDP growth rate (%)	8.9	4.7
Budgetary revenue	6.0	6.1
Government fund	6.2	5.6
Transfer payment	4.4	4.8
Budgetary expenditure	12.8	14.0
DXTCS		
Assets	9.2	11.3
Equity	4.1	4.7
Revenue	0.6	0.6

Source: Public information, DXTCS and Lianhe Global’s calculations

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Applicable Criteria

China Local Investment and Development Companies Criteria (5 December 2022)

land, properties and other assets into DXTCS to expand its asset size. Besides, the government will repurchase some infrastructure and resettlement housing projects and provide policy supports to DXTCS to ensure its business operation. Given the regional advantages in infrastructure construction within Xixi Area, DXTCS has advantage to obtain major projects and other resources. We believe DXTCS is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

DXTCS's Financial Matrix and Liquidity Position: DXTCS's total assets showed a continuous growth trend in the past years and reached RMB11.3 billion at end-2022, mainly due to the increase in investment properties and other receivables. The current assets of DXTCS accounted for c. 76.0% of the total assets at end-2022, but the overall assets were less liquid, due to the large proportion of costs associated with construction projects, investment properties and receivables. DXTCS's financial leverage (total liabilities to assets) increased from c. 46.9% to c. 58.1% from end-2020 to end-2022. Its adjusted total debt increased to c. RMB5.2 billion at end-2022, mainly due to the increase in long-term payable. The liquidity of DXTCS was tight. At end-2022, DXTCS had unrestricted cash balance and unused credit facilities of c. RMB249.7 million and RMB768 million, respectively, compared with its debt due within one year of c. RMB1.8 billion at the same time. Having said that, DXTCS has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Dongtai: Dongtai is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Yancheng City ("Yancheng"). It recorded an economic growth in 2022, achieving a GDP of c. RMB105.1 billion, with a year-on-year growth of 4.7%. Its total GDP ranks first among all districts and counties in Yancheng. The aggregate fiscal revenue of the Dongtai government was mainly derived from the budgetary revenue and government fund income. In 2022, the budgetary revenue of the Dongtai government increased to c. RMB6.1 billion. However, the tax revenue decreased to RMB4.4 billion due to the large-scale value-added tax credit refunds to support the economy. At the same time, the government fund income decreased to RMB5.6 billion in 2022, owing to the weak property market. Dongtai's budget deficit increased to 130.7% in 2022. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 108.1% at end-2022 from 98.7% at end-2021.

Rating Sensitivities

We would consider downgrading DXTCS's rating if (1) there is perceived weakening in support from the Dongtai government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Dongtai government's ownership of DXTCS, or (3) there is a downgrade in our internal credit assessment on the Dongtai government.

We would consider upgrading DXTCS's rating if (1) there is an upgrade in our internal credit assessment on the Dongtai government. (2) there is an upgrade in our internal credit assessment on the Dongtai government.

Operating Environment

Economic Condition of Dongtai

Dongtai is a county-level city directly under the jurisdiction of Jiangsu Province and managed by Yancheng on behalf of Jiangsu Province. Dongtai has abundant tourism resources, including Xixi Area, Huanghai Forest Park, Anfeng Ancient Town, etc. Dongtai has

jurisdiction over 14 towns, with a total area of 3,176 square kilometers. At end-2022, Dongtai had a resident population of c. 0.9 million, with an urbanization rate of 60.5%.

Dongtai maintained steady economic growth in the past three years. Dongtai's GDP reached c. RMB105.1 billion in 2022, representing a year-over-year growth rate of 4.7%, and its GDP ranked first among all districts and counties under the administration of Yancheng. In the past few years, Dongtai focused on the development of five major industries, namely IT, advanced equipment manufacturing, new energy, new material and health industry. Dongtai's economic growth was mainly fueled by the secondary and tertiary industries, which accounted for 36.3% and 48.7% in 2022, respectively. GDP per capita of Dongtai was c. RMB118,200 in 2022, which was higher than the GDP per capita of China (c. RMB85,700) as well as that of Yancheng (c. RMB105,600).

Dongtai's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	89.3	98.6	105.1
-Primary industry (%)	14.0	14.5	15.0
-Secondary industry (%)	35.4	35.9	36.3
-Tertiary industry (%)	50.5	49.6	48.7
GDP growth rate (%)	5.8	8.9	4.7
Fixed asset investment	48.3	41.8	46.5
Fixed asset investment growth rate (%)	4.2	-13.5	11.2
Population (million)	0.9	0.9	0.9

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Dongtai

The Dongtai government's aggregate fiscal revenues are mainly derived from budgetary income and government fund income. From 2020 to 2022, the budgetary revenue of the Dongtai government maintained a steady growth, and the tax revenue accounted for 73-78% of its budgetary revenue. Dongtai's budget deficit increased to 130.7% in 2022. In addition, Dongtai's government fund income, mainly generated by land sales, dropped to c. RMB5.6 billion in 2022 from c. RMB6.2 billion in 2021, owing to the weak property market.

The outstanding debt of the Dongtai government continued to grow in the past three years. At end-2022, the Dongtai government's outstanding debt was c. RMB10.8 billion, representing a year-over-year growth rate of 12.8%. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, increased to 108.1% at end-2022 from 98.7% at end-2021, mainly due to the increase in special purpose debt.

Dongtai's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	5.5	6.0	6.1
Budgetary revenue growth rate (%)	5.0	10.4	4.5*
Tax revenue	4.3	4.7	4.4
Tax revenue (% of budgetary revenue)	78.0	78.0	72.9
Government fund income	4.4	6.2	5.6
Transfer payment	5.1	4.4	4.8
Aggregate revenue	15.0	16.6	16.5
Budgetary expenditure	11.8	12.8	14.0
Budget deficit ¹ (%)	-116.8	-112.1	-130.7

¹ Budget deficit = (1-budgetary expenditure / budgetary revenue) * 100%

Note*: Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

DXTCS, formerly known as Dongtai Xixi Industrial Park Investment Development Co., Ltd., was established in October 2010 with an initial registered capital of RMB100 million. In March 2012, the company was renamed as the present one. After an array of capital injections and equity transfers, the company's registered and paid-in capital were both enlarged to RMB410 million, and its share were 100% held by DTIC at end-2022.

Strategic Importance and Government Linkage

Strategic Importance of DXTCS to Dongtai

DXTCS, as the main implementation body for infrastructure investment, construction and operation in Dongtai, especially in Xixi Area, is primarily responsible for the construction of key tourism projects, municipal projects such as bridges and roads, as well as resettlement housing projects within the region. With the support of the local government, the company actively participates in tourism resource development. As the construction of Xixi Area progresses, DXTCS's business scale is expected to further expand. The company plays an important role in promoting the economic and social development of Xixi Area. Its business operation and development have been aligned with the government's development plans.

Linkage with the Local Government

DXTCS's linkage with the local government is strong as the Dongtai government indirectly holds 100% ownership of DXTCS through the DTI and DTIC. The Dongtai government has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Dongtai government has assessment mechanism over the company and it appoints auditor to supervise the operating performance and financial position on a periodic basis.

Government Support

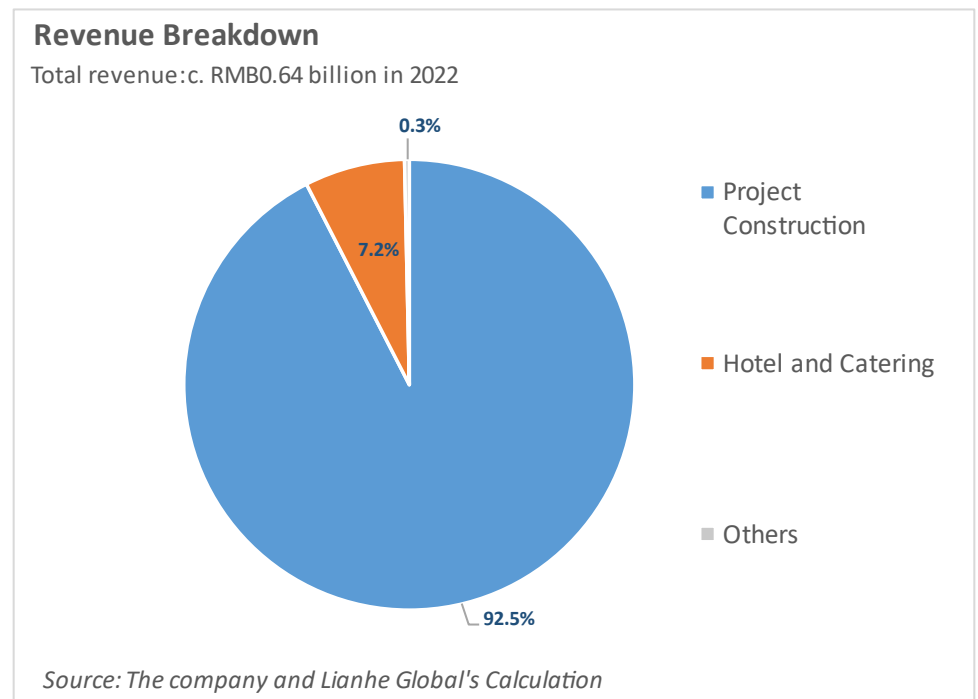
DXTCS continued to receive financial subsidies, mainly including operating subsidies from the local government to maintain its business operation. DXTCS received subsidies of c. RMB70.6 million, RMB80.0 million and RMB94.7 million in 2020, 2021 and 2022, respectively. The Dongtai government injected cash, land, properties and other assets into DXTCS to expand its asset size in 2016 and 2017. Having said that, no further capital injection has been made since then. The government will provide policy supports to DXTCS to ensure its business operation. Given the franchise advantages in project construction, area development and urban operation, DXTCS has advantage to obtain major projects. We believe DXTCS is likely going to receive government support in the form of operational and/or financial subsidies to support its daily business operation.

Business Profile

The Major Entity Responsible for Scenic Area Construction in Xixi Area

DXTCS, as an important LIDC in Dongtai, is mainly responsible for scenic area investment, construction and operation within the Xixi Area. The company's strong franchise advantage enables it to undertake important scenic area construction and resettlement housing projects under the instruction of the Dongtai government and Dongtai Xixi Administrative Committee. As the core platform to implement scenic area construction within Xixi Area, the company has received strong support from shareholders and the government in terms of capital injection, asset transfer and government subsidies, which enhances the capital strength and profitability of the company.

The primary source of operating revenue for DXTCS is project construction, while it is also engaged in hotel and catering, advertising, ticketing, property management, renting service, etc. The company's total revenue reached c. RMB512.3 million, RMB636.2 million and RMB636.3 million in 2020, 2021 and 2022, respectively, representing an upward trend. The overall gross profit margin of the company remained stable at c. 16% from 2020 to 2022. In general, the company's business was relatively concentrated, and it has regional advantages in its major businesses.



Project Construction

DXTCS is designated by the Dongtai Xixi Administrative Committee and Dongtai Dongyong and Seventh Fairy Cultural Development Co., Ltd. (the actual controller of this company is the Dongtai government) to undertake the infrastructure and resettlement housing projects within the Xixi Area. The project construction business is mainly divided into the agent construction model and self-operated model. For agent construction model, the company signs the agent construction agreements with the entrusting party and settles construction costs plus management fees with the entrusting party when the projects are handed over to

the entrusting party are after completion. For self-operated model, DXTCS obtains income from the subsequent operations after the completion of the self-operated projects. The revenue in this segment were c. RMB470 million, RMB569 million and RMB588 million in 2020, 2021 and 2022, respectively. The profit margin of this segment kept stable at 12.7% between 2020 and 2022. Currently, the company is working on several large-scale projects, thus it incurs high capital expenditure pressure.

Hotel and Catering

Hotel and catering business of the company is mainly handled by Dongtai Hubin Garden Hotel, which is operated and managed by its subsidiary, Dongtai Hubin Garden Hotel Co., Ltd. Located in Xixi Botanical Garden, this hotel covers a land area of 23,000 square meters and currently has 90 rooms, with visiting tourists as the main customers. The revenue in this segment was c. RMB36 million, RMB61 million and RMB46 million in 2020, 2021 and 2022, respectively. Its profit margin in this segment is relatively high, fluctuating between 47% and 62% from 2020 to 2022.

Other Businesses

Other businesses of DXTCS include advertising, ticketing, property management, renting service, etc., with each segment accounted for a relatively small proportion of the company's total revenue. Other businesses mainly play the role of supplementing the revenue of the main business and make the revenue structure more diversified.

Financial Profile

Balance Sheet Structure and Quality

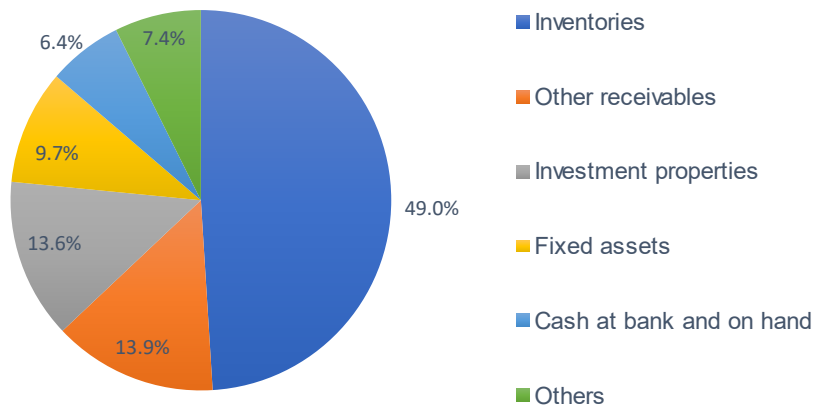
Balance Sheet Structure and Quality			
(RMB million)	2020	2021	2022
Total Asset	7,554	9,236	11,292
Equity	4,012	4,067	4,737
Debt	2,507	4,027	5,156
Debt / (Debt + Equity) (%)	38.5	49.8	52.1
LT Debt	1,121	2,203	2,921
LT Debt / (LT Debt + Equity) (%)	21.8	35.1	38.1

Source: Company information and Lianhe Global's calculations

DXTCS's total assets showed a continuous growth in the past few years, with a growth rate of 22.3% and 22.3% at end-2021 and end-2022, respectively, and reached RMB11.3 billion at end-2022. The increase of DXTCS's total assets in 2022 was due to the increase in investment properties and other receivables. At end-2022, DXTCS's assets mainly consisted of inventories, other receivables, investment properties, fixed assets and cash at bank and on hand. Inventories mainly included project construction costs associated with DXTCS's agent construction and project construction business, which increased in parallel with the growth of the relevant projects. Investment properties was transferred from inventories, fixed assets and construction in progress in 2022. Other receivables were mainly transactions with its subsidiaries other LIDCs within the region, with an aging period of mostly within 1-year, controllable counterparty risk and low bad debt provision. DXTCS's current assets accounted for a relatively large proportion of total assets, reaching c. 76.0% at end-2022. Its assets were illiquid, primarily due to the large proportion of costs associated with construction projects, investment properties and receivables.

Asset Breakdown

(Total assets: RMB11.3 billion at end -2022)



Source: The company and Lianhe Global's calculation

DXTCS's financial leverage (total liabilities to assets) was 46.9%, 56.0% and 58.1% at end-2020, end-2021 and end-2022, respectively, representing an upward trend. Its adjusted total debt increased from c. RMB2.5 billion at end-2020 to c. RMB5.2 billion at end-2022, mainly due to the increase in long-term payables. The short-term debt and long-term debt accounted for c. 43.3% and 56.7% of the total debt at end-2022, respectively. The non-traditional financing, such as targeted financing and factoring financing, constituted a significant portion of its total debt at end-2022. There was no significant change in the ownership equity structure of DXTCS at end-2022, compared with that at end-2020. The capital surplus was to c. RMB3.5 billion at end-2022, accounting for a relatively large proportion in its total equity. DXTCS mainly relies on external financing to support its capital expenditures and debt repayments, which we expect to increase in the future given its projects under construction and to be constructed in the future.

Debt Servicing Capability

The liquidity of DXTCS was tight. At end-2022, DXTCS had unrestricted cash balance and unused credit facilities of c. RMB249.7 million and RMB768 million, respectively, compared with its debt due within one year of c. RMB1.8 billion at the same time. Having said that, DXTCS has access to various financing channels, including bank loans and non-traditional financing, to support its debt repayment and business operations.

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