

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Fengdu Cultural Tourism Investment Group Co., Ltd.

HONG KONG, 24 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Fengdu Cultural Tourism Investment Group Co., Ltd. (“CFCT” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Fengdu County (“the Fengdu government”) would provide strong support to CFCT if needed. This mainly considers the Fengdu government’s full ownership of CFCT, CFCT’s strategic importance as an important local investment and development company (“LIDC”) responsible for tourism infrastructure construction and operation in Fengdu County (“Fengdu”), and the strong linkage between the Fengdu government and CFCT, including the appointment of senior management, strategic alignment, supervision of major investment and financing decisions and ongoing operational and financial support. In addition, the Fengdu government may face significant negative impact on its reputation and financing activities if CFCT encounters any operational and financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The Fengdu government holds 100% shares of CFCT through the State-owned Assets Center of Fengdu County. The Fengdu government has strong control over the company, including the appointment of senior management and supervision of development strategy, major financing plan and investment decisions. In addition, the local government formulates a performance assessment policy for the company, and regularly appoints auditors to review the company’s operating performance and financial position.

Strategic Importance and Strategic Alignment: CFCT, as one of the two key LIDCs in Fengdu, focuses on developing tourism infrastructure and promoting Fengdu’s tourism industry. CFCT’s business operations and strategic planning have been aligned with the local government’s economic and social development policies, as the local government is going all out to advance the tourism industry, a pillar industry of the county, in Fengdu.

Ongoing Government Support: The Fengdu government provided ongoing support to CFCT. The company received government subsidies of RMB346 million between 2020 and 2022. Moreover, the local government injected capital of RMB1 billion into CFCT in 2022. The company also received tourism related asset injections and equity allocations from the local

government. We expect CFCT to receive ongoing support from the local government in the coming years considering its strategic importance in Fengdu.

Economy and Fiscal Condition of Fengdu: Fengdu is titled as one of the National Top 10 Ecological Leisure and Tourism Cities featured with ghost culture. With abundant tourism resources and tourist attractions in Fengdu, tourism industry plays an important role in its economy development. Nevertheless, Fengdu's GDP scale was relatively small, which was RMB39.1 billion in 2022 and ranked 28th among 38 districts and counties under of Chongqing Municipality's jurisdiction. Given the tourism's high contribution to Fengdu's economy, its GDP growth fluctuated during the Covid, with GDP growth rate recording at 3.0%, 7.5% and 4.0% in 2020, 2021 and 2022, respectively.

The aggregate fiscal revenue of the Fengdu government was mainly derived from budgetary revenue and transfer payment from the higher governments. The Fengdu government's budgetary revenue kept moderate growth in the past three years, increasing from RMB2.3 billion in 2020 to RMB2.5 billion in 2022. Its government's fiscal balance was improving but still weak, with the budget deficit narrowing to 158.9% in 2022 from 206.3% in 2020. Fengdu relied heavily on transfer payment from the higher governments, which accounted for 48.7%-61.5% of aggregate revenue in the past three years.

The outstanding amount of Fengdu's government debts increased to RMB12.6 billion at end-2022 from RMB7.3 billion at end-2020, due the large new issuance of government debts, mainly to support the development of tourism and infrastructure projects. The fiscal leverage ratio (total government debt outstanding/aggregate revenue) of the Fengdu government surged to 159.4% from 87.0% over the same period.

CFCT's Financial and Liquidity Position: The total assets of CFCT increased significantly to RMB17.7 billion at the end-June 2023 from RMB11.0 billion at end-2020, mainly due to the local government's injection of land development projects valued at RMB5.4 billion in 2021. After the injection, the company's financial leverage (total liabilities to assets) of CFCT fell to 20.9% at end-June 2023 from 46.5% at end-2020. However, the company needs to continue investing in injected land development projects before they are ready for land-transferring.

CFCT's debt had been stable at RMB400-500 million between 2020 and 2022, then surged by 89.3% to RMB863 million at end-June 2023, as the company launched several cultural tourism projects in 2023. Yet CFCT remained a low total debt to capitalization ratio of 5.8% at end-June 2023.

The liquidity of CFCT was moderate. At end-June 2023, the cash assets of CFCT were RMB168 million, compared to its non-current debts due within one year of RMB433 million. Yet we expect the company to be able to roll-over most of its short-term bank borrowings of RMB145 million. Bank borrowing was the company primary financing source, and the company had unused credit lines of RMB2.7 billion at end-June 2023.

Rating Sensitivities

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

We would consider upgrading CFCT's rating if (1) there is strengthened support from the Fengdu government, or (2) there is an upgrade in our internal credit assessment on the Fengdu government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this CFCT's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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