

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

HONG KONG, 18 October 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Heze Cultural Tourism Investment Group Co., Ltd. (“HCTI” or “the company”). The Outlook is Stable.

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

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

Key Rating Rationales

Government’s Ownership and Supervision: The Heze government indirectly holds the full ownership of HCTI through the State-owned Assets Supervision and Administration Commission of Heze City (“Heze SASAC”), via Heze Caijin Investment Group Co., Ltd. (“HCIG”). The Heze government has control over the company through its shareholder, 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: HCTI, as the key LIDC in Heze, is primarily responsible for infrastructure construction and operation in the Caozhou Peony Garden, which is a famous tourist attraction in Heze. Serving as the sole LIDC in charge of infrastructure projects in the Caozhou Peony Garden, HCTI focuses on development and operation of scenic spots, and land consolidation and development in the Caozhou Peony Garden. Its business operations and strategic planning have been aligned with the local government’s economic and social development policies.

Ongoing Government Support: The local government provided ongoing support to HCTI. The company received assets with a total value of RMB14.0 billion from the local government in 2020-2022. We expect HCTI to receive ongoing support from the local government in the coming years considering its strategic importance in Heze.

Economy and Fiscal Condition of Heze: Heze realized a GDP of RMB420.5 billion in 2022, representing a year-on-year growth of 4.2%, which was higher than the growth rate of the GDP of China (3.0%) and that of Shandong Province (3.9%). Yet its absolute amount of GDP was still low. It was ranked 8th in Shandong Province in 2022 (out of the 16 prefecture-level cities). At the same time, Heze's GDP per capita was RMB48,431, which was ranked 15th in Shandong Province, and it was below the province's average of RMB85,973.

Heze's budgetary revenue growth bounced back in 2021 but slowed in 2022, with a growth rate of 19.3% and 7.0%, respectively. Affected by the value-added tax credit refund policy, the tax revenue as a percentage of its budgetary revenue decreased from 77.0% in 2021 to 66.7% in 2022, a record low in recent years. On the other hand, the government fund income of Heze decreased by 22.7% to RMB36.5 billion in 2022, mainly due to the decline in land-transferring fees. In addition, Heze's government debt and budget deficit were high. Its government debt increased to RMB131.2 billion at end-2022 from RMB110.8 billion at end-2021, representing year-on-year growth of 18.4%, and the budget deficit increased to 125.9% in 2022. It is noteworthy to mention that the Heze government's fiscal debt ratio (total government debt outstanding/aggregate revenue) exceeded 100% in 2022, which was mainly due to the significant increase in its special purpose debt.

HCTI's Financial and Liquidity Position: HCTI's total assets were RMB28 billion at end-2022, increased by c. 19.5% year-on-year, and further climbed to RMB33 billion at end-June 2023. HCTI relied on borrowings to finance its businesses. The total debts of the company rushed to RMB2.0 billion at end-June 2023. Consequently, the total debt ratio and long-term debt ratio elevated to 7.5% and 6.0%, respectively.

HCTI's liquidity was moderate. At end-June 2023, the company had cash of RMB795.6 million (including restricted cash of RMB527.9 million), compared with its debt due within one year of RMB449.5 million. HCTI has access to various financing channels, including bank borrowings, to support its debt repayments and business operations. At end-June 2023, the company had unused credit lines of RMB3.0 billion.

Rating Sensitivities

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

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

Contact Information

Primary Analyst
Toni Ho, CFA, FRM
Director
(852) 3462 9578
toni.ho@lhratingsglobal.com

Secondary Analyst
Sigmund Jiang, CFA, CESGA
Analyst
(852) 3462 9587
sigmund.jiang@lhratingsglobal.com

Committee Chairperson
Joyce Huang, CFA
Managing Director
(852) 3462 9586
joyce.huang@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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