

Chongqing Fengdu Culture Tourism Group Co., Ltd.

Initial Issuer Report

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Chongqing Fengdu Culture Tourism Group Co., Ltd. (“CFCT” or “the company”)

Summary

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 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.

Rating Rationale

Government’s Ownership and Supervision: The Fengdu government holds 100% shares of CFCT through the State-owned Assets Center of Fengdu County (“the Fengdu SAC”). 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

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	24 October 2023

Key Figures of Fengdu and CFCT (RMB billion)

	2021	2022
Fengdu		
GDP	37.5	39.1
GDP growth rate (%)	7.5	4.0
Budgetary revenue	2.4	2.5
Government fund	1.7	0.8
Transfer payment	3.9	4.6
Budgetary expenditure	6.2	6.5
CFCT		
Asset	17.6	16.1
Equity	12.2	13.3
Revenue	0.66	0.66

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

Analysts

Sigmund Jiang, CFA, CESGA
 (852) 3462 9582
sigmund.jiang@lhratingsglobal.com

Roy Luo, FRM, CESGA
 (852) 3462 9582
roy.luo@lhratingsglobal.com

Applicable Criteria

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

Chongqing Municipality (“Chongqing”)’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 short-term debts due 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.

Operating Environment

Economic Condition of Fengdu

Fengdu is a county located in the center of Chongqing. With over 5,000 years of history, Fengdu is titled as one of the National Top 10 Ecological Leisure and Tourism Cities featured with ghost culture. Fengdu has jurisdiction over 30 towns (streets included), with a total area of 2,901 square kilometers. The residential population of Fengdu was 0.55 million at end-2022, with an urbanization rate of 51.0%.

With abundant tourism resources and tourist attractions in Fengdu, tourism industry plays an important role in Fengdu's economy development. In 2022, the overall tourism income of Fengdu amounted to RMB12.7 billion. In the first half of 2023, the figure reached RMB8.0 billion. According to the 14th five-year plan of national economic and social development of Fengdu County, the Fengdu government endeavors to speed up the local tourism industry development, aiming to enlarge the overall tourism income to RMB20 billion and raise tourism industry's contribution to GDP to above 8% by 2025.

Nevertheless, Fengdu's GDP scale was relatively small, which was RMB39.1 billion in 2022 and ranked 28th among 38 districts and counties under Chongqing's jurisdiction. Given the tourism's high contribution to Fengdu's economy, its GDP growth fluctuated during the Covid, with its GDP growth rate recording at 3.0%, 7.5% and 4.0% in 2020, 2021 and 2022, respectively.

Fengdu's GDP and Fixed Asset Investment

(RMB billion)	2020	2021	2022
GDP	33.5	37.5	39.1
-Primary industry (%)	14.0	14.0	14.1
-Secondary industry (%)	44.2	42.6	39.6
-Tertiary industry (%)	41.8	43.4	46.3
GDP growth rate (%)	3.0	7.5	4.0
Fixed asset investment	11.6	12.9	14.2
Fixed asset investment growth rate (%)	12.2	11.5	10.2
Population (million)	0.56	0.56	0.55

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Fengdu

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. However, tax revenue had a relatively low proportion in budgetary revenue, while the revenue from paid use of state-owned resources and assets contributed to 46.6% of the budgetary revenue in 2022. The Fengdu 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.

Fengdu's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	2.3	2.4	2.5
Budgetary revenue growth rate (%)	2.8	4.0	5.4
Tax revenue	1.1	1.1	0.8
Tax revenue (% of budgetary revenue)	48.5	45.4	31.6
Government fund income	0.9	1.7	0.8
Transfer payment	5.2	3.9	4.6
Aggregate revenue	8.4	7.9	7.9
Budgetary expenditure	7.0	6.2	6.5
Budget balance ¹ (%)	-206.3	-160.9	-158.9

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Full Government Ownership

CFCT was established in 1998 by the Fengdu government with an initial registered capital of RMB10 million. After an array of capital injections and equity transfers, the company now is solely owned by the Fengdu SAC. By the end-June 2023, the company's registered capital was RMB2.0 billion and the paid-in capital was RMB1.0 billion.

Strategic Importance and Government Linkage

Strategic Importance of CFCT to Fengdu

CFCT, as one of the two key LIDCs in Fengdu, focuses on developing tourism infrastructure and promoting Fengdu's tourism industry. The company serves as the sole LIDC in charge of construction projects and asset operation in the Ming Mountain, the most famous tourist attraction in Fengdu, and handles the construction and operation of other tourist attractions in Fengdu, such as Nantian Lake National Tourism Resort. 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,

Strong Linkage with the Local Government

The Fengdu government holds 100% shares of CFCT directly. 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.

Ongoing Government Support

The local 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.

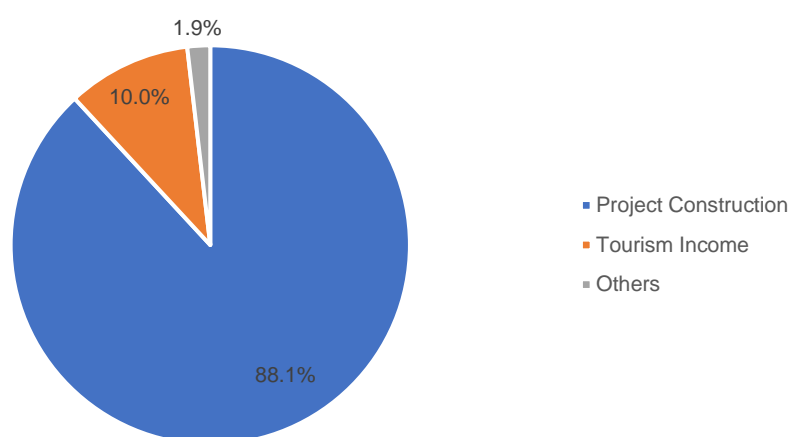
Business Profile

The Key Entity Responsible for Tourism Infrastructure Construction and Operation in Fengdu

CFCT is the key entity responsible for tourism infrastructure construction and operation in Fengdu. The total revenue of CFCT was RMB508 million, 656 million, 664 million and 425 million in 2020, 2021, 2022 and the first half of 2023, respectively.

Revenue Breakdown

(Total Revenue: RMB425 million for the first half of 2023)



Source: The company and Lianhe Global's calculation

Projects Construction

As the major revenue driver of the company, the construction business generally adopts agent construction mode. According to the agreements signed between CFCT and the entrusting parties, the company is responsible for tourism related infrastructure construction and land development projects. The relevant revenue will be confirmed and received annually depending on the process of construction, normally based on the actual costs plus a percentage of profit. The projects construction business income was RMB485 million, 581 million, RMB636 million and RMB374 million in 2020, 2021, 2022 and the first half of 2023, respectively.

Tourism

The tourism business is operated by CFCT's subsidiary, Chongqing Fengdu Mingshan Tourism (Group) Co., Ltd. The major revenue of the tourism business includes ticket sales, shops rentals, vehicle leasing inside the tourist attraction. Due to the Covid, the tourism business experienced high volatility in the past three years. The operating revenue from the tourism business was RMB18 million, 73 million, 21 million and 43 million in 2020, 2021, 2022 and the first half of 2023, respectively.

Other Businesses

CFCT also participates in some other businesses, such as leasing and cemetery operation. We believe that those businesses have a relatively small impact on the company's overall credit profile, as they only contributed a small proportion to the company's total revenue.

Financial Profile

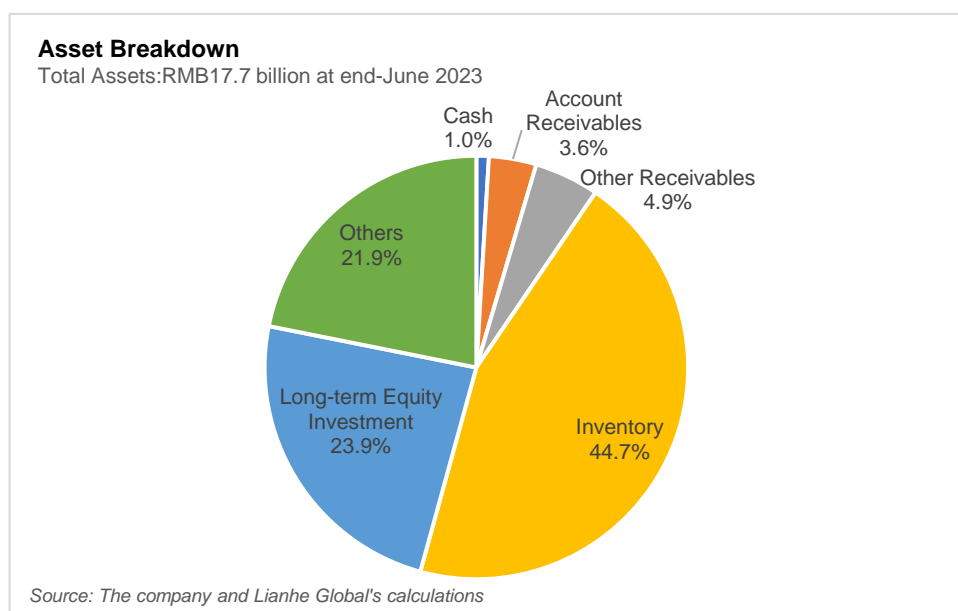
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	2023.6
Total Asset	11,042	17,573	16,141	17,718
Equity	5,911	12,177	13,281	14,022
Debt	494	416	456	863
Debt / (Debt + Equity) (%)	7.7	3.3	3.3	5.8
LT Debts	426	357	375	430
LT Debt / (LT Debt + Equity) (%)	6.7	2.8	2.7	3.0

Source: CFCT and Lianhe Global's calculations

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CFCT's asset liquidity was weak. Inventories, mainly consisting of injected land development projects, other engineering projects and construction costs, accounted for 44.7% of CFCT's total assets at end-June 2023. These projected related assets usually take a long time to monetize due to protracted construction, confirmation and settlement periods. At the same time, the long-term equity investment, accounting for 23.9% of the company's total assets, mainly included CFCT's equity investment on some companies related to local water conservancy projects, as instructed by the Fengdu government. We expect CFCT to hold these investments in long-run.

In addition, CFCT had a large amount of receivables, of which most account receivables were due from other LIDCs in Chongqing, while most other account receivables were due from local LIDCs and local governments. These receivables usually have no specified collection schedule.

Debt Servicing Capability

The liquidity of CFCT was moderate. At end-June 2023, the cash assets of CFCT were RMB168 million, compared to its short-term debts 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.

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