

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

HONG KONG, 13 November 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Xichang Haihe Cultural Tourism Investment Development Co., Ltd. (“XHCTID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Xichang City, Liangshan Yi Autonomous Prefecture (“Xichang government”) would provide strong support to XHCTID if needed, in light of its indirect full ownership of XHCTID, XHCTID’s strategic importance as the most important local investment and development company (“LIDC”) responsible for state-owned asset operation and construction in Xichang City, Liangshan Yi Autonomous Prefecture (“Xichang”) (“Liangshan”), and the linkage between the Xichang government and XHCTID, 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 Xichang government may face significant negative impact on its reputation and financing activities if XHCTID encounters any operational and financial difficulties.

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

Key Rating Rationales

Xichang Government’s Ownership and Supervision: Xichang government indirectly holds 100% ownership of XHCTID through the Xichang Finance Bureau (“Xichang FB”) and Xichang State-owned Assets Operation and Management Co., Ltd. (“Xichang SAOM”). The Xichang government has the final decision-making authority and supervision over the company, including senior management appointment, decision on its strategic development and supervision of its major investment and financing plan decisions. In addition, the Xichang government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Xichang and Strategic Alignment: XHCTID, as the most important LIDC in Xichang, is primarily responsible for building material sales, urban transportation services, property leasing and management, tourism spot operations and maintenance and other businesses in Xichang. XHCTID plays an important role in promoting the economic and social development of the region. Its business operation and strategic planning have been aligned with the government’s development plans.

Ongoing Government Support: XHCTID continued to receive financial subsidies, funding and asset/capital injections from the local government to support its business operations. We believe that the government support will remain intact given the company's strategic role in the economic development of Xichang. In 2020-2022, XHCTID received subsidies totaling around RMB632.8 million. Meanwhile, XHCTID received asset and capital injections in the form of cash, real estate assets, lands, and other assets, totaling around RMB2.1 billion. Besides, the Xichang government provides policy supports and tax deductions and exemption to XHCTID.

XHCTID's Financial and Liquidity Position: The total assets of XHCTID surged to RMB22.7 billion at end-June 2023 from RMB12.2 billion at end-2020, representing an annual growth rate of 27.9%, 39.6% and 4.2%, respectively, during the period. The increase in total assets was mainly due to the increase in investment properties and fixed assets. The financial leverage (total liabilities to assets) of XHCTID surged to 58.7% at end-June 2023 from 40.4% at end-2020. XHCTID's total debts expanded to RMB12.3 billion at end-June 2023, compared with RMB4.6 billion at end-2020.

The liquidity of XHCTID was weak. At end-June 2023, the cash and unused credit facilities of XHCTID were RMB1,028 million and RMB805.8 million, respectively, compared to its non-current debts due within one year of RMB5,205 million. The company has access to various financing channels, including bank borrowings and bond issuances to satisfy its obligations.

Economy and Fiscal Condition of Xichang: Xichang is a county-level city that lies in the center of Liangshan, Sichuan Province and is the capital of Liangshan. Xichang's economy kept moderate growth in the past three years, with the GDP growth rate recording at 2.7%, 6.6% and 5.0% in 2020, 2021 and 2022, respectively. The GDP amount of Xichang was RMB67.2 billion in 2022, which was ranked 1st among 17 cities and counties in Liangshan.

The aggregate fiscal revenue of the Xichang government is mainly derived from budgetary revenue and government fund income. The budgetary revenue increased modestly to RMB6.2 billion in 2022 from RMB5.5 billion in 2020, and the tax revenue accounted for 50.3%-62.2% over the same period. The fiscal self-sufficiency of the Xichang government was moderate and kept improving over the past three years, and the budget deficit narrowed to 24.8% in 2022 from 56.3% in 2020. On the other hand, Xichang's government fund income, which is mainly generated by land sales, also increased to RMB4.6 billion from RMB4.0 billion in 2020, owing to the increase of land transfers. The fiscal debt ratio (total government debt outstanding/aggregate revenue) of the Xichang government fluctuated in the past three years, which was 76.5%, 91.2% and 85.6% in 2020, 2021 and 2022, respectively.

Rating Sensitivities

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

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