

Xichang Haihe Cultural Tourism Investment Development Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 November 2023

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

Summary

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.

Rating Rationale

Xichang Government’s Ownership and Supervision: The 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.

Key Figures of Xichang and XHCTID

(RMB billion)	2021	2022
Xichang		
GDP	63.0	67.2
GDP growth rate (%)	6.6	5.0
Budgetary revenue	5.8	6.2
Government fund	4.0	4.6
Transfer payment	2.2	3.4
Budgetary expenditure	7.7	7.7
XHCTID		
	2022	2023.6
Assets	21.8	22.7
Equity	9.3	9.4
Revenue	1.1	0.6

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

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Applicable Criteria

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

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.

Operating Environment

Economic Condition of Xichang

Xichang is a county-level city that lies in the center of Liangshan, Sichuan Province and is the capital of Liangshan. Besides, Xichang also acts as the political, economic, cultural and transport center of the Panxi region. Xichang is enriched with mineral, water and forest resources, and has been listed as one of the Top 5 National Ecological Habits, National Ecological Construction Zone, National Wetland Tourism Site, etc. Xichang has jurisdiction over 25 towns (streets included), with a total area of 2,882 square kilometers. The residential population of Xichang was 1.0 million with an urbanization rate of 68.5% at end-2022.

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. Xichang's economic growth was mainly fueled by the secondary and tertiary industries in the past few years, which accounted for 44.1% and 46.7% in 2022, respectively. The GDP per capita of Xichang reached RMB 69,688 in 2022, which is higher than the GDP per capita of Sichuan (RMB67,777), but lower than that of China (RMB85,700).

Xichang's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	57.4	63.0	67.2
-Primary industry (%)	9.6	9.1	9.1
-Secondary industry (%)	40.4	42.7	44.1
-Tertiary industry (%)	50.0	48.2	46.7
GDP growth rate (%)	2.7	6.6	5.0
Fixed asset investment	33.9	38.3	39.8
Fixed asset investment growth rate (%)	2.7	12.9	4.0
Population (million)	1.0	1.0	1.0

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Xichang

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 outstanding amount of the Xichang government's debts expanded to RMB12.2 billion at end-2022, including RMB4.3 billion of general obligations and RMB7.8 billion of special debts. The rise in total debt amount was mainly due to the special debts, which surged from RMB5.1 billion at end-2020 to RMB7.8 billion at end-2022. 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.

Xichang's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	5.5	5.8	6.2
Budgetary revenue growth rate (%)	4.0	5.3	6.7
Tax revenue	3.1	3.6	3.1
Tax revenue (% of budgetary revenue)	56.3	62.2	50.3
Government fund income	4.0	4.0	4.6
Transfer payment	2.8	2.2	3.4
Aggregate revenue	12.4	12.1	14.2
Budgetary expenditure	8.6	7.7	7.7
Budget balance ¹ (%)	-56.3	-33.1	-24.8

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

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

XHCTID was established in August 2013 with an initial registered capital of RMB100.0 million, which is funded by the Xichang SAOM. After an array of capital replenishments, the company's registered capital and the paid-in capital were both RMB300 million at end-June 2023. The company was solely owned by Xichang SAOM, while the ultimate controller changed to Xichang FB from Xichang State-owned Assets Supervision and Administration Bureau in April 2023.

Strategic Importance and Government Linkage

Strategic Importance of XHCTID to Xichang

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.

Strong Linkage with the Local Government

XHCTID's linkage with the local government is strong as the Xichang government indirectly holds 100% ownership of XHCTID through the Xichang FB and 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.

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.

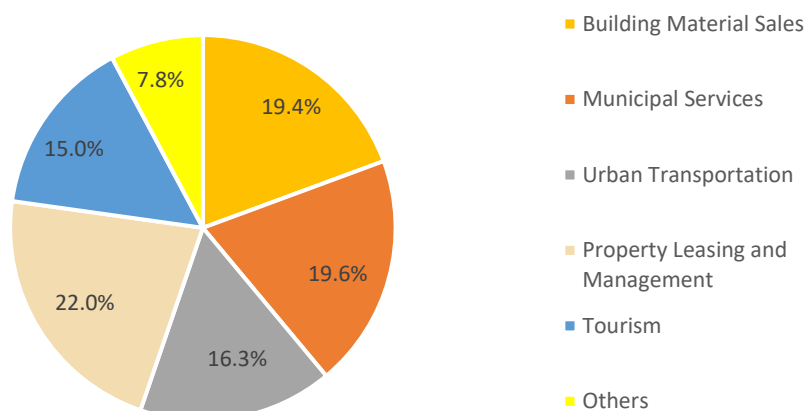
Business Profile

The Most Important Entity Responsible for State-owned Asset Operation and Construction in Xichang

XHCTID, as the most important LIDC in Xichang, is mainly responsible for state-owned asset operation and construction in Xichang. The company is primarily engaged in building material sales, urban transportation services, property leasing and management, tourism spot operations and maintenance and other businesses in Xichang. The total revenue of XHCTID was RMB618.3 million, RMB1,007.3 million, RMB1,062.1 million and RMB608.9 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross profit margin ranged from 12.6% to 37.9% over the same period.

Revenue Breakdown

(Total revenue: RMB608.9 million in the first half of 2023)



Source: The company and Lianhe Global's calculations

Building Material Sales

XHCTID is the sole legal gravel mining entity in Xichang, which is responsible for the mining and sales of gravel resources in Xichang. Considering the huge transportation cost, XHCTID faced less competition from building material supply from regions outside Xichang. Therefore, XHCTID enjoys a strong regional franchise in the gravel mining business. The income derived from this segment was RMB302.9 million, RMB363.2 million, RMB247.8 million and RMB118.0 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross margin ranged between 5.1% and 10.7% in the past few years.

Urban Transportation Services

The urban transportation services business includes public transportation and taxi business. XHCTID is the sole state-owned public transportation operator in the central area of Xichang. The company is responsible for the public transportation services in the urban area and 26 towns of Xichang, and enjoys strong regional franchises. The public transportation business is public welfare in nature, so it may incur loss and is subsidized by the local government. The income derived from this segment was RMB143.8 million, RMB139.6 million, RMB145.0 million and RMB99.3 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross margin ranged between -9.1% and 13.0% over the same period.

Property Leasing and Management

The segment income is mainly generated from the rent and management fees of retail stores and some of its shareholder's properties. Regarding the property management business, the Xichang government commissioned the company to provide property management services to 13 communities in Xichang. The income derived from this segment was RMB96.6 million, RMB194.5 million, RMB280.3 million and RMB133.8 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross margin varied between 18.2%-57.1% in the past few years.

Municipal Services

The municipal services include the tourist spot management service and the wetland operation and maintenance services. The segment income is mainly generated from ticket sales and wetland maintenance. The income derived from this segment was RMB11.2 million, RMB244.8 million, RMB238.3 million and RMB119.2 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross margin experienced high volatility and varied between -215.6% and 59.5% over the same period.

Tourism Services

The segment revenue is mainly generated from the ticket sales of Qionghai wetland scenic spots, tour buses and boats, etc. The income derived from this segment was RMB7.0 million, RMB22.7 million, RMB101.6 million and RMB91.2 million in 2020, 2021, 2022 and the first half of 2023, respectively. The gross margin fluctuated from -9.1% to 89.6% over the same period.

Other Businesses

Apart from the businesses mentioned above, XHCTID is also engaged in advertisement, vehicle repair and maintenance, car charging and other businesses, whose revenues serve as a supplement to the company's total revenue.

Financial Profile

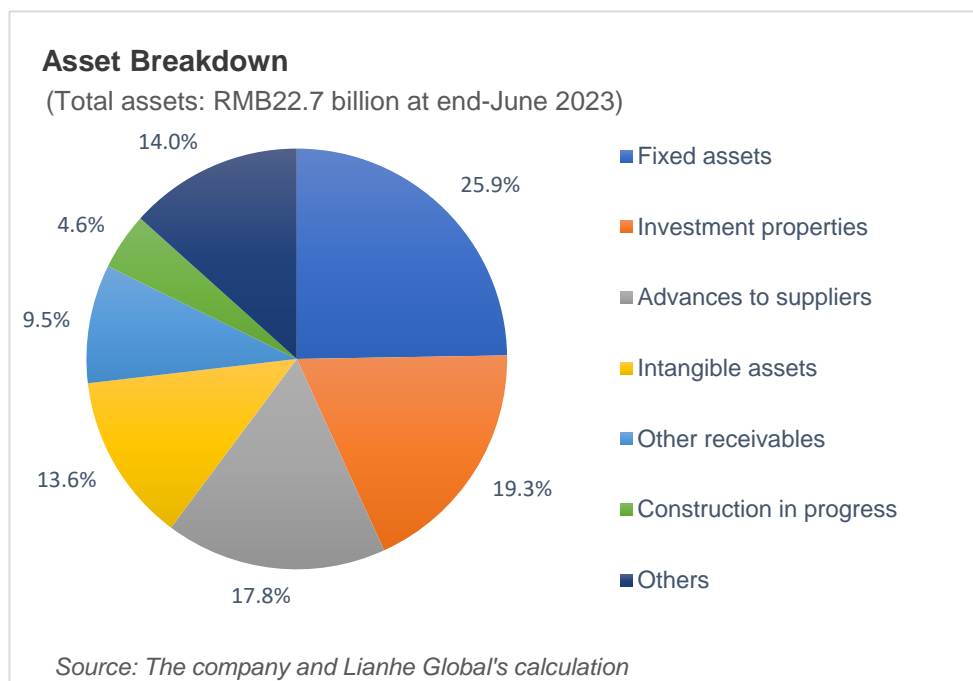
Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	June 2023
Total Asset	12,199	15,597	21,769	22,674
Equity	7,275	7,337	9,321	9,369
Debt	4,566	7,791	11,509	12,295
Debt / (Debt + Equity) (%)	38.6	51.5	55.2	56.8
LT Debts	3,222	5,171	5,266	7,090
LT Debt / (LT Debt + Equity) (%)	30.7	41.3	36.1	43.1

Source: Company information and Lianhe Global's calculations

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 current assets (RMB8.3 billion) accounted for c. 36.5% of the company's total assets at end-June 2023, and were mainly constituted of advance payment, other receivables, account receivables and cash. The cash accounted for 12.4% of its current assets at end-June 2023. The non-current assets of XHCTID were RMB14.4 billion at end-June 2023, which mainly consisted of investment properties, fixed assets, intangible assets and other non-current assets.



The financial leverage (total liabilities to assets) of XHCTID surged to 58.7% at end-June 2023 from 40.4% at end-2020. The increase in financial leverage was mainly due to the increase in short-term borrowing, payables and notes payables. XHCTID's total debts expanded to RMB12.3 billion at end-June 2023, compared with RMB4.6 billion at end-2020. The total debt and long-term debt ratios, which are measured as total debt over the sum of debt and equity, together with long-term debt over the sum of long-term debt and equity, increased to 56.8% and 43.1% at end-June 2023, respectively.

Debt Servicing Capability

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.



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