

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

HONG KONG, 20 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB+’ global scale Long-term Issuer Credit Rating to Chengdu Vartaim Cultural Tourism Development Co., Ltd. (“Vartaim” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that The People’s Government of Chenghua District (“the Chenghua government”) would provide strong support to Vartaim if needed. This mainly considers the Chenghua government’s indirect majority ownership of Vartaim, Vartaim’s strategic position as an important investment and development company responsible for urban renewal, as well as development and operation of cultural tourism in Chengdu’s Chenghua District, and the strong linkage between the Chenghua government and Vartaim, including management supervision, strategic alignment, and ongoing operational and financial support. In addition, the Chenghua government may face significant negative impact on its reputation and financing activities should Vartaim encounter any operational or financial difficulties.

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

Key Rating Rationales

Government’s Ownership and Supervision: The State-owned Assets Supervision, Administration and Financial Bureau of Chenghua District (“Chenghua SASAFB”) indirectly owns 90% ownership of Vartaim through Chengdu Chenghua Urban Area Reconstruction Investment Co., Ltd. (“CURI”), one of five major Local Investment and Development Companies (“LIDC”) under Chengdu Chenghua Development Group Co., Ltd. (“CCD”; ‘A-/Stable’), the flagship platform in Chenghua District. The Chenghua government, as the company’s ultimate controller, has strong control over Vartaim through its shareholder, including the supervision of senior management, development strategy, major financing plan and investment decision. In addition, the local government has formulated a performance assessment policy for the company, and regularly review the company’s operating performance and financial position through the Audit Bureau.

Strategic Alignment and Importance: Vartaim’s business operation and strategic planning have been aligned with the local government’s economic and social policies. Vartaim is an important LIDC in Chenghua District that is mainly responsible for urban renewal projects. The company also develops and operates cultural tourism projects within the region. It plays a significant role in Chenghua District’s urban development and cultural tourism industry

development. Especially, promoting the development of cultural tourism is one of the local government's key tasks in the coming years.

Ongoing Government Support: Vartaim receives ongoing support in forms of financial subsidies and asset/capital injections from the local government to support its business operations. Between 2020 and end-September 2023, the Chenghua government and its shareholder injected cash amounting to RMB3.0 billion and assets, including state-owned properties, projects and equipment, etc., valued at RMB9.3 billion, into Vartaim. Over the same period, the local government provided financial subsidies totaling RMB262 million to Vartaim. We expect Vartaim to receive ongoing support from the local government in the coming years considering its strategic importance in Chenghua District.

Economic and Fiscal Conditions of Chenghua District: Chenghua District's GDP reached RMB136.1 billion in 2022, representing a year-on-year growth rate of 5.0%, slowing down from 9.9% in 2021 due to the Covid's impact. Fixed asset investment growth rate of Chenghua District also slowed to 0.9% in 2022 from 19.0% in 2021, mainly due to the significant drop in infrastructure investment. Nevertheless, as the central area of Chengdu city, Chenghua District has a well-developed economic structure, with secondary and tertiary industry accounting for 38.4% and 61.6% of its total GDP in 2022. At the same time, its GDP scale and growth rate was ranked 6th and 5th among 23 jurisdictions of Chengdu, respectively.

The Chenghua government's aggregate revenue increased steadily to RMB18.4 billion in 2022 from 17.1 billion in 2021. Its budgetary revenue increased by 3.7% to RMB9.0 billion in 2022, and kept a budget surplus of 1.0% in 2022, despite the narrowing trend compared with the previous year. At the same time, the Chenghua government received substantial transfer payments from the higher-level government, increasing to RMB6.2 billion in 2022 from RMB4.6 billion in 2020. However, the revenue from the government-managed fund, which was mainly generated by land use rights transfer, decreased to RMB2.9 billion in 2022 from RMB3.5 billion in 2021, owing to weak property market.

The Chenghua government's debt was manageable. At end-2022, the Chenghua government's outstanding debt was RMB6.1 billion. Its fiscal debt ratio, as measured by total government debt outstanding/aggregate revenue, stayed at manageable level of 34% in the past three years.

Vartaim's Financial and Liquidity Position: Vartaim's asset size surged in the past three years, as the local government and its shareholder transferred an array of assets to the company. Yet its financial leverage, as measured by debt capitalization ratio, was fluctuant. It dropped to 34.4% at end-2022 from 64.5 at end-2021 owing to the asset and capital injections during the year. Then it increased to 45.8% at end-September 2023, as the company borrowed heavily to support its urban renewal and cultural tourism projects. We expect its total debt and financial leverage to keep increasing in the next two to three years, considering that Vartaim has a lot of projects to be completed.

Vartaim's asset liquidity was relatively weak. As the company actively participated in urban renewal and cultural tourism projects in Chenghua District, it accumulated sizeable inventories

(mainly construction costs and land to be developed). These assets usually take a long time to monetize due to the protracted construction and payment collection period.

Vartaim's pressure of short-term debt was manageable, as long-term debt contributed 87.2% to its total debt at end-September 2023. At the same time, Vartaim had cash balance of RMB1.8 billion as compared with its short-term debts of RMB1.4 billion. The company has access to various financing channels, including bank borrowing and other non-traditional financing channels to support its operation and debt repayment. Vartaim had unused bank line of RMB16.4 billion at end-September 2023.

Rating Sensitivities

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

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