

Zoucheng City Shengcheng Culture and Tourism Group Co., Ltd.

Initial Issuer Report

Summary

Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	14 March 2024

Correction: Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BBB’ global scale Long-term Issuer Credit Rating with Stable Outlook to Zoucheng City Shengcheng Culture and Tourism Group Co., Ltd. (“ZCSCT” or “the company”)

Summary

This replaces the rating report published on 7 March 2024. The Issuer Credit Rating reflects a high possibility that the People’s Government of Zoucheng City (“the Zoucheng government”) would provide strong support to ZCSCT if needed, in light of its full ownership of ZCSCT, ZCSCT’s strategic importance as an important local investment and development company (“LIDC”) that is responsible for development and operation of tourist attractions in Zoucheng, and the linkage between the Zoucheng government and ZCSCT, including appointment of the senior management, strategic alignment, supervision of major investment and financing plans and ongoing operational and financial support. In addition, the Zoucheng government may face significant negative impact on its reputation and financing activities if ZCSCT encounters any operational and financial difficulties.

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

Rating Rationale

Zoucheng Government’s Ownership and Supervision: Zoucheng State-owned Assets Supervision and Administration Bureau (“the Zoucheng SASAB”) holds 100% shares of ZCSCT, and is the company’s actual controller. The Zoucheng government has strong control and supervision over the company, including management appointment, decision on its strategic development, investment plan and major funding decisions. In addition, the Zoucheng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

Strategic Importance to Zoucheng and Strategic Alignment: ZCSCT is an important LIDC that is responsible for development and operation of tourist attractions in Zoucheng. The company develops and operates an array of key cultural tourism projects, including Yi Mountain Scenic Area, Meng Yuan, and Taiping National Wetland within the region. The company’s business operation plays a significant role in promoting Zoucheng’s tourism industry development. Its strategic planning has been aligned with the local government’s economic and social development plans.

Ongoing Government Support: ZCSCT receives ongoing support from the local government in forms of operational support and asset enrichment. We expect the support from the local government to remain intact given ZCSCT’s strategic importance.

Economy and Fiscal Condition of Zoucheng: Zoucheng is a county-level city directly under the jurisdiction of Shandong Province and administered by Jining City. Zoucheng has a history of over 6,000 years, and it is the birthplace of Mencius, a famous Chinese ancient thinker and educator. Besides, Zoucheng has been ranked as one of the Top 100 Counties in China and awarded as a National Historical and Cultural Cities in China. Zoucheng also has a strong industrial base with well-developed coal and electricity industries. The GDP

Key Figures of ZCSCT and Zoucheng

(RMB billion)

Zoucheng	2021	2022
GDP	95.0	100.9
GDP growth rate (%)	8.7	5.0
Budgetary revenue	8.4	8.6
Government fund	2.0	2.9
Transfer payment	1.3	1.6
Budgetary expenditure	8.8	8.5
ZCSCT	2022	2023.11
Asset	6.7	11.1
Equity	6.6	2.9
Revenue	0.34	0.57

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

Analysts

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

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

Applicable Criteria

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

amount of Zoucheng reached RMB100.9 billion in 2022, which was ranked 1st out of all 11 districts and counties of Jining. However, Zoucheng's GDP growth rate fluctuated in the past few years, owing to Covid's disruption, which was 4.0%, 8.7% and 5.0% in 2020, 2021 and 2022, respectively.

The Zoucheng government's budgetary revenue increased steadily to RMB8.6 billion in 2022 from RMB8.0 billion in 2020. The government fund income, mainly generated from land use rights transfers, also increased to RMB2.9 billion in 2022 from RMB2.0 billion in 2021. The outstanding debt of the Zoucheng government kept a steady growth between 2020 and 2022, increasing from RMB8.0 billion to RMB10.3 billion owing to the new issuance of special debts to support local public projects. Yet its fiscal debt ratio (total government debt outstanding/aggregate revenue) stayed around 99% over the same period as its aggregate revenue increased.

ZCSCT's Financial and Liquidity Position: ZCSCT's total asset climbed to RMB11,144 million at the end of November 2023, more than doubled compared with that of end-2020 (RMB4,566 million), as the company received a large amount of asset enrichment during the period. In contrast, the total debt of ZCSCT declined from RMB3.2 billion to RMB1.3 billion over the same period. The company's financial leverage ratio, measured as total debt to capitalization, fell significantly to 16.3% at the end of November 2023 from 70.1% at end-2020.

However, ZCSCT's short-term debt servicing pressure was high. At the end of November 2023, the company had a cash balance of RMB73 million (including restricted cash of RMB40 million), compared with its debt due within one year of RMB598 million. Yet we expect the company to roll over most of its short-term bank borrowings (end-November 2023: RMB136 million). In addition, ZCSCT has many channels to raise funds and support its debt repayments and business operations, including bank loans, bond issuance and other non-traditional financing channels. At end-November 2023, ZCSCT had unused bank facilities of RMB204 million. Nevertheless, obtaining timely additional support and financing sources are vital to ZCSCT.

Rating Sensitivities

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

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

Operating Environment

Economic Condition of Zoucheng

Zoucheng is a county-level city directly under the jurisdiction of Shandong Province and administered by Jining City. Zoucheng has a history of over 6,000 years, and it is the birthplace of Mencius, a famous Chinese ancient thinker and educator. Besides, Zoucheng has been ranked as one of the Top 100 Counties in China and awarded as a National Historical and Cultural Cities in China. Zoucheng has jurisdiction over 16 towns/streets, 1 provincial-level economic and development zone, with a total land area of 1,616 square

kilometers. At end-2022, Zoucheng had a resident population of 1.2 million, with an urbanization rate of 66.3%.

Zoucheng has a strong industrial base with well-developed coal and electricity industries. The GDP amount of Zoucheng reached RMB100.9 billion in 2022, which was ranked 1st out of all 11 districts and counties of Jining. However, Zoucheng's GDP growth rate fluctuated in the past few years, owing to Covid's disruption, which was 4.0%, 8.7% and 5.0% in 2020, 2021 and 2022, respectively. The economy of Zoucheng was mainly boosted by the secondary and tertiary industries, which accounted for 46.6% and 45.5% of the GDP in 2022, respectively.

Zoucheng's GDP and Fixed Asset Investment			
(RMB billion)	2020	2021	2022
GDP	82.4	96.1	100.9
-Primary industry (%)	7.4	6.8	6.8
-Secondary industry (%)	47.8	48.3	46.6
-Tertiary industry (%)	44.8	44.9	46.5
GDP growth rate (%)	4.0	8.7	5.0
Fixed asset investment growth rate (%)	4.2	13.3	-9.0
Population (million)	1.2	1.2	1.2

Source: Public information and Lianhe Global's calculations

Fiscal Condition of Zoucheng

The aggregate fiscal revenue of the Zoucheng government is mainly derived from budgetary revenue and government fund income. The budgetary revenue increased steadily to RMB8.6 billion in 2022 from RMB8.0 billion in 2020, and the tax revenue accounted for 60.4%-65.3% of the budgetary revenue over the same period. The fiscal self-sufficiency rate of the Zoucheng government was relatively high, and the government realized a budget surplus of 1.1% in 2022, improved from a deficit of 4.7% in 2021. The government fund income, mainly generated from land use rights transfers, also increased to RMB2.9 billion in 2022 from RMB2.0 billion in 2021.

The outstanding debt of the Zoucheng government kept a steady growth between 2020 and 2022, increasing from RMB8.0 billion to RMB10.3 billion. Its fiscal debt ratio (total government debt outstanding/aggregate revenue) stayed around 99% over the same period as its aggregate revenue increased.

Zoucheng's Fiscal Condition			
(RMB billion)	2020	2021	2022
Budgetary revenue	8.0	8.4	8.6
Budgetary revenue growth rate (%)	3.1	5.0	1.8
Tax revenue	5.1	5.5	5.2
Tax revenue (% of budgetary revenue)	64.0	65.3	60.4
Government fund income	2.0	2.0	2.9
Transfer payment	1.4	1.3	1.6
Aggregate revenue	11.5	11.8	13.2
Budgetary expenditure	8.2	8.8	8.5
Budget balance ¹ (%)	-2.0	-4.7	1.1

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

Note*: Excluding the influence of value-added tax credit refund

Source: Public information and Lianhe Global's calculations

Ownership Structure

Government's Ownership

ZCSCT was established in July 2012 with an initial registered capital of RMB10 million. The company's registered capital and paid-in capital increased to RMB602 million and RMB402 million at the end-2023, respectively. The Zoucheng SASAB, as the actual controller, holds 100% shares of ZCSCT.

Strategic Importance and Government Linkage

Strategic Importance of ZCSCT to Zoucheng

ZCSCT is an important LIDC that is responsible for development and operation of tourist attractions in Zoucheng. The company develops and operates an array of key cultural tourism projects, including Yi Mountain Scenic Area, Meng Yuan, and Taiping National Wetland within the region. The company's business operation plays a significant role in promoting Zoucheng's tourism industry development. Its strategic planning has been aligned with the local government's economic and social development plans.

Strong Linkage with the Local Government

ZCSCT's linkage with the Zoucheng government is strong as the Zoucheng SASAB holds 100% shares of the company. The local government has strong control and supervision over the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the local government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financials on a periodic basis.

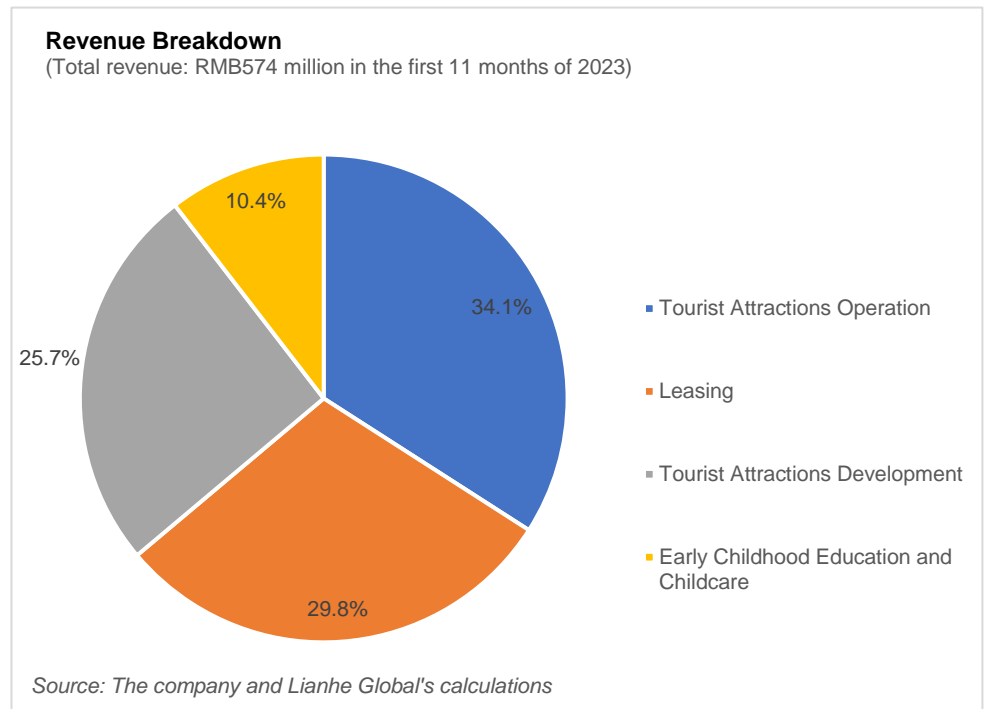
Ongoing Government Support

ZCSCT receives ongoing support from the local government in forms of operational support and asset enrichment. We expect the support from the local government to remain intact given ZCSCT's strategic importance.

Business Profile

A Leading Tourist Attraction Developer and Operator in Zoucheng

ZCSCT, as an important LIDC in Zoucheng, is mainly responsible for the development and operation of tourist attractions within the region, with a strong regional franchise advantage. The company operates a variety of business segments, including tourist attraction construction and operation, early childhood education and childcare, as well as leasing of state-owned properties. The total operating revenue of ZCSCT reached RMB8 million, 234 million, 344 million and 574 million in 2020, 2021, 2022 and the first 11 months in 2023, respectively, representing an upward trend.



Tourist attractions Operation and Development

ZCSCT is designated by the Zoucheng government as the key entity to conduct the development and operation of tourist attractions in Zoucheng. The company has taken the lead in the development of many key cultural tourism projects, including Yi Mountain Scenic Area, Meng Yuan, and Taiping National Wetland, etc. ZCSCT is usually responsible for fundraising, development and operation of projects. We expect the company's operational incomes to increase in the near future, as more projects will be put into operation. The strong project pipeline also supports ZCSCT's development in the coming years. However, it brings high capital expenditure pressure on the company.

Leasing

ZCSCT entered into leasing agreements with Zoucheng Education and Sports Bureau and Zoucheng Culture and Tourism Bureau. The rents are charged annually. ZCSCT's main leasing properties include stadium land and real property, the Zoucheng Museum and Mencius Grand Theater. The gross profit margin of this segment was relatively high, ranging between 53.7% and 58.1% over the same period.

Early Education and Childcare

ZCSCT operates four kindergartens and one nursery center, providing early childhood education and childcare services Zoucheng. The company provides high-end, distinctive and integrated services to its kindergartens by setting noble educational concepts, building outstanding teacher teams and providing high-end school equipment.

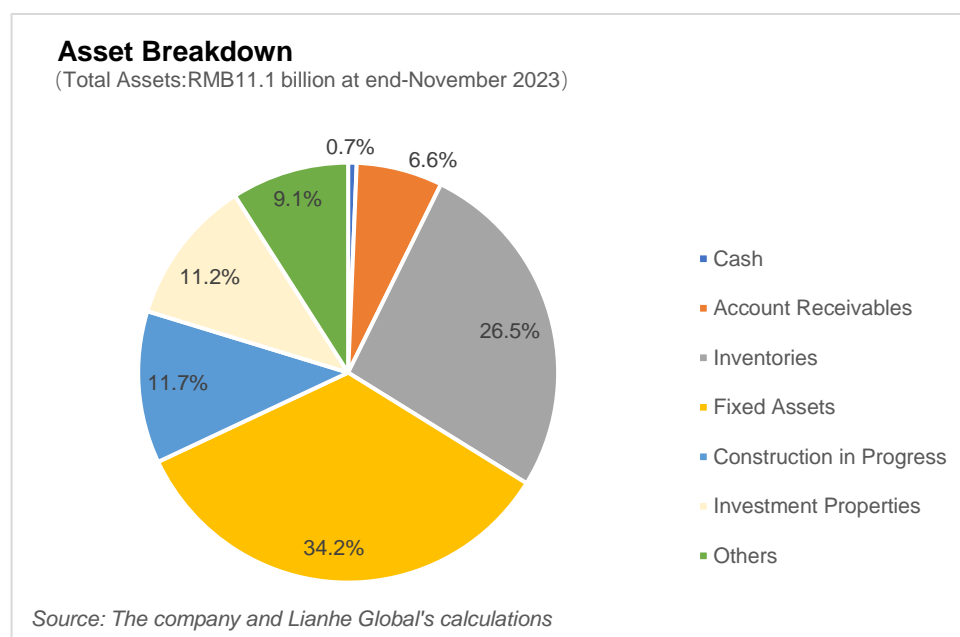
Financial Profile

Balance Sheet Structure and Quality

Balance Sheet Structure and Quality				
(RMB million)	2020	2021	2022	November 2023
Total Asset	4,566	4,663	6,750	11,144
Equity	1,363	1,360	2,922	6,579
Debt	3,198	2,258	1,495	1,277
Debt / (Debt + Equity) (%)	70.1	62.4	33.8	16.3
LT Debts	1,571	548	318	679
LT Debt / (LT Debt + Equity) (%)	53.5	28.7	9.8	9.4

Source: Company information and Lianhe Global's calculations

ZCSCT's total asset climbed to RMB11,144 million at the end of November 2023, more than doubled compared with that of end-2020 (RMB4,566 million), as the company received a large amount of asset enrichment during the period. In contrast, the total debt of ZCSCT declined from RMB3.2 billion to RMB1.3 billion over the same period. The company's financial leverage ratio, measured as total debt to capitalization, fell significantly to 16.3% at the end of November 2023 from 70.1% at end-2020.



However, ZCSCT's asset liquidity was relatively weak. By the end-November 2023, the company had a large amount of fixed assets (RMB3,808 million, mainly injected properties). Moreover, the company's tourist attractions construction activities accumulated significant inventories (RMB2,958 million, mainly construction costs), construction in progress (RMB1,305 million) and investment properties (RMB1,250 million). These assets are largely non-liquid in nature with a long payback period.

Debt Servicing Capability

ZCSCT's short-term debt servicing pressure was high. At the end of November 2023, the company had a cash balance of RMB73 million (including restricted cash of RMB40 million), compared with its debt due within one year of RMB598 million. Yet we expect the company to roll over most of its short-term bank borrowings (end-November 2023: RMB136 million).



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