

Xichang Haihe Cultural Tourism Investment Development Co., Ltd. Surveillance Report

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

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 an 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 Guosheng Industrial Development Co., Ltd. (“XGID”). 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 is an important LIDC responsible for state-owned asset operation and construction in Xichang. The company is primarily engaged in tourism spot operations and maintenance, urban transportation services, building material sales, property leasing and management 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 and asset/capital injections from the Xichang government to support its business operations. Between 2020 and 2023, XHCTID received total financial subsidies of about RMB847.6 million from the Xichang government. Meanwhile, the company received asset and capital injections in the form of cash, real estate assets, lands, equity transfers and other assets, totaling around RMB9.6 billion during the same period. Besides, the Xichang government provides policy supports and tax deductions and exemption to XHCTID. We expect XHCTID

Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Local Investment and Development Companies
Date	13 November 2024

Key Figures of Xichang and XHCTID (RMB billion)

Xichang	2022	2023
GDP	67.2	75.1
GDP growth rate (%)	5.0	8.7
Budgetary revenue	6.2	6.5
Government fund	4.6	3.9
Transfer payment	3.4	3.5
Budgetary expenditure	14.2	14.0
XHCTID	2023	2024.6
Asset	32.8	35.3
Equity	16.9	17.0
Revenue	1.5	0.7

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

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Applicable Criteria

China Local Investment and Development Companies Criteria (31 July 2024)

to receive ongoing support from the Xichang government in future considering its strategic importance in Xichang.

Economy and Fiscal Condition of Xichang: Xichang's GDP increased to RMB75.1 billion in 2023 from RMB67.2 billion in 2022, representing a year-over-year growth rate of 8.7%. The industrial structure remained unchanged, of which the secondary and tertiary industries accounting for 43.5% and 48.0% of total economy in 2023, respectively. The residential population in the region was 1.0 million with an urbanization rate of 70.5% in 2023. The GDP per capita and disposal income per capita of Xichang were RMB77,589 and RMB58,758 in 2023, respectively.

The fiscal revenue of the Xichang government mainly derived from budgetary revenue and government-managed fund. The budgetary revenue rose to RMB6.5 billion in 2023 from RMB6.2 billion in 2022, and the proportion of tax revenue to budgetary revenue was up to 60.4% from 50.3% over the same period. The fiscal self-sufficiency of the Xichang government was moderate but weakening, with the budget deficit widening to 36.7% in 2023 from 24.8% in 2022. The government-managed fund, mainly consist of land sales income, decreased to RMB3.9 billion in 2023 from RMB4.6 billion in 2022. The outstanding debt of the Xichang government slightly declined to RMB 12.2 billion at end-2023, mainly due to the decrease of special debts. The government debt ratio, as measured by the total government debt/aggregate revenue, was up to 86.6% at end-2023 from 85.6% at end-2022.

XHCTID's Financial and Liquidity Position: XHCTID's total assets increased to RMB35,309 million at end-June 2024 from RMB21,998 million at end-2022, as the Xichang State-owned Operation and Management Co., Ltd. allocated equities of some state-owned companies. XHCTID's asset liquidity was weak, primarily due to the large proportion of property assets, fixed assets and intangible assets, which together accounted for 50.2% of total assets at end-June 2024.

XHCTID's financial leverage (total liabilities to assets) was 51.9% at end-June 2024. The total debt of the company expanded to RMB15,196 million at end-June 2024 from RMB11,509 million at end-2022. At end-June 2024, the short-term and long-term debt accounted for 42.7% and 57.3% of the total debt, respectively. The company's financial leverage, as measured by debt/capitalization, declined to 47.2% at end-June 2024 from 55.3% at end-2022, mainly due to the increase in total equity.

XHCTID's liquidity was moderately weak. At end-June 2024, XHCTID had unrestricted cash balance of RMB1.0 billion, compared with its debt to be due within one year of RMB6.5 billion. It had unused credit facilities of RMB15.9 billion at end-June 2024. In addition, XHCTID has access to various channels of financing, including bank loans, bonds issuance and non-traditional financing channels, to support its debt repayments and business operations. At end-June 2024, the company had available bond issuance quotas of about RMB1.2 billion.

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.



Company Profile

XHCTID was established in August 2013 with an initial registered capital of RMB100.0 million, which is funded by by the Xichang SAOM. After an array of capital replenishments, the company's registered capital and the paid-in capital were both RMB900 million at end-June 2024. In September 2024, XHCTID's sole shareholder changed from Xichang State-owned Assets Operation and Management Co., Ltd. ("Xichang SAOM") to XGID, which is ultimately controlled by Xichang FB.

XHCTID is primarily engaged in tourism spot operations and maintenance, urban transportation services, building material sales, property leasing and management and other businesses in Xichang.

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