

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub> to Xi'an Qujiang Cultural Industry Investment (Group) Co., Ltd, with stable outlook.**

Hong Kong, 14 July 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub> to Xi'an Qujiang Cultural Industry Investment (Group) Co., Ltd (“QCII” or the “Company”), with stable outlook.

The BBB<sub>g</sub> long-term credit rating of QCII reflects Qujiang New District Government's strong capacity to provide support and its extremely high willingness to provide support based on our assessment of the Company's characteristics. Our assessment of the Qujiang New District Government's capacity to support reflects Qujiang New District's status as one of the earliest National Cultural Industry Demonstration, with good tourism resources and stable fiscal performance, but constrained by its relatively high debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) dominant position in cultural and tourism industry of Qujiang New District, aligning with government development strategy; (2) track record of receiving government support; and (3) rich and high-quality tourism resources. However, the rating is constrained by the Company's (1) moderate risk exposure to property development and retail businesses; (2) relatively high refinancing needs; and (3) contingent risks associated with external guarantees.

### **Corporate Profile**

Founded in April 1998, QCII is a leading local infrastructure investment and financing company (“LIIFC”) for the development of tourism and cultural industry in Shaanxi Province. The Company is primarily responsible for construction, development, and operation of major assets and resources in the cultural and tourism industry in Qujiang New District. It is also engaged in scenic area infrastructure construction, according to the development blueprint of the local government. Apart from public development projects, the Company also undertakes various commercial activities, such as property development and retail businesses. As of 31 March 2023, the Company was directly and wholly owned by Xi'an Qujiang Culture Holdings Co., Ltd. (“QJCH”) and beneficially owned by the Xi'an Qujiang New District Administrative Committee, a government organ of the Xi'an Municipal People's Government.

### **Rating Rationale**

#### **Credit Strengths**

**Dominant position in cultural and tourism industry of Qujiang New District, aligning with government development strategy.** As an important LIIFC and the key subsidiary of QJCH in Qujiang New District, QCII is mainly responsible for planning, operating, and promoting the cultural and tourism industry in Qujiang New District and related infrastructure construction. Its diversified cultural tourism-related businesses demonstrate high strategic significance to the society and economy of Qujiang New District by implementing the local government's development strategy.

**Track record of receiving government support.** QCII has a track record of receiving support from Qujiang New District Government in various forms, such as government subsidies and capital injections. From 2020 to 2022, the Company received government subsidies of RMB181.6 million, RMB170.8 million, and RMB192.0 million, respectively. Given its strong public policy role and important role in the cultural tourism development of Qujiang New District, we expect government support for QCII will remain good over the next 12 to 18 months.

### **Credit Challenges**

**Moderate risk exposure to property development and retail businesses.** QCII has moderate risk exposure to commercial activities such in property development and merchandise sales. These kinds of activities represent a high degree of income proportion and assets of to the Company, which may exert higher operating and financing risks on QCII. Given the large amount of construction of property development projects and further acquisition of Renrenle Commercial Group Co., Ltd., we expect the Company will increase its commercial activities exposure in the future.

**Relatively high refinancing needs.** QCII has high debt leverage, driven by continuous investment in construction projects. As of 31 March 2023, the Company's total debt (including perpetual bonds) increased from RMB41.1 billion at end-2020 to RMB43.1 billion; while the total capitalization ratio maintained a high level of nearly 70%. The Company demonstrated a relatively weak liquidity position as its short-terms accounted for more than 50% of the total debt, indicating a high refinancing pressure.

**Contingent risks associated with external guarantees.** QCII's credit profile is undermined by a relatively large number of external guarantees. As of 31 March 2023, the total amount of external guarantees was RMB6.5 billion, which accounted for 33.0% of its net assets.

### **Rating Outlook**

The stable outlook on QCII's rating reflects our expectation that the local government's capacity to support the Company will remain stable, and the Company will maintain its dominant position in tourism infrastructure construction and operation in Qujiang New District.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the local government's capacity to provide support strengthens; and (2) changes in company's characteristics enhance local government's willingness to provide support, such as reduced operational risk to commercial activities and improved debt management.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the local government's capacity to provide support weakens; or (2) changes in company characteristics decrease the local government's willingness to provide support, such as reduced regional significance or deteriorated financing ability.



## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

## Regulatory Disclosures

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