CCXAP assigns first-time long-term credit rating of BBB_g- to Zhenjiang Culture & Broadcasting Industry Group Co., Ltd., with stable outlook.

Hong Kong, 28 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has assigned a long-term credit rating of BBB_g- to Zhenjiang Culture & Broadcasting Industry Group Co., Ltd. ("ZCBI" or the "Company"), with stable outlook.

The BBB_g- long-term credit rating of ZCBI is underpinned by the Company's (1) strong regional competitiveness in advertising and program production business; and (2) extensive sales networks for trading business.

The rating also reflects high government support from the Zhenjiang Municipal Government when necessary, which is based on the Company's (1) full ownership by Zhenjiang Municipal Government; (2) high political implications; and (3) good track record of receiving government support.

However, the rating is also constrained by the Company's (1) culture industries are vulnerable to economic cycle; (2) high debt leverage and high reliance on short-term financing; and (3) modest liquidity position and weak financing flexibility.

Corporate Profile

Founded in 2010, ZCBI is a local state-owned enterprise in Zhenjiang City, which carries out cultural development activities and provides cultural services in Zhenjiang City. In recent years, the Company has improved its industrial chain and broadened its business structure. ZCBI mainly engages in advertising, trading, program production and consulting, financial services, tourism, and engineering. As of 31 December 2022, Zhenjiang Broadcasting and Television Station directly held 100% of the Company's shares and Zhenjiang Municipal Government was its ultimate controller.

Rating Rationale

Credit Strengths

Strong regional competitiveness in advertising and program production business. ZCBI is the most important state-owned media company in Zhenjiang City, which is mainly managed by the Propaganda Department of Zhenjiang Municipal Government. The Company focuses primarily on advertising, program production, and official news releases. ZCBI has maintained strong regional competitiveness in advertising and program production business in Zhenjiang City, supported by its outstanding media background in the region. Zhenjiang City is a developed area, with a high level of consumption, and strong consumer demand, especially a demand for cultural industries.

Extensive sales networks and well-established risk management measures in trading business. Around 30% of the Company's trading volume comes from online channels, mainly concentrated in three major exchanges, Wuxi Stainless Steel Electronic Trading Center Co., Ltd. (“Wuxi SSETC”), Shanghai Gold Exchange, and Shanghai Futures Exchange. Among them, the Company has a first-level membership qualification in Wuxi SSETC and can directly trade on this platform. To control business risks, the Company appoints a finance manager and trade business team to manage the trade business jointly. For controlling credit risks, ZCBI mainly uses wire transfers and bank acceptance bills to settle trade business.

Good track record of receiving government support given its regional importance. We assessed ZCBI’s status, ownership, and control by the Zhenjiang Municipal Government as strong due to its political importance in broadcasting and advertising in Zhenjiang City. The local government has provided ongoing support to ZCBI through financial subsidies and operational support. From 2020 to 2022, the local government has provided financial subsidies of RMB17.3 million to the Company. In terms of operational support, the local government will consider the Company as the first choice for advertising and program production.

Credit Challenges

Recession and industry competition undermine the performance of financial services. ZCBI mainly provides small-scale loans and financing guarantee services to farmers and SMEs, and carries out agency business for financial institutions. The Company's financial services gross profit margin has declined in the past three years, from 60.9% in 2020 to 33.5% in 2022. The main reason is the impact of Internet small-loans and the poor operating environment of small-loan customers.

Small revenue scale and weak profitability. Since most of its business is only operated in Zhenjiang City, the Company's operating income is relatively small. The Company’s revenue increased from RMB1.3 billion in 2020 to RMB1.4 billion in 2022. The Company’s return on total assets and EBIT margin has both kept low level, mainly driven by the low profitability of the trading business and financial services. The profitability of financial services dropped significantly from 60.9% in 2020 to 33.5% in 2022. The Company’s EBIT margin decreased from 12.0% in 2021 to 11.0% in 2022; while the return on assets decreased from 3.26% to 2.55% over the same period.

High debt leverage and high reliance on short-term financing. With debt-funded capital expenditure incurred from the expansion of the smart charging business, ZCBI’s debt leverage has increased fast in recent years. As of 31 December 2022, its adjusted total debt amounted to RMB3.2 billion, with a total capitalization ratio of 57.6%. The Company has a high reliance on short-term financing, resulting in large short term debt servicing pressure. As of 31 December 2022, the Company’s short-term debt accounted for 87.3% of its total debt.

Modest liquidity position and weak financing flexibility. ZCBI has a modest liquidity position. As of 31 December 2022, the Company reported cash reserves of RMB887.4 million, insufficient to cover its short-term debt of RMB2.8 billion. The large number of short-term debts has exerted high refinancing pressure on the Company. The Company’s financing flexibility was weak, with bank loans accounting for about 88.8% and non-standard financing for about 11.2% of its total debt at end-2022.

Rating Outlook

The stable outlook on ZCBI's rating reflects our expectation that the Company will maintain strong regional competitiveness in the advertising business in Zhenjiang City. We also expect that as a local state-owned enterprise, the Company will receive ongoing support from its shareholders.

What could upgrade the rating?

The rating could be upgraded if (1) the Company's business strength improves; and (2) the Company's stand-alone credit profile improves significantly, such as improvement in debt structure and leverage.

What could downgrade the rating?

The rating could be downgraded if (1) the likelihood of government support for the Company decreases; or (2) the Company's stand-alone credit profile weakens significantly, such as deterioration in debt leverage or liquidity.

Rating Methodology

The methodology used in this rating is the Rating Methodology for General Corporate (April 2019).

Regulatory Disclosures

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