Credit Opinion

28 September 2023

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	BBB_g-
Outlook	Stable

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Zhenjiang Culture & Broadcasting Industry Group Co., Ltd.

Initial credit rating report

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

Summary

The BBB_g- long-term credit rating of Zhenjiang Culture & Broadcasting Industry Group Co., Ltd. ("ZCBI" or the "Company") 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.

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.

Rating Drivers

- Strong regional competitiveness in advertising and program production business
- Extensive sales networks for trading business
- Small revenue scale and weak profitability
- High debt leverage and high reliance on short-term financing
- Modest liquidity position and weak financing flexibility
- Good track record of receiving government support given its regional importance

Rating Sensitivities

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.

Key Indicators

	2020FY	2021FY	2022FY
Total Assets (RMB billion)	5.7	5.6	6.7
Total Equity (RMB billion)	1.7	1.7	2.4
Total Revenue (RMB billion)	1.3	1.5	1.4
Net Profits (RMB million)	21.7	100.9	36.0
EBIT Margin (%)	11.0	12.0	10.1
Return on Assets (%)	2.6	3.3	2.3
Total Debt/Total Capital (%)	59.9	64.9	57.6
Total Debt/EBITDA (x)	13.0	13.5	17.0
EBITDA/Interest (x)	1.6	2.9	2.1
FFO/Total debt (%)	8.0	7.3	4.2

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

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.

Exhibit 1. Shareholding Chart as of 31 December 2022

镇江市人民政府
Zhenjiang Municipal Government

↓ 100.00%

镇江广播电视台
Zhenjiang Broadcasting and Television Station

↓ 100.00%

镇江文化广电产业集团有限公司
Zhenjiang Culture & Broadcasting Industry Group Co., Ltd.

Source: Company information, CCXAP research

Exhibit 2. Revenue Structure in 2022

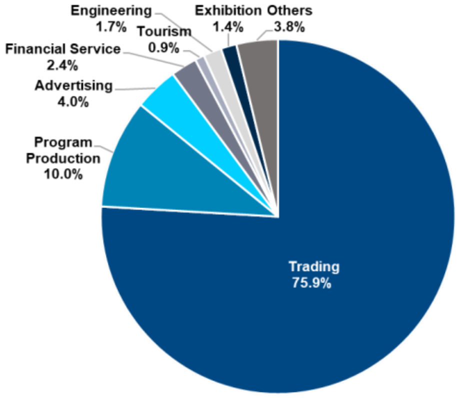
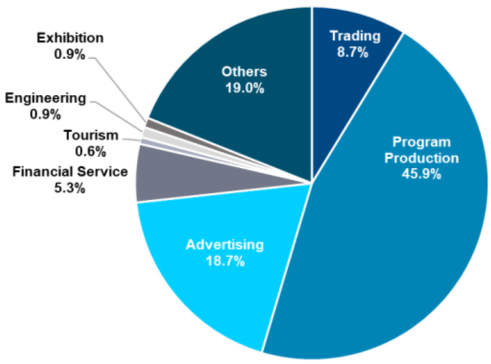


Exhibit 3. Gross Profit Structure in 2022



Source: Company information, CCXAP research

Rating Considerations

Business Profile

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.

ZCBI places advertisements on TV and radio according to customer needs, with self-operating advertising taking the majority and agency advertising taking the minority. Since the Company can use the media resources of Zhenjiang Broadcasting and Television Station to carry out business, including 3 TV channels and 6 radio channels, the advertising and program production business has relatively strong market shares in the region. As the purchase cost of the media resources is relatively low, the advertising and program production business kept a very high profit margin, with 69.6% in 2022. Advertising business customers are mainly from public institutions, building materials industry, automobile industry, and real estate developers. The top 5 customers accounted for 15.1% of the advertising business sales in 2022, which shows the business concentration risk is low.

However, due to the impact of new media on traditional media, the pandemic and the economic cycle, some of the Company's customers have been lost, such as real estate developers and automobile industry. The Company's revenue from advertising and program production business has dropped from RMB285 million in 2020 to RMB198 million in 2022. The economy recovered in the first half of 2023, but it has slowed down since the second half of the year. We expect the growth momentum of the advertising industry is still affected by the economic environment.

Extensive sales networks and well-established risk management measures in trading business

ZCBI conducts its trading business through its subsidiary Jiangsu Culture and Media Suzaku Import & Export Trading Co., Ltd. The Company's exposure to trading business is large as its trading revenue accounted for 75.9% of its total revenue in 2022. Besides, the trading products are well-diversified, including rhodium, bismuth ingot, silver, electrolytic copper and ruthenium. Among all the precious metal products, rhodium and bismuth ingot took the majority and accounted for 85.61% of total sales in 2022.

After years of brand promotion, the Company has a relatively stable customer group. Besides, 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. The Company determines the price mainly by referring to the online quotation, and adding the premium or discount based on products, brands, delivery places, and customer needs. However, due to its business nature, ZCBI has a relatively high concentration risk, with the top 5 customers accounting for 86.9% of total sales. Besides, the gross profit margin of the trading business is relatively low, with a gross profit margin of 1.73% in 2022.

The Company has taken well-established measures to control both business risks and credit risks. 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. The sales settlement mode is divided into cash and spot mode and delivery before payment mode. Under the cash and spot mode, the settlement cycle is generally 1 to 2 days. Under the delivery before payment mode, the settlement cycle is controlled within one month. For most cases, the Company generally adopts the cash and spot mode, while for some state-owned enterprises with good credit profile, the Company may choose delivery before payment mode.

Recession and industry competition undermine the performance of financial services

The Company mainly provides small-scale loans and financing guarantee services to farmers and SMEs, and carries out agency business for financial institutions. The main source of funds is the capital invested by shareholders, and the Company makes profits by collecting loan interests and guaranteeing fees. As of 31 December 2022, the balance of loans and advances was RMB206 million, of which normal loans were RMB171 million and non-performing loans were RMB35 million; the provision for impairment loss was RMB22 million, and the non-performing rate was 10.7%. 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.

Apart from small loans, ZCBI also engages in factoring business. The factoring applicant would first transfer the accounts receivable to the Company, and then the Company discounts the accounts receivable to factoring applicants, and factoring applicants pay factoring financing fees monthly. In addition, the trading counterparties are usually required to be regional state-owned enterprises, central state-owned enterprises, listed companies and other customers with high quality and low risk. As of 31 December 2022, the top five customers took up 68% of the total factoring business, with high customer concentration risk.

Supplementary income from other businesses

Apart from traditional businesses, ZCBI has participated in other businesses to further generate revenue, mainly involving smart charging, electricity engineering and tourism. As a fast-growing industry supported by the government, the smart charging business is expanding rapidly, with a revenue of RMB1.9 million in 2022. The Company is mainly responsible for the construction and operation of charging stations. With charging facilities purchased from ABB Group, one of the world's top 500 companies, ZCBI has a cutting edge in competing with other smart charging companies in the region. As of 31 December 2022, the Company had 530 charging piles and 30 charging stations. Besides, the Company had invested RMB37 million and received RMB8 million.

ZCBI is also engaged in the engineering business, focusing on the construction of electric projects, conducted by its subsidiary Jiangsu Wenguang Zhufang New Energy Technology Co., Ltd. The Company has finished several projects including the electric power engineering projects in Zhenjiang Station and Yangzhou Station, and some projects including SK New Energy Power Engineering are still under construction. As of 31 December 2022, the Company had 17 projects under construction, with a total investment of RMB712.0 million and an outstanding amount of RMB573.2 million.

Besides, ZCBI conducted its tourism business through its subsidiary Jiangsu Zhenjiang China Travel Service Co., Ltd, the first travel agency in Zhenjiang operating overseas traveling and the first travel agency in Zhenjiang to organize flights to Hong Kong and Macau. The Company actively promotes the development of overseas tourism, and expands new products such as overseas study tours and cruise tours. Affected by the pandemic, the tourism business dropped greatly from RMB37.9 million in 2020 to RMB12.2 million in 2022. We believe the tourism business can recover after the pandemic. However, this business is still affected by the economic environment.

Financial Profile

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. In terms of the business segment, the trading business remained the main contributor, accounting for 75.9% of total revenue, followed by program production (10.0%), advertising (4.0%), and financial service (2.4%).

ZCBI's profitability remains relatively weak, as reflected by the weak return on assets and EBIT margin. 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 profit margin of program production and advertising kept a relatively high level, with a profit margin of 69.4% and 70.2% respectively in 2022, while 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. Due to the increasing financial cost, the Company's period expense/period cost amounted to 17.34% in 2022, causing a certain profit erosion.

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%. In addition, ZCBI's debt servicing capability dropped significantly, and its total debt/EBITDA ratio increased from 13.5x in 2021 to 17.0x in 2022; while the EBITDA/total interest ratio decreased from 2.9x to 2.1x over the same period.

In addition, 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. The Company will take measures to lower debt leverage and adjust the debt structure, such as issuing onshore and offshore long-term bonds on capital markets.

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. In addition, the Company's operating cash flow has decreased, and its funds from operation ("FFO") decreased from RMB201.9 million in 2020 to RMB134.1 million in 2022, accounting for 4.1% of total debt at end-2022.

ZCBI's liquidity situation could be partially mitigated by its access to external financing channels. However, 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. As of 31 December 2022, The Company obtained total undrawn credit facilities of RMB650 million from large commercial banks. Due to the high funding demand for smart charging projects, the Company plans to tap the debt capital markets in the next 12-18 months.

External Support

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.

ZCBI is primarily engaged in advertising and trading, we considered ZCBI's socio-political implications to be moderate as the Company's total assets and financing volume are relatively small among the state-owned platforms in Zhenjiang City.

Overall, given ZCBI's strategic importance to the local government, we believe the local government will continue to support the Company in the form of financial subsidies and project support.

Rating Methodology

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

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