

Credit Opinion

26 January 2024

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

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Chongqing Canyon City Cultural and Tourism Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Chongqing Canyon City Cultural and Tourism Group Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Chongqing Canyon City Cultural and Tourism Group Co., Ltd. ("CCCT" or the "Company") reflects Chongqing Qianjiang District Government's relatively strong capacity and extremely high willingness to provide support to the Company, based on our assessment of the Company's characteristics.

Our assessment of the Qianjiang District Government's capacity to provide support reflects Qianjiang District's good tourism resources and ongoing economic growth, but with a small economic scale and relatively heavy debt burden.

The rating also reflects the local government's willingness to provide support, which is based on the Company's (1) important strategic position of cultural and tourism business in Qianjiang District, aligning with government development strategy; (2) solid track record of receiving government payments; and (3) relatively low debt leverage.

However, the rating is constrained by the Company's (1) high exposure to commercial activities; (2) moderate assets liquidity; (3) contingent risks associated with external guarantees; and (4) relatively high reliance on non-standard financing.

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

Rating Drivers

- Important strategic position of cultural and tourism business in Qianjiang District
- Track record of receiving government payments
- High exposure to commercial activities, with manageable business risk
- Low debt leverage with moderate asset liquidity
- Relatively high reliance on non-standard financing
- Contingent risks associated with external guarantees

Rating Sensitivities

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 decreased exposure to commercial activities and improved asset liquidity.

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 debt management.

Key Indicators

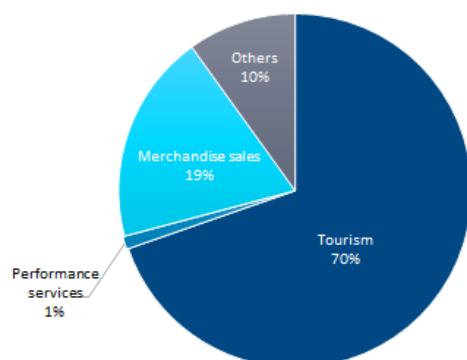
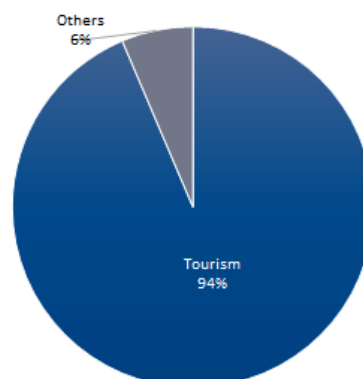
	2020FY	2021FY	2022FY
Total Asset (RMB billion)	5.7	11.4	11.3
Total Equity (RMB billion)	3.2	7.6	7.6
Total Revenue (RMB billion)	0.1	0.4	0.4
Total Debt/Total Capital (%)	42.3	26.7	28.9

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

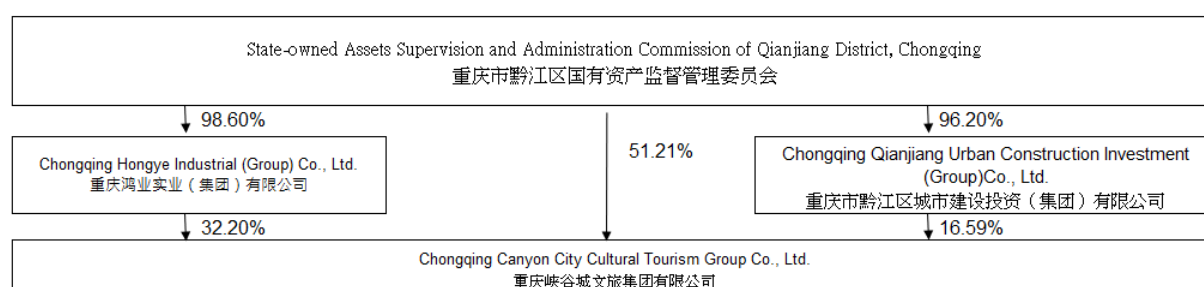
Source: Company data, CCXAP research

Corporate Profile

Founded in 2015, formerly known as Chongqing Qijiang District Tourism Investment Development Co., Ltd., CCCT is one of the major local infrastructure investment and financing company ("LIIFC") in Qianjiang District, Chongqing City. The Company is primarily responsible for cultural and tourism infrastructure construction and operation in Qianjiang District. Apart from public development projects, the Company also undertakes various commercial activities, such as tourism spots, hotel operations, merchandise sales and performance services. As of 31 December 2022, the State-owned Assets Supervision and Administration Commission of Qianjiang District, Chongqing ("Qianjiang SASAC") held 51.2%, Chongqing Hongye Industrial (Group) Co., Ltd. ("Hongye") held 32.2%, and Chongqing Qianjiang Urban Construction Investment (Group) Co., Ltd. ("QUCI") held the remaining 16.6% of the Company's shares. Qianjiang SASAC is the ultimate controller of the Company.

Exhibit 1. Revenue Structure in 2022**Exhibit 2. Gross Profit Structure in 2022**

Source: Company information, CCXAP research

Exhibit 3. Shareholding chart as of 31 December 2022

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Qianjiang District Government has a relatively good capacity to provide support to the Company, given its good tourism resources and ongoing economic growth, but with a small economic scale and relatively heavy debt burden.

Chongqing City is one of the four municipalities in China and the only municipality in Western China. Modern heavy machinery, chemical and pharmaceutical, as well as electronics and information technology manufacturing are the three major industries in Chongqing City. Thanks to the vigorous development of the industrial sector, Chongqing City's economy has demonstrated steady growth. In 2022, Chongqing City recorded a gross regional product ("GRP") of RMB2.9 trillion, with a GRP growth rate of 2.6% year on year ("YoY"), ranking 4th among municipalities and cities in China, affected by the pandemic and tax refund, the general budget revenue of Chongqing declined from RMB228.5 billion in 2021 to RMB210.3 billion in 2022, down 8.0%YoY. The debt balance of Chongqing City was RMB1.0 trillion in 2022, accounting for 34.6% of GRP. In the first half of 2023, Chongqing's GRP was RMB1.4 trillion, with a GRP growth rate of 4.6% YoY. We expect Chongqing City to continue to serve as an important strategic city for the development of Western China, the connecting point between the "Belt and Road" and the Yangtze River Economic Belt, and to play a unique and important role in the country's regional development and opening-up policy.

Exhibit 4. Key Economic and Fiscal Indicators of Chongqing City

	2020FY	2021FY	2022FY
GRP (RMB billion)	2,500.3	2,789.4	2,912.9
GRP Growth (%)	3.9	8.3	2.6
General Budgetary Revenue (RMB billion)	209.5	228.5	210.3
General Budgetary Expenditure (RMB billion)	489.4	483.5	489.3
Local Government Debt (RMB billion)	679.9	861.0	1,007.1

Source: Statistic Bureau of Chongqing City, CCXAP research

Qianjiang District is located in the southeast part of Chongqing City, with a total area of 2,402 square kilometers. Qianjiang District has continued to grow and develop in recent years. However, the overall economic strength of Qianjiang District is relatively weak. The GRP of Qianjiang District increased from RMB24.5 billion in 2020 to RMB28.2 billion in 2022, ranking 32nd among 38 districts/counties in Chongqing City. The general budgetary revenue of Qianjiang District maintained around RMB2.6 billion over the past three years, of which tax revenue accounted for 60.6% in 2022. Qianjiang District has moderate fiscal self-sufficiency and a heavy debt burden. It recorded an average general budgetary revenue/general budgetary expenditure ratio of 44% over the past three years. Qianjiang District Government's direct debt has shown an increasing trend, with an outstanding debt of RMB14.8 billion at end-2022, accounting for 52.5% of the Qianjiang District's GRP.

Qianjiang District has rich tourism resources, including one 5A-level scenic spot and seven 4A-level scenic spots. The Qianjiang District Government aims to build the district into a national tourism development demonstration zone, as well as an internationally renowned cultural tourism destination. We consider CCCT plays an important role in the implementation of the government's development blueprint.

Exhibit 5. Key Economic and Fiscal Indicators of Qianjiang District

	2020FY	2021FY	2022FY
GRP (RMB billion)	24.5	27.1	28.2
GRP Growth (%)	3.9	7.8	3.2
General Budgetary Revenue (RMB billion)	2.6	2.6	2.6
General Budgetary Expenditure (RMB billion)	6.9	4.9	6.4
Local Government Debt (RMB billion)	7.1	12.9	14.8

Source: Statistic Bureau of Qianjiang District, CCXAP research

Government's Willingness to Provide Support**Important strategic position in Qianjiang District, aligning with the government development strategy**

There are three major LIIFCs in Qianjiang District, namely Hongye, QUCI and CCCT. Hongye is mainly responsible for urban operation and industrial development, while QUCI is mainly responsible for infrastructure construction of new town areas and urban renovation of old town areas. CCCT is positioned as the core tourism development and operation entity in Qianjiang District, mainly responsible for the construction of tourism infrastructure projects and the operation of scenic spots. Considering the Company's high strategic significance to the development of Qianjiang District, we believe the Company will not be easily replaced by other local state-owned enterprises in the foreseeable future.

As a major tourism development entity in Qianjiang District, CCCT has undertaken a large number of tourism infrastructure construction projects over the past few years, including scenic spot upgrades, roads and greening. These infrastructure construction projects are mainly tourism related, and are usually located in scenic spots.

The Company is entrusted by the local government to conduct the construction of infrastructure projects with self-raised funds, and it achieves fiscal balance through scenic operations, including ticket sales, merchandise sales and hotel services. As of 31 December 2022, the Company had 16 infrastructure construction projects under construction or planning, with a total investment amount of RMB2.3 billion and an outstanding amount of RMB2.2 billion, exerting large capital expenditure pressure. Among them, City Grand Canyon Scenic Area Phase I Upgrading Project mainly aims to build karst cave groups and cultural and creative consumption areas. Zhengyang Holy Land Construction Project aims to build four major tourism areas, including Zhengyang Mountain Viewing Building, Changsheng Garden, Shixian Valley, and Cihang Valley, with a total construction area of 54,408 square meters.

High exposure to commercial activities, with manageable business risk

In addition to public activities, CCCT is also involved in various commercial activities such as tourism spots, hotel operations, merchandise sales and performance services. We consider CCCT's commercial business exposure to be high, as its market-driven businesses account for more than 30% of its total assets. However, the business risk for its commercial businesses is manageable as most of it is mainly related to scenic spot services, which are aligned with Qianjiang's development strategy.

CCCT possesses high-quality tourism resources in Qianjiang District. The Company is responsible for the operation of 8 A-Level scenic spots, such as Zhaoshui Scenic Area, City Grand Canyon Scenic Area and Turtle Gorge Scenic Area. The income of the Company's scenic spots operation mainly comes from these scenic spots. Among them, Zhaoshui Scenic Area is a national 5A-level scenic spot located in the southeast part of Qianjiang District, with a total area of 4.8 square kilometers, while the rest are national 4A-level scenic spots. The operating income of these scenic spots mainly comes from ticket sales, tourism products sales, car parking fees and others. The ticket prices for the Company's main scenic spots are stipulated by the government. The Company also partners with travel agencies to sell group tickets, with a 20%-40% discount. In order to stimulate Qianjiang's economy, Qianjiang District Cultural and Tourism Committee ("Qianjiang CTC") signed a procurement contract with the Company, and allowing the public to visit the scenic spots for free. Qianjiang CTC paid the Company the ticket sales in 2021 and 2022 in installments, and the Company received the repurchase payment in a timely manner. The tourism business is greatly affected by the pandemic, and the Company's income from the tourism business reduced from 2019 to 2020. Benefiting from the large procurement from Qianjiang CTC, income from the tourism business has significantly increased since 2021. We expect further growth in the Company's tourism revenue in 2023 as the impact of the epidemic subsides.

CCCT has conducted merchandise sales business since 2021, mainly involving sales of aluminum ingots to other trading companies under the demand-driven model. However, the business is subject to certain concentration risks as the Company only had 2 customers and 1 supplier as of 31 December 2022. The Company also owns 2 hotels in Zhaoshui Scenic Area, but continues to record a negative gross profit from this business. The Company also provides performance servicing in Qianjiang District. However, the small operating scale limits its contribution to the Company's overall income and cash flow.

Track record of receiving government payments

As a core tourism development and operation entity in Qianjiang District, CCCT has a track record of receiving payments from the Qianjiang District government. These payments take various forms, such as government subsidies and capital injections. In 2021, Qianjiang SASAC injected scenic spots into the Company, with a total amount of RMB4.4 billion, enhancing its capital strength and broadening its business portfolio. Given CCCT's important strategic role, we expect the Company will continue to receive support from the Qianjiang District

Government in the future.

Exhibit 6. Government Support from 2020 to 2022

(RMB million)	2020FY	2021FY	2022FY
Government Subsidies	47	35	46
Assets Injections	-	4,305	-
Total	47	4,340	46

Source: Company resources, CCXAP research

Relatively Low debt leverage and moderate asset liquidity

CCCT's total debt had increased from RMB2.4 billion at end-2020 to RMB3.1 billion at end-2022, with a relatively low capitalization ratio of 28.9%. The Company's debt structure is sound, with short-term debt accounting for 19.8% of its total debt in 2022. Given the Company's relatively large capital expenditure pressure, we expect the Company will have a relatively fast debt growth for the next 12-18 months.

Furthermore, CCCT has moderate asset liquidity. The Company's total asset mainly consists of non-current assets, which accounted for 90.1% of its total asset as of 31 December 2022. Non-current assets were mainly intangible assets and construction in progress, among which intangible assets are mainly landscape assets, which can form a certain operating cash flow.

Relatively high reliance on non-standard financing

The Company's debt financing was mainly provided by domestic banks, as bank loans provided around 75.2% of the Company's debt. However, the Company has a low credit facility. As of 31 December 2022, it held an available credit facility of RMB917.7 million. The onshore debt capital market provides around 1.6% of the Company's debt financing. Around 23.1% of debt financing was provided by non-standard financing, including financial leasing. Given the Company's low available credit facilities and relatively large outstanding investment amount on its construction projects, we consider an additional funding channel is needed to fulfill its large capital expenditure, such as the offshore debt capital market.

Contingent risks associated with external guarantees

CCCT's credit profile is undermined by a relatively large number of external guarantees. As of 31 December 2022, the total amount of external guarantees was RMB2.2 billion, which accounted for 28.7% of CCCT's net assets. All these external guarantees were provided to local state-owned enterprises in Qianjiang District. Relatively large guarantee exposures may increase the Company's contingent liability risks.

ESG Considerations

The Company is subject to environmental laws and regulations governing air pollution, noise emissions, hazardous substances, water and waste discharge and other environmental matters issued by the national governmental authorities. CCCT assumes environmental risks for its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning prior to the commencement of projects and close supervision during construction.

CCCT is also exposed to social risks as it implements public-policy initiatives by building public infrastructure in Qianjiang District. Demographic changes, public awareness and social priorities shape government's development strategy, and it will affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. CCCT believes that it is in compliance in all material respects with the applicable governmental regulations, rules and executive orders in each jurisdiction in which it operates. The Company maintains regular communication with local governments and regulatory authorities through its management team or representatives, ensuring compliance with the requirements and conditions for obtaining and maintaining the licenses, concessions, permits, or certificates.

Rating Methodology

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

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