

Credit Opinion

2 February 2024

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

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Jinan Zhangqiu Cultural Tourism Development Co., Ltd.

Initial credit rating report

CCXAP assigns first time long-term credit rating of BBB_g to Jinan Zhangqiu Cultural Tourism Development Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Jinan Zhangqiu Cultural Tourism Development Co., Ltd. (“JZCT” or the “Company”) reflects Zhangqiu District Government’s (1) strong capacity to provide support, and (2) very high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Zhangqiu District Government’s capacity to provide support reflects Zhangqiu District’s gross regional production (“GRP”) ranking upper-middle among the counties or districts in Jinan City, and its relatively strong economic and financial strength.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) clear and important position in tourism operation and resettlement housing business in Zhangqiu District, after consolidation of some local state-owned enterprises; and (2) good track record of receiving government supports, such as capital injection and equity transfer.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities with relatively large investment needs in cultural tourism operation; and (2) increasing debt burden driven by construction projects.

The stable outlook on JZCT’s rating reflects our expectation that Zhangqiu District Government’s capacity to provide support will be stable, and the Company’s characteristics such as its business profile and financial management will remain unchanged over the next 12 to 18 months.

Rating Drivers

- Clear and important position in tourism operation and resettlement housing business in Zhangqiu District, after consolidation of some local state-owned enterprises
- Medium exposure to commercial activities with relatively large investment needs in cultural tourism operation
- Good track record of receiving government supports, such as capital injection and equity transfer
- Increasing debt burden driven by construction projects

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Zhangqiu District Government's capacity to provide support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to provide support, such as reduced exposure to risk commercial activities or improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Zhangqiu District Government's capacity to provide support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced strategic significance, increased exposure to risk commercial activities, or weakened funding capabilities.

Key Indicators

	2020FY	2021FY	2022FY	2023Q3
Total Asset (RMB billion)	6.0	10.4	11.8	13.1
Total Equity (RMB billion)	4.7	5.2	6.3	6.1
Total Revenue (RMB billion)	0.3	0.3	0.4	0.2
Total Debt/Total Capital (%)	15.5	31.2	35.7	44.3

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

Source: Company data, CCXAP research

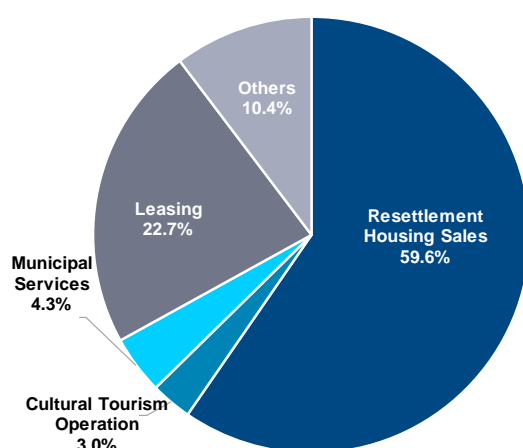
Corporate Profile

Founded in 2017, JZCT is the important entity of investment, development, construction and operation of cultural tourism projects in Zhangqiu District, Jinan City. As a wholly-owned subsidiary of Shandong Longshan Industrial Development Investment Group Co., Ltd. ("LSID"), one of the local largest infrastructure investment and financing companies ("LIIFCs") in Zhangqiu District, the Company is mainly engaged in infrastructure construction of cultural tourism projects, resettlement housing development, cultural tourism operation, leasing, and municipal services in Zhangqiu District. As of 30 September 2023, the Company was wholly and directly owned by LSID, and the Zhangqiu District Finance Bureau was the ultimate controlling shareholder of the Company.

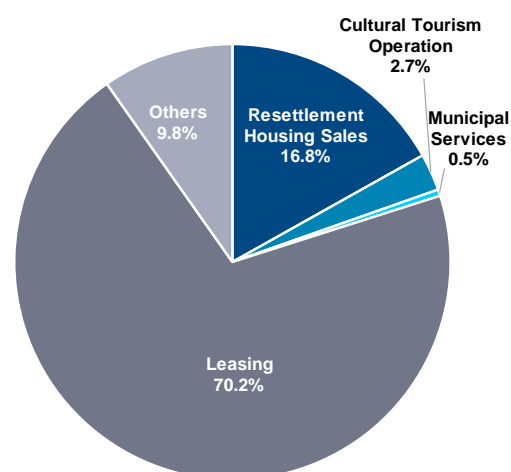
Exhibit 1. Shareholding chart as of 30 September 2023

Jinan City Zhangqiu District Finance Bureau 济南市章丘区财政局	100%
Shandong Longshan Industrial Development Investment Group Co., Ltd. 山东龙山产业发展投资集团有限公司	100%
Jinan Zhangqiu Cultural Tourism Development Co., Ltd. 济南市章丘文旅发展有限公司	

Source: Company data, CCXAP research

Exhibit 2. Revenue structure in 2022

Source: Company data, CCXAP research

Exhibit 3. Gross profit structure in 2022**Rating Considerations****Government's Capacity to Provide Support**

We believe the local government of Zhangqiu District has a strong capacity to provide support given Zhangqiu District's GRP ranking upper-middle among the counties or districts in Jinan City, and its relatively strong economic and financial strength.

Shandong Province is the third largest province in China by GRP, with a solid industrial foundation in industries such as logistics, shipbuilding, marine technology, chemical, automotive and agri-food. Jinan City is a sub-provincial city, the capital city of Shandong Province, and the core city of the Jinan metropolitan area. Supported by the rapid development of core industries such as automobiles, pharmaceutical manufacturing, and information technology, the regional economy of Jinan City has demonstrated steady growth and its GRP had exceeded RMB1.0 trillion over the past three years. Over the same period, Jinan City ranked 9th by GRP among 15 sub-provincial cities in China and ranked 2nd among 16 prefecture-level cities in Shandong Province. Jinan City had a strong financial profile. From 2020 to 2022, its general budgetary revenue increased from RMB90.6 billion to RMB100.0 billion, with an average self-sufficiency rate (general budgetary revenue/general budgetary

expenditure) of 75.9%. As of 31 December 2022, the local government's outstanding debt amounted to RMB266.0 billion, accounting for 22.1% of GRP. In the first three quarters of 2023, Jinan City's GRP amounted to RMB922.9 billion, representing a year-on-year("YoY") growth rate of 6.2%.

Exhibit 4. Key Economic and Fiscal Indicators of Jinan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	1,014.1	1,143.2	1,202.8
GRP Growth (%)	4.9	7.2	3.1
General Budgetary Revenue (RMB billion)	90.6	100.8	100.0
General Budgetary Expenditure (RMB billion)	128.8	129.3	126.0
Local Government Debt (RMB billion)	168.3	212.0	266.0

Source: Jinan Municipal Government, CCXAP research

Zhangqiu District is in the east part of Jinan City and it is Jinan's sub-centre city. Zhangqiu District has a strong industrial foundation and a complete industrial system. Mingshui Economic and Technological Development Zone, under the jurisdiction of Zhangqiu District, is the sole state-level economic and technological development zone in Jinan City, recognized as national demonstration base for new industrialization industry, national advanced machinery manufacturing industry base, national characteristic industry base for heavy-duty vehicles, and national organic polymer material base.

In recent years, the economic strength of Zhangqiu District has continued to increase, but shown slower growth. In 2022, the GRP of Zhangqiu District increased by 0.1% YoY to RMB129.8 billion. In 2022, the local government's general budgetary revenue decreased to RMB5.4 billion, due to the reduction in tax revenue resulted by the government tax refund policy and revenue reduction of local enterprises. Moreover, its fiscal balance ratio (general budgetary revenue/general budgetary expenditure) significantly decreased in 2022, decreasing from 85.2% in 2020 to 65.0% in 2022. However, the average fiscal balance ratio over the past three years was still relatively good, at the value of 81.4%. As of 31 December 2022, Zhangqiu District's outstanding governmental debt amounted to RMB16.1 billion, accounting for 12.4% of its GRP. In the first three quarters of 2023, Zhangqiu District's GRP was RMB85.2 billion, a YoY increase of 6.2%, ranking 5th among 12 districts and counties in Jinan City.

Exhibit 5. Key Economic and Fiscal Indicators of the Zhangqiu District

	2020FY	2021FY	2022FY
GRP (RMB billion)	100.2	112.0	129.8
GRP Growth (%)	7.2	4.6	0.1
General Budgetary Revenue (RMB billion)	7.0	7.7	5.4
General Budgetary Expenditure (RMB billion)	8.2	8.2	8.3
Local Government Debt (RMB billion)	11.0	14.2	16.1

Source: Zhangqiu District Government, CCXAP research

Government's Willingness to Provide Support

Clear and important position in tourism operation and resettlement housing business in Zhangqiu District, after consolidation of some local state-owned enterprises

There are two most important LIIFCs in Zhangqiu District, which are Jinan Zhangqiu Holding Group Co., Ltd. ("ZQHG") and LSID, respectively. ZQHG is mainly responsible for local municipal development. LSID is the most significant urban construction and development entity, as well as the main driver of industrial development

in Zhangqiu District. JZCT is one of the major subsidiaries of LSID. JZCT is also the important entity of investment, development, construction and operation of cultural tourism projects in Zhangqiu District, responsible for infrastructure construction of cultural tourism projects, resettlement housing development tasks, and municipal services in Zhangqiu District. JZCT is mainly engaged in cultural tourism Infrastructure construction in Zhangqiu District through the agent construction model. Under the agent construction model, the Company signs a construction agreement with the related parties before each project is developed, and the related parties pay the total cost plus 20% markup after examining the projects. As of 30 September 2023, the Company had a total of 2 projects under construction, with a total investment of RMB692 million and an outstanding amount of RMB142 million. Meanwhile, the Company also engaged in the resettlement housing development in Zhangqiu District. At the same time, the Company had 3 resettlement housing projects under construction, with a total investment of RMB4.5 billion and an outstanding amount of RMB1.7 billion.

The municipal services business is mainly responsible for cleaning services in Zhangqiu District. The Company collects and transports waste for disposal throughout the Zhangqiu District through receiving cleaning companies from the government. Revenue from the municipal services business decreased significantly to RMB16.3 million in 2022, representing a decrease of approximately 50.0% YoY. This was mainly due to the non-renewal of contracts with some of its customers by one of the cleaning companies at the end of the contract period, which resulted in a decrease in business volume and an increase in unit costs.

Medium exposure to commercial activities with relatively large investment needs in cultural tourism operation

Apart from public-related activities, JZCT also engages in several commercial activities, mainly including construction of self-operated projects, cultural tourism operation, and leasing. We consider JZCT's commercial business exposure to be medium. Although the commercial business accounts for more than 30% of total assets, the leasing assets, Zhangqiu District Cultural and Exposition Centre, is injected by the government. However, the relatively large investment needs in self-operated projects and cultural tourism operation would bring high capital expenditure pressure.

The Company conducts self-built and self-operated cultural tourism projects through self-raised funds, which put great pressure on its capital expenditures. As of 30 September 2023, the Company had 3 self-built and self-operated cultural tourism projects under construction, with a total estimated investment of RMB9.7 billion and an uninvested amount of approximately RMB4.5 billion. As the total income from the operation of cultural tourism projects is limited due to the early stage of these projects and the outstanding investment is large, it is expected that the Company will continue to require significant capital expenditure to build and operate these projects in the future. Majority of the Company's cultural tourism projects is policy-driven, aiming to promote the cultural industry development in Zhangqiu District and Jinan City. Mingshui Ancient City Project, the largest cultural tourism project with total investment of RMB9.4 billion, is the key cultural tourism project in Shandong Province and Jinan City. The local government also provides special bond to support the construction of Mingshui Ancient City Project, which would partially mitigate the Company's capital expenditure pressure. Mingshui Ancient City Project is estimated to fully put into operation in October 2024. It is necessary to keep track of the realization of future returns and the coverage capacity of investment in the Ming Shui Ancient City project. In addition, the Company operates two AAAA level scenic spots simultaneously, namely Baimaiquan Scenic Area and Zhujiayu Scenic Area, but the ticket revenue of the scenic spots is relatively low.

JZCT mainly engages in the leasing business of Zhangqiu District Cultural and Exposition Centre with lease term from 2021 to 2036. The agreed rent for the first year of 2021 was RMB84.6 million, with an annual increase

of 5% thereafter. Zhangqiu District Cultural and Exposition Centre was transferred from Zhangqiu District Government in 2020. From 2020 to 2022, Zhangqiu District Cultural and Exposition Centre recognized rental income of RMB39.0 million, RMB81.6 million and RMB90.6 million respectively. However, these lease revenues are not fully repaid and there is a delayed payment. We should pay attention to the collection of rental income.

Good track record of receiving government supports, such as capital injection and equity transfer

JZCT has a good track record of receiving support from the local government, including capital injections, construction project payments and equity transfer. The Company received government subsidies of over RMB338.8 million from 2020 to 2023Q3. The government also injected assets and cash into the Company to enhance its capital strength. For example, between 2020 and 2022, the Company received a total of RMB596.0 million in cash and RMB2.3 billion in assets from the government. Moreover, the Company's capital reserve increased by RMB1.1 billion in 2022, mainly due to the equity transfer of some local state-owned enterprises from the local government, further increasing its business scope. In addition, the Company also received construction project repayments of RMB484.5 million from 2020 to 2022. We believe that JZCT will continue to receive support from the local government and its parent company LSID, given its important position and close relationship with the local government.

Increasing debt burden driven by construction projects

Due to the ongoing investment for the cultural tourism projects and resettlement housing projects, JZCT's total debt has continued to increase over the past years. As of 30 September 2023, the Company's total debt sharply increased from RMB2.3 billion at the end of 2021 to RMB4.8 billion, while the total capitalization ratio increased from 35.7% to 44.3%. As of 30 September 2023, the Company's short-term debt is manageable, accounting for 13.4% of total debt. However, JZCT's asset liquidity is considered relatively weak and some assets are restricted, which reduces the Company's financial flexibility. As of 30 September 2023, the Company's total restricted amount was RMB4.8 billion, accounting for 79.8% of net assets, which was mainly due to borrowings. As the Company may continue to rely on external financing for its investment needs for cultural tourism projects and resettlement housing projects, its total debt burden is expected to increase in the next 12-18 months.

Good access to financing from bank loans

JZCT has good access to financing, especially in bank loans. The Company has long-term relationships with various major domestic banks, including major state-owned commercial banks and joint-stock commercial banks. Meanwhile, due to the important role played by JZCT in Zhangqiu District, the Company has also obtained project loans from policy bank such as the Agricultural Development Bank of China. Credit facilities from policy bank accounted for more than 50% of the Company's total credit facilities. As at 30 September 2023, the Company had total credit facilities of RMB5.0 billion, of which the available portion was RMB1.7 billion. As at 30 September 2023, the Company had manageable exposure to non-standard financing, accounting for less than 10% of total debt.

ESG Considerations

JZCT assumes environmental risks through its infrastructure construction projects. Such risks could be moderated through environmental studies and detailed planning prior to the start of the projects and close supervision during construction.

In terms of social concerns, JZCT plays a crucial role in the social well-being of the residents in Zhangqiu District by undertaking cultural tourism projects in the area.

JZCT's governance considerations are also material as the Company is subject to oversight by the Zhangqiu District Government and must meet several reporting requirements, reflecting its public policy role and status as a government-owned entity.

Structural Considerations

JZCT's senior unsecured debt rating is in line with its long-term credit rating. We believe that government support will flow through the Company given its important position in the cultural tourism development of Zhangqiu District, thereby mitigating any differences in an expected loss that could result from structural subordination.

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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