

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Chongqing Canyon City Cultural and Tourism Group Co., Ltd., with stable outlook.**

Hong Kong, 26 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB<sub>g</sub>- to Chongqing Canyon City Cultural and Tourism Group Co., Ltd (“CCCT” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of CCCT 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.

### **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. held 32.2%, and Chongqing Qianjiang Urban Construction Investment (Group) Co., Ltd. held the remaining 16.6% of the Company’s shares. Qianjiang SASAC is the ultimate controller of the Company.

### **Rating Rationale**

#### **Credit Strengths**

**Important strategic position in Qianjiang District, aligning with the government development strategy.** 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.

**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.

**Relatively Low debt leverage.** 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.

### Credit Challenges

**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.

**Moderate asset liquidity.** 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.** Bank loans provided around 75.2% of the Company's debt. 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 guarantee.** 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.

## Rating Outlook

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.

### 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.

## 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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