

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

Hong Kong, 2 February 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first time long-term credit rating of BBB_g to Jinan Zhangqiu Cultural Tourism Development Co., Ltd. (“JZCT” or the “Company”), with stable outlook.

The BBB_g long-term credit rating of JZCT 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.

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.

Rating Rationale

Credit Strengths

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.

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. 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.

Credit Challenges

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.

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. JZCT's asset liquidity is considered relatively weak and some assets are restricted, which reduces the Company's financial flexibility. 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.

Rating Outlook

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.

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.

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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