

## **CCXAP assigns first-time long-term credit rating of BBB<sub>g</sub>- to Jingxian Niuling Reservoir Investment and Development Co., Ltd., with stable outlook.**

Hong Kong, 29 November 2024 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Jingxian Niuling Reservoir Investment and Development Co., Ltd. (“NLRI” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of NLRI is underpinned by the Company’s (1) strategic position as the core cultural and tourism resources operator of Jing County; and (2) strong competitiveness in mastering high-quality cultural and tourism resources with geographical endowment. However, the rating is also constrained by the Company’s (1) weak business diversification due to high reliance on cultural and tourism industry; (2) relatively small revenue scale and moderate profitability; (3) fast-growing debt due to investment in construction projects and (4) relatively weak liquidity position with limited financial flexibility.

The rating also reflects our expectation of a very high likelihood of strong support from the Jing County Government when necessary, given the Company’s (1) full and direct ownership by the Jing County Government; and (2) strategic importance in undertaking functions of tourism resources integration and operation, and tourism projects investment in Jing County; and (3) good track record of government supports. We believe that Jing County Government has a relatively strong capacity to support the Company by dint of its geographical location advantages and ongoing economic growth.

### **Corporate Profile**

Founded in 2020, NLRI is positioned as an important local cultural and tourism platform by carrying out diversified businesses such as scenic area operation, reservoir construction, sand and gravel sales and leasing in Jing County, focusing on sectors including scenic area operation, study and health care, and industry-tourism integration, to enhance the development of local cultural and tourism industry. As of 30 September 2024, the Company was directly owned and ultimately controlled by the Jing County Finance Bureau (State-owned Assets Supervision and Administration Commission) (“Jing County SASAC”). NLRI recorded a total revenue of RMB82.4 million in 2023.

### **Rating Rationale**

#### **Credit Strengths**

#### **Strategic position as the core cultural and tourism resources operator of Jing County.**

NLRI serves as a core cultural and tourism resources operator of Jing County, with resource advantage. The Company is granted the franchise rights from the local government to conduct scenic area operation business in Jing County, assuming functions of investing and operating local tourism resources by promoting the ecological upgrade of local scenic areas, improving tourists’ satisfaction, and enhance the popularity and reputation of Jing County, which are

beneficial to the local social and economic development. The Company also engages in sand and gravel sales business and leasing business.

**Strong competitiveness in mastering high-quality cultural and tourism resources with geographical endowment.** The geographical advantages of NLRI enable it to make full use of local cultural resources related to the Ming Dynasty, the Qing Dynasty, and Xuan paper industry, and provide tourists with embodied experience by creating themed homestays, cultural performances and cultural products. NLRI holds numerous cultural and tourism resources in Jing County, including 10 scenic area, of which 6 are 4A-level and 3 are 3A-level, Xuancheng City cadre education and training teaching base, and a chain hotel.

### Credit Challenges

**Weak business diversification due to high reliance on cultural and tourism industry.** The Company's business portfolio is relatively simple as over 80% of NLRI's revenue comes from the scenic area operation business and asset related to this business accounted for over 90% of NLRI's total assets, which would pose the Company to related cultural and tourism industry risks that require prudent risk control. The cultural and tourism industry is vulnerable to external factors such as political stability, natural disasters and economic fluctuations. These factors may lead to drastic changes in tourism demand, which in turn affects the stability of the Company's business development.

**Relatively small revenue scale and moderate profitability.** Given its short-time establishment and that most of its businesses are operated in Jing County, the Company's revenue scale is comparatively small. Benefited from the recovery and expansion of consumption after the pandemic, NLRI's total revenue increased from RMB43.8 million in 2021 to RMB82.4 million in 2023, representing a compound annual growth rate of 23.4%. NLRI's profitability is high, as reflected by its high EBIT margin and low return on assets.

**Fast-growing debt due to investment in construction projects.** Due to relatively large capital expenditure on its reservoir construction and tourism development projects, NLRI's total debt has been growing rapidly. As of 31 December 2023, the Company's total debt increased to RMB592.0 million from RMB275.4 million at end-2021.

**Relatively weak liquidity position with limited financial flexibility.** The cash to short-term debt ratio was 0.6x, indicating that its cash reserve could not fully cover the short-term debt. NLRI's debt servicing capability deteriorated as the EBITDA/total interest ratio declined from 6.5x in 2021 to 4.7x in 2023 while its total debt/EBITDA ratio was 8.2x in 2023. In addition, NLRI has limited access to funding as its financing channels are mainly bank loans and non-standard financing. We expect that the Company will continue to broaden its financing channels, such as increasing its credit facilities and issuing offshore bonds and onshore bonds.

### Rating Outlook

The stable outlook on NLRI's rating reflects our expectation that the Company will maintain its strong regional competitiveness, serving as core cultural and tourism resources operator of Jing County over the next 12-18 months.

#### **What could upgrade the rating?**

The rating could be upgraded if (1) the likelihood of support from the Jing County Government increases; and (2) the Company's stand-alone credit profile improves significantly, such as stronger market position and improvement in financial flexibility.

#### **What could downgrade the rating?**

The rating could be downgraded if (1) the likelihood of support from the Jing County Government decreases; or (2) the Company's standalone credit quality worsens significantly, including a material drop in credit metrics and poor debt management.

#### **Rating Methodology**

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

#### **Regulatory Disclosures**

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