

Credit Opinion

29 November 2024

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

Analyst Contacts

Peter Chong +852-2860 7124
Assistant Director of Credit Ratings
peter_chong@ccxap.com

Iris Chen +852-2860 7132
Credit Analyst
iris_chen@ccxap.com

Elle Hu +852-2860 7120
Executive Director of Credit Ratings
elle_hu@ccxap.com

**The first name above is the lead analyst for this rating and the last name above is the person primarily responsible for approving this rating.*

Client Services

Hong Kong +852-2860 7111

Jingxian Niuling Reservoir Investment and Development Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g- to Jingxian Niuling Reservoir Investment and Development Co., Ltd., with stable outlook.

Summary

The BBB_g- long-term credit rating of Jingxian Niuling Reservoir Investment and Development Co., Ltd. ("NLRI" or the "Company") 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.

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.

Rating Drivers

- Very high likelihood of strong support from the Jing County Government
- Strategic position as the core cultural and tourism resources operator of Jing County
- Strong competitiveness in mastering high-quality cultural and tourism resources with geographical endowment
- Weak business diversification due to high reliance on cultural and tourism industry
- Relatively small revenue scale and moderate profitability
- Fast-growing debt due to investment in construction projects
- Relatively weak liquidity position with limited financial flexibility

Rating Sensitivities

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.

Key Indicators

	2021FY	2022FY	2023FY
Total Assets (RMB million)	3,711.8	3,879.0	5,804.1
Total Equity (RMB million)	3,417.3	3,459.2	5,140.6
Total Revenue (RMB million)	43.8	76.2	82.4
Net Profits (RMB million)	22.4	41.9	52.4
EBIT Margin (%)	69.6	74.7	84.5
Return on Assets (%)	0.6	1.1	1.1
Total Debt/Total Capital (%)	7.5	9.8	10.3
Total Debt/EBITDA (x)	8.9	6.5	8.2
EBITDA/Interest (x)	6.5	7.2	4.7
FFO/Total debt (%)	10.1	11.3	10.2

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

Source: Company data, CCXAP research

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.

Exhibit 1. Revenue structure in 2023

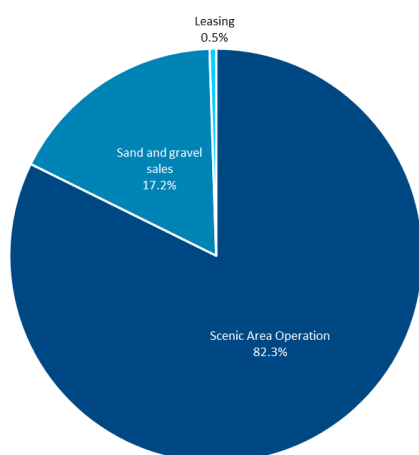
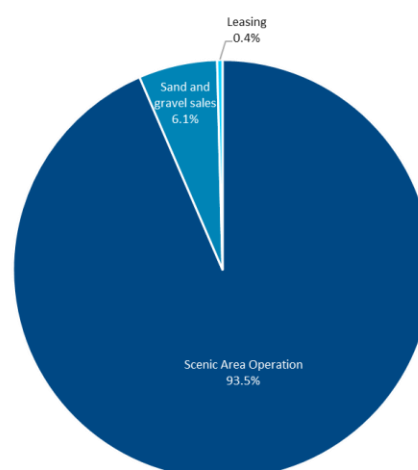


Exhibit 2. Gross profit structure in 2023



Source: Company information, CCXAP research

Rating Considerations

Business Profile

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. We believe the Company possesses significant strategic importance for the cultural and tourism industry development of Jing County with an aim to integrate cultural and tourism resources and increase their values.

Strong competitiveness in mastering high-quality cultural and tourism resources with geographical endowment

The scenic area operation business is the main driver of NLRI, accounting for more than half of its revenue in recent years, with core competitiveness in Jing County. The Company's scenic area operation business integrates local cultural resources research, project planning, and project investment, construction and operation.

We believe that the Company has strong competitiveness in the region underpinned by its geographical advantages and its cultural and tourism resources. 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. The Company's portfolio of cultural and tourism resources impels it to make the cooperation and

interaction between scenic spots, hotels, and cultural performances, to launch more tourism products to simulate secondary consumption and to build and upgrade local cultural and tourism industry chain. Furthermore, the Company plans to renovate scenic area projects to improve the service quality of scenic area. As of 31 December 2023, the Company had 1 project under construction with an invested amount of RMB23.0 million. Furthermore, the Company had 2 projects under planning with an outstanding investment amount of RMB75.0 million.

Exhibit 3. Number of visitors of each scenic area from 2021 to 2023

(ten thousand people)	2023FY	2022FY	2021FY
Chaji Scenic Area	233.43	167.53	57.74
Huangtian Scenic Area	23.85	13.40	3.61
Maolin Scenic Area	18.93	14.38	10.14
Jingxian Matou Health and Tourism Park	51.80	15.96	23.70
Chitan Scenic Area	14.54	6.53	2.78
Wang Jiaxiang Former Residence Memorial Hall	50.32	36.33	23.62
China Xuan Paper Town	131.50	51.83	10.84
Shuimo Tingxi Scenic Area	57.02	31.25	15.49
Southern Anhui Incident Martyrs Cemetery	49.68	56.44	8.53
Yunling Memorial Hall	99.96	165.85	16.70
Total	731.03	559.50	173.15

Source: Company information, CCXAP research

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.

The sand and gravel sales business generated supplementary income over the past three years, which amounted to RMB2.1 million, RMB14.3 million and RMB14.2 million from 2021 to 2023, respectively. The income of the business mainly comes from selling sand and gravel collected during the construction and the annual process of cleaning the river channels of Niuling Reservoir. Meanwhile, the average gross profit margin of the business was relatively high of 38.3% over the same period. However, the downstream customers are mainly engineering construction companies in the region with high concentration risks. In 2023, sales from the top 5 clients accounted for around 84.7% of total sales. Moreover, the Company is also responsible for operating leasing business, accounting for less than 5% of the Company's total revenue in 2023. Overall, these businesses contribute less to the Company's overall revenue but are relatively stable.

Financial Profile

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%. The scenic area operation business is the main contributor, accounting for 82.3% of total revenue in 2023, followed by sand and gravel sales business (17.2%) and leasing business (0.5%). Along with the rapid expansion of revenue scale, the Company's period expense ratio (mainly including management fee and finance cost) increased from 7.9% in 2021 to 17.0% in 2023, mainly due to rising debt scale resulted from capital expenditure of construction projects.

NLRI's profitability is high, as reflected by its high EBIT margin and low return on assets. In 2023, the profit margin of scenic area operation business reached 77.3%, while the sand and gravel sales business and leasing businesses achieved profit margins of 24.1% and 54.6%, respectively. Meanwhile, the Company's EBIT margin improved from 69.6% in 2021 to 84.5% in 2023, thanks to increasing tourist flows and its operation strategy focusing on scenic area business innovation to stimulate secondary consumption. However, the return on assets remained low at 1.1% in 2023, mainly driven by large initial investment on large-scale cultural tourism projects, coupled with relatively long construction and payback periods.

Overall, NLRI's scenic area operation business with high profitability could partially support its income over the next 12 to 18 months. However, uncertainty exists in this business as the tourism industry is susceptible to economic conditions.

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. Due to the increase in capital reserves benefiting from assets injected from the local government, the scale of the Company's total equity further increased, keeping its debt leverage at a low level in recent years, which was 10.3% at end-2023. Considering the relatively large capital expenditure on its scenic areas related construction projects, we expect that the Company will rely on external financings to meet its capital expenditures and the total debt level will continue to increase.

Relatively weak liquidity position with limited financial flexibility

The Company is exposed to certain short-term debt repayment pressure as its short-term debt accounted for 27.6% (end-2021: 12.9%) of its total debt as of 31 December 2023. Meanwhile, 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. As of 31 December 2023, the Company had obtained total bank credit facilities of RMB867.9 million, with an unutilized amount of RMB448.0 million, indicating limited standby liquidity. 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.

External Support

Very high likelihood of strong support from Jing County Government

We anticipate the Company has a very high likelihood of support from the Jing County Government when necessary, given its (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 support.

We believe Jing County Government has a relatively strong capacity to support the Company when necessary, reflected by its geographical location advantages and ongoing economic growth. In 2023, its GRP increased to RMB16.0 billion, representing a YoY growth of 7.1%, ranking 5th among 8 districts and counties in Xuancheng City. Meanwhile, its general budgetary revenue achieved RMB1.7 billion in 2023 with tax income contributing to around 56.9%. In the first three quarter of 2024, Jing County's GRP amounted to RMB12.7 billion, up 7.2% YoY.

Given its regional importance in cultural and tourism resources operation in Jing County, NLRI receives a good track record of support from the local government, including asset transfers, and financial subsidies. The local government integrated and injected multiple local cultural and tourism resources including scenic area franchise rights, a hotel, reservoirs, teaching bases, scenic area buildings into the Company without compensation, with a total estimated value of RMB 4.7 billion at end-2023, broadening its business scope and enhancing its competitiveness. From 2021 to 2023, the Company also received operating subsidies from the local government with a total amount of around RMB20.4 million.

We considered NLRI's socio-political importance to be high, as NLRI is commissioned to promote the ecological upgrade of local scenic area and enhance the popularity and reputation of cultural tourism industry in Jing County. The Company's businesses are vital and indispensable for residents' daily lives by creating the massive employment post and for local government by making contributions to economic development.

Rating Methodology

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

Copyright © 2024 China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP"). All rights reserved.

No part of this publication may be reproduced, resold, or redistributed in any form or by any means, without prior written permission of CCXAP.

A credit rating is the analytical result of current credit worthiness and forward-looking opinion on the credit risk of a rated entity or a debt issue. Credit ratings issued by CCXAP are opinions on the current and relative future credit risk of the rated entities or debt issues, but do not address any other risks, including but not limited to liquidity risk, market price risk, and interest rate risk.

Credit ratings, non-credit assessments, and other opinions included in CCXAP's publications are not recommendations for investors to buy, sell, or hold particular securities, nor measurements of market value of the rated entities or debt issues. While obtaining information from sources it believes to be reliable, CCXAP does not perform audit and undertakes no duty of independent verification or validation of the information it receives from the rated entities or third-party sources.

All information contained herein belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained herein to be accurate and reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee accuracy, adequacy, completeness, or timeliness of the information included in CCXAP's publications.

To the extent where legally permissible, CCXAP and its directors, officers, employees, agents and representatives disclaim liability to any person or entity (i) for any direct or compensatory losses or damages, including but not limited to by any negligence on the part of, and any contingency within or beyond the control of CCXAP or any of its directors, officers, employees, agents or representatives, arising from or in connection with the information contained herein or the use of or inability to use any such information; and (ii) for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if CCXAP or any of its directors, officers, employees, agents or representatives is advised in advance of the possibility of such losses or damages.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 1904-1909, 19/F, Jardine House,
1 Connaught Place, Central, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656