CCXAP affirms Shanghai Lingang Economic Development (Group) Co., Ltd.’s long-term credit rating at A_g+, with stable outlook.

Hong Kong, 19 September 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has affirmed Shanghai Lingang Economic Development (Group) Co., Ltd.’s (“Lingang Group” or the “Company”) long-term credit rating at A_g+, with stable outlook; affirmed the senior unsecured debt rating of the Company at A_g+.

The A_g+ long-term credit rating of Lingang Group Shanghai Municipal Government’s excellent capacity and high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Shanghai Municipal Government’s capacity to provide support reflects Shanghai City’s status as the largest direct-administered municipality by GRP among the four municipalities in China. It also has a strong economic and fiscal foundation, and good debt profile.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) full ownership and direct management by the Shanghai Municipal Government; (2) strategic importance in the development of Shanghai City’s industrial parks; (3) solid government support through ongoing capital injection and subsidies; and (4) good access to low-cost and stable fundings. However, the rating is constrained by the Company’s (1) large exposure to industrial property development, which is typically subject to the volatilities of regional industrial investments; and (2) fast expansion on scale that exerts debt management pressure.

Corporate Profile

Lingang Group is a large state-owned enterprise that focuses on the development of industrial parks, support services and industrial investment. The Company aims to be the promoter of sci-tech innovation and industrial development as well as the driver of regional transformation and urban renewal in Shanghai City. After more than 30 years of development, Lingang Group owns three major brands, namely "Lingang", "Caohejing" and "Innovation Galaxy". It is a major construction entity in the Lingang Special Area of China (Shanghai) Pilot Free Trade Zone (“Lingang Special Area”) and a new force in the transformation and development of key areas in Shanghai City including the Caohejing Hi-Tech Park (“Caohejing Park”). The Company helps attract investments and provides different kinds of buildings such as factories, office buildings, storehouses, affordable rental housing and R&D centers in industrial parks. It is also responsible for the construction of public infrastructure projects in the Lingang Special Area.

Lingang Group was ultimately owned and controlled by the Shanghai Municipal Government, with direct ownership of 76.51% by the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("Shanghai SASAC"). The remaining 23.49% shares were held through other large state-owned enterprises under Shanghai SASAC or the State-Owned Assets Supervision and Administration Commission of Nanhui District, Shanghai City as of 31 March 2023.

Rating Rationale

Credit Strengths

Shanghai Municipal Government's excellent capacity to provide support. As one of the major business centers in China and around the world, Shanghai City excels in economic development, finance and business, research and technology, transportation, as well as culture and tourism. Shanghai City's fiscal strength is strong and improved with the continuous growth of local economy. The development of industrial parks also helps increase the competitiveness of the city's advanced technology and industry.

Strategic importance in the development of industrial parks in Shanghai City. Lingang Group is strategically important to the Shanghai Municipal Government, given its dominant role in the development of industrial parks in Shanghai. It is the largest industrial zone developer and manager by area in Shanghai City and managed 14 featured industrial parks, including the Lingang Special Area and the Caohejing Park which are economically and strategically important to Shanghai City and meet the national development strategy of the Yangzi River Economic Belt. It also undertakes the construction of related public welfare services such as low rental housing to companies and residents in the areas.

Solid government support through ongoing capital injections and subsidies. Lingang Group has a solid track record of receiving government support in various forms such as financial subsidies, special funds and asset injections. For example, the Company has recognized financial subsidies of RMB3.0 billion during the past three years.

Good access to low-cost and stable funding. Lingang Group has multiple low-cost financing channels through bank loans and bond issuances. For example, the Company issued five-year Hybrid Science Innovation Notes at a coupon rate of 2.9% to raise RMB300 billion in July 2023; and issued a total of RMB1.15 billion with coupon rates ranging from 2.18% to 3.6% in 2022. In 2022, it issued two offshore green bonds which raised CNH1 billion and EUR50 million, with a coupon rate of 2.98% and 3.0%, respectively.

Credit Challenges

Risks in property development business. Lingang Group has large exposure to the property development business, which accounts for around 50% of its revenue from 2020 to 2022. It involves constructing and selling properties within the industrial parks including standard factories, customized factories, warehouses, office buildings and affordable housing, which are subject to the volatilities of regional industrial investment. Nevertheless, the Company's large rental income helps mitigate the risks in its property development business.

Fast expansion of debt on scale. Lingang Group has moderate debt management because of rapid investment growth mainly in its property development and leasing business. Its total debt increased notably to RMB104.3 billion as of 31 March 2023 from RMB91.3 billion as of 31 March 2022. We expect that Lingang Group's debt burden will remain at a relatively high level because the Company has a large investment plan of around RMB104.1 billion for projects in industrial parks and a capital expenditure plan of around RMB44.4 billion in 2023.

Rating Outlook

The stable outlook on Lingang Group's rating reflects our expectation that the Shanghai Municipal Government's capacity to provide support will be stable given its strong economic fundamentals, and the Company's characteristics such as its primary role in developing and operating industrial parks will remain unchanged over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if (1) Shanghai Municipal Government's capacity to support strengthens; or (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as increasing strategical importance, increasing public-related project reserves, materially reducing exposure to commercial business.

What could downgrade the rating?

The rating could be downgraded if (1) Shanghai Municipal Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to support, such as decreasing strategical importance, reducing access to funding, or materially increasing contingent liability risk.

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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