Credit Opinion

19 September 2023

Ratings	
Senior Unsecured Debt Rating	A_g+
Long-Term Credit Rating	A_g+
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Shanghai Lingang Economic Development (Group) Co., Ltd.

Surveillance credit rating report

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

Summary

The A_g+ long-term credit rating of Shanghai Lingang Economic Development (Group) Co., Ltd. ("Lingang Group" or the "Company") reflects 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 the debt scale that exerts debt management pressure.

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.

Rating Drivers

- Shanghai Municipal Government's excellent capacity to provide support
- Strategic importance in the development of industrial parks in Shanghai City
- Large recurring rental income moderate risks in the property development business
- Solid government support through ongoing capital injection and subsidies
- Increased debt management pressure but mitigated by good access to funding

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Shanghai Municipal Government's capacity to provide 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 activities.

What could downgrade the rating?

The rating could be downgraded if (1) Shanghai Municipal 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 support, such as decreasing strategical importance, reducing access to funding, or materially increasing contingent liability risk.

Key Indicators

	2020FY	2021FY	2022FY	2023Q1
Total Asset (RMB billion)	124.6	157.0	179.1	196.4
Total Equity (RMB billion)	43.4	55.7	56.9	57.6
Total Revenue (RMB billion)	7.5	11.9	11.1	2.4
Total Debt/Total Capital (%)	57.3	56.8	60.2	64.4

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

Source: Company information, CCXAP research

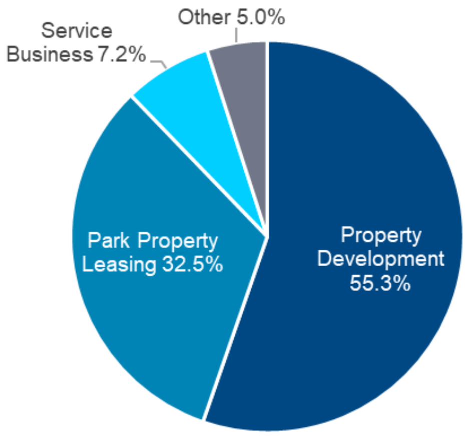
Corporate Profile

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

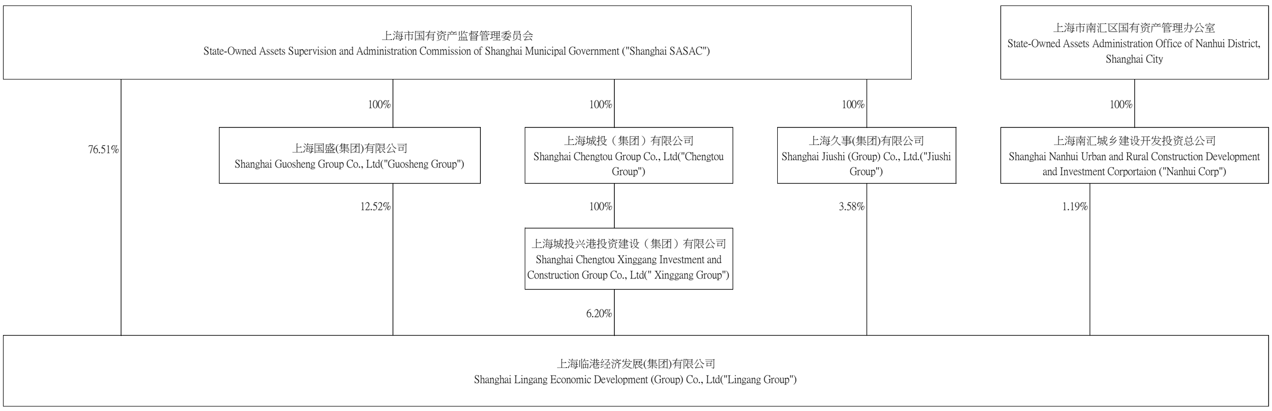
Municipal Government ("Shanghai SASAC"). The remaining 23.49% shares were held through other large state-owned enterprises under Shanghai SASAC or the State-Owned Assets Supervision and Administration Commission of Nanhui District, Shanghai City as of 31 March 2023.

Exhibit 1. Revenue structure in 2022



Source: Company information, CCXAP research

Exhibit 2. Shareholding chart of Lingang Group as of 31 March 2023



Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe the Shanghai Municipal Government has an excellent capacity to provide support, given its strong economic fundaments and fiscal strength. 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 is one of the four direct-administered municipalities of China. It is located in eastern China, at the mouth of the Yangtze River, and faces the Pacific Ocean. The superior geographical environment and strong strategic position make it the largest economic and financial center of China and an important international shipping center, with the world's busiest container port — the Port of Shanghai. Shanghai City has a very strong economic foundation with diversified and well-developed industries. Its six major industries include retail, finance, IT, real estate, machine manufacturing, and automotive manufacturing, which together comprise about half of its gross regional production ("GRP"). In 2022, challenged by the external environment, its GRP slightly decreased by a year-over-year rate of 0.2% to RMB4.5 trillion, representing 3.7% of China's GDP. Shanghai City remained the direct-administered municipality with the highest GRP and its GRP per capita increased to around RMB180,000. During the first half year of 2023, the GRP of Shanghai City rose by 9.7% to around RMB2.1 trillion compared to the previous year, indicating its economic strength with strong resilience.

Shanghai City's fiscal strength is strong and supported by its economic growth and good industrial structure. However, in 2022, its fiscal income and metrics weakened affected by the external environment. The general budgetary revenue decreased to RMB760.8 billion from RMB777.2 billion in 2021. Tax revenue in Shanghai City has been stable, accounting for over 80% of general budgetary revenue over the past three years, despite the effect of China's unprecedented tax rebate program. Shanghai City also has a strong fiscal balance and good debt profile with a self-sufficiency ratio (general budgetary revenue/general budgetary expenditure) of over 80% in the past three years and a low debt/GRP ratio of 19.1% as of the end of 2022.

Exhibit 3. Key economic and fiscal indicators of Shanghai City

	2020FY	2021FY	2022FY
GRP (RMB billion)	3,896.3	4,321.5	4,465.3
GRP Growth (%)	1.7	8.1	-0.2
General Budgetary Revenue (RMB billion)	704.6	777.2	760.8
General Budgetary Expenditure (RMB billion)	810.2	843.1	939.3
Local Government Debt (RMB billion)	689.2	735.7	853.9

Source: Shanghai Municipal Government, CCXAP research

The development of industrial parks is one of the engines for Shanghai City's economy and also helps increase the competitiveness of the city's advanced technology and industry. There are more than 50 featured industrial parks in Shanghai, including Caohejing Park and Lingang Special Area where Lingang Group mainly operates. Caohejing Park is one of the first-class industrial parks in Shanghai and nationwide. It is one of the first-around national-level economic and technological development zones approved by the State Council of China. After years of development, it has attracted more than 4,900 domestic and foreign companies to invest, forming the densest and largest high-tech industrial clusters in Shanghai in terms of information technology, new materials and high-end equipment. Caohejing Park ranked 14th among national-level economic development zones in 2022.

The Lingang Special Area was established with the approval of the State Council in 2019. Positioned as an economic function area for Shanghai with high international influence and competitiveness, it targets to reach RMB600 billion in economic scale by 2025. It has attracted investment from large enterprises such as Tesla, Inc. and SAIC Motor Corporation Limited. Over the past four years, the GRP of Lingang Special Area increased with an average annual growth rate of 21.2% and the tax revenue increased with an average annual growth rate of 16.2%.

Government's Willingness to Provide Support

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 also undertakes the construction of related public welfare services such as low rental housing to companies and residents in the areas. Lingang Group is the largest industrial zone developer and manager by area in Shanghai City and manages 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. As the main developer and manager in these areas, Lingang Group plays a particularly important role in attracting investment and providing related services to fulfill the needs of enterprises.

In addition, Lingang Group also undertakes certain public infrastructure projects entrusted by the government in the Lingang Special Area, such as building roads and, carrying out urban engineering and river improvement works nearby, while the scale is relatively small. As of 31 March 2023, the Company had undertaken infrastructure construction projects of approximately RMB1.4 billion in planned investment and is expected to invest approximately RMB543 million. The projects under planning have a planned investment of around RMB92 million.

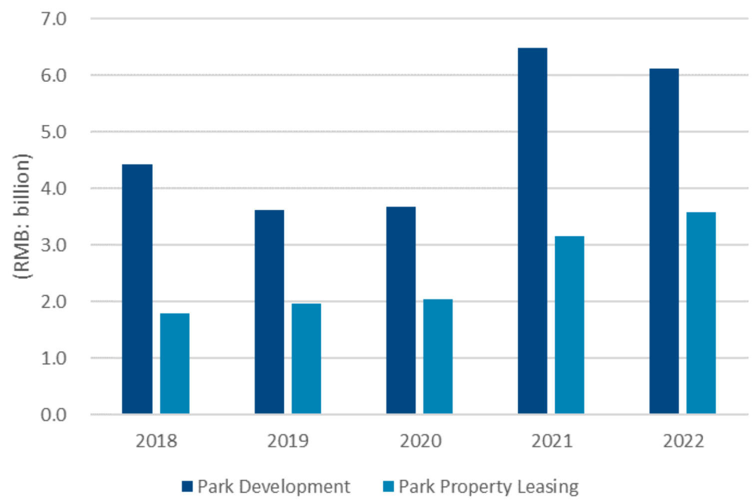
In view of Lingang Group's strategic role in the development of local industry and economic development, we believe that the potential substitution is relatively low and government support is very likely in the near future.

Large recurring rental income moderate risks in the property development business

Lingang Group has a large exposure to commercial activities such as property development, property leasing, services business and financial investments. Despite these kinds of activities being associated with the Company's core business of industrial park development, they have a higher commercial element and are mostly self-sustaining.

Property development business in particular accounts for a large proportion of the Company's commercial activities, accounting for around 50% of 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. In the past five years, Lingang Group's revenue from property development has fluctuated greatly while its large rental income helps mitigate the risks in the property development business. In 2022, the rental income was around RMB3.6 billion, accounting for 32.5% of total revenue, an increase of 14% from the previous year. We consider its rental income to be recurring and stable, with a high occupancy rate of above 80% over the past few years.

Exhibit 4. Revenue of property development and property leasing from 2018 to 2022



Source: Company information, CCXAP Research

Lingang Group also has large investments in debt instruments, equity instruments and funds with assets of approximately RMB26.6 billion, accounting for 14.8% of total assets as of the end of 2022. Direct equity investments mainly include associates or joint ventures for the development of properties in industrial parks or the provision of related services such as exhibitions, testing centers and port operations. The Company also invests in different industrial development funds as a limited partner, aiming to promote the development of local high-tech industries and attract investments into its industrial parks. As of 31 March 2023, the Company and its subsidiaries totally invested in 31 funds with subscribed capital distribution of RMB13.7 billion and paid-in capital contributions of RMB9.1 billion. Besides, the investment portfolio had RMB1.7 billion in high-quality listed assets, such as Guotai Junan Securities Co., Ltd. and Bank of Shanghai Co., Ltd., which offered stable dividend income. In 2022, the dividend income was around RMB80.4 million.

Lingang Group is also engaged in other services businesses within its industrial parks, mainly including hotels, catering, logistics services and property management. As of 31 March 2023, the Company owned 2 hotels, namely Ramada Plaza Shanghai Xinyuan Hotel in Xuhui District and Grand Mercure Shanghai Lingang in Fengxian District.

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. The Shanghai Municipal Government increased the Company's capital base by direct cash injections or asset injections. For example, in 2021, the government injected 100% equity interest of Shanghai Industrial Investment (Group) Co., Ltd. to the Company, increasing its capital base by RMB3.3 billion.

Lingang Group is mandated by the Lingang Special Area Management Committee to manage the infrastructure construction projects in the Lingang Special Area. Funding for its public infrastructure projects can be fully covered by government advances, according to the project's annual budgeted investment plans. From 2020 to 2022, Lingang Group received around RMB3.6 billion in special fund payments for its infrastructure construction projects.

Lingang Group also received financial subsidies for carrying out policy-supporting activities such as pubic rental housing, public transportation and investment attraction in different areas. From 2020 to 2022, the Company has recognized financial subsidies of RMB3.0 billion. Given its strong public policy role and large investment in industrial parks, we expect government payments for Lingang Group will remain good over the next 12 to 18 months.

Exhibit 5. Track record of government support from 2020 to 2022

(RMB billion)	**2020FY**	**2021FY**	**2022FY**
Cash injections	-	1.0	0.5
Asset injections	-	3.3	-
Financial subsidies	0.7	1.3	1.0
Special funds for infrastructure payments	1.4	1.2	1.2
Total	**2.1**	**6.8**	**2.7**

Source: Company information, CCXAP Research

Moderate debt management mitigated by good access to funding

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. As of the same date, its total capitalization ratio also increased steadily to 64.4%. 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. Nevertheless, the Company maintains a good liquidity profile given its relatively low short-term debt ratio. The Company has good financial flexibility thanks to its strong state-owned background and good access to various funding sources.

Exhibit 6. Key public projects under construction and planning as of 31 March 2023

Project Type	Budgeted Amount (RMB billion)	Invested Amount (RMB billion)	Outstanding Amount (RMB billion)
Projects Under Construction			
Park Development	138.0	55.4	82.6
Infrastructure Construction	1.4	0.8	0.5
Project Under Planning			
Infrastructure Construction	20.9	-	20.9
Leasing Property Projects	0.1	-	0.1
Total	**160.4**	**56.2**	**104.1**

Source: Company information, CCXAP Research

Lingang Group has multiple low-cost financing channels through bank loans and bond issuances. The Company maintains a good relationship with large domestic banks. As of 31 March 2023, it has credit facilities of RMB368.1 billion, of which 77.8% were uncommitted. Lingang Group has a good track record in both offshore and onshore debt capital markets and actively issues innovative financial products. It has issued different financial products in the domestic bond market such as SCPs, CPs, MTNs, and PPNs. 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.

ESG Considerations

Lingang Group bears environmental risks through its construction projects in industrial parks. Such risks could be moderated by the Company through detailed planning before the commencement of projects, adoption of green building certification standards, such as American Leadership in Energy and Environmental Design, and close supervision during the construction.

The Company is also exposed to social risks as a public services provider. Demographic changes, public awareness and social priorities shape the government's target for Lingang Group, or affect the government's propensity to support the Company.

The Company's governance considerations are also material as it is subject to oversight and reporting requirements to the local government, reflecting its public-policy role and status as a government-owned entity. In addition, Shanghai Lingang Holdings Co., Ltd., a listed subsidiary of the Company, is required to report its financial and business profile conditions on a regular basis.

Structural Consideration

The senior unsecured debt rating of the bonds issued by Lingang Wings Inc. and unconditionally and irrevocably guaranteed by Lingang Group is equal to Lingang Group's long-term credit rating. We believe that the government support will flow through Lingang Group given its important position in the development and operation of industrial parks in Shanghai City, thereby mitigating any differences in expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for China's Local Infrastructure Investment and Financing Companies (July 2022).

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.

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