

## Credit Opinion

25 November 2024

Ratings	
Category	Corporate
Domicile	China
Rating Type	Solicited Rating
Long-Term Credit Rating	A <sub>g</sub> -
Outlook	Stable

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### Client Services

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## Shandong Shipping Corporation

### Surveillance credit rating report

**CCXAP affirms Shandong Shipping Corporation's long-term credit rating at A<sub>g</sub>-, with stable outlook.**

### Summary

The A<sub>g</sub>- long-term credit rating of Shandong Shipping Corporation ("SDSC" or the "Company") reflects the Company's (1) strong market position in shipping business; (2) steady business strategy and solid client base; and (3) good access to fundings.

However, the rating is constrained by the Company's (1) vulnerability to cyclical fluctuations in the shipping industry; (2) fast debt growth but with stable financial metrics; and (3) large exposure to US dollar financing.

The rating also reflects our expectation of a high likelihood of support from SDSC's parent, namely Shandong Ocean Group Co., Ltd. ("SDOC"), given (1) SDSC's status as the core subsidiary of SDOC in Shipping Services; (2) moderate legal linkages with SDOC; and (3) reputation risk to the government. We believe that SDOC has strong capacity to support the Company by dint of SDOC's (1) ownership by the Shandong Provincial Government; (2) important strategic role in the development of marine industry of Shandong Province; and (3) good track record of strong shareholder and government support.

The stable outlook on SDSC's rating reflects our expectation that the Company's important position to its parent company is unlikely to change. We also expect the Company to maintain stable credit metrics and sufficient liquidity over the next 12 to 18 months.

## Rating Drivers

- Strong market position in shipping business in China
- Steady business strategy and solid client base
- Vulnerable to cyclical fluctuations in the shipping industry
- Fast debt growth and large exposure to US dollar financing
- Good access to funding
- High likelihood of support from SDOC and the government when necessary

## Rating Sensitivities

### What could upgrade the rating?

The rating could be upgraded if (1) the government support is strengthened; or (2) SDSC's standalone credit quality improves significantly, including stronger market position, diversified operating scale, and improved credit metrics.

### What could downgrade the rating?

The rating could be downgraded if (1) the government support or parental support is expected to be weakened; or (2) SDSC's standalone credit quality worsens significantly, including a material drop in market share, deterioration in credit metrics, and poor liquidity management.

## Key Indicators

	2021FY	2022FY	2023FY	2024H1
Total Assets (RMB billion)	18.7	30.9	39.5	39.7
Total Equity (RMB billion)	4.7	7.3	11.4	11.8
Total Revenue (RMB billion)	4.4	6.5	6.7	4.0
Net Profits (RMB billion)	0.4	0.8	1.0	0.5
EBITDA/Revenue (%)	33.6	34.3	76.8	-
Return on Net Assets (%)	9.6	12.6	7.8	-
Total Debt/Total Capital (%)	77.0	77.1	68.2	67.7
Total Debt/EBITDA (x)	9.5	7.1	4.8	-
EBITDA/Interest (x)	2.7	3.0	3.6	-

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

Source: Company data, CCXAP research

## Corporate Profile

Established in 2010, SDSC is one of the most professional dry bulk shipping fleets in China with a leading fleet capacity. The Company is primarily engaged in shipping services, ship management, seafarer recruitment agency services and financial leasing. In May 2023, SDSC introduced a share expansion plan and privately issued new shares to SDOC and Shanghai Waigaoqiao Shipbuilding Co., Ltd. ("SWS"), raising RMB6.6 billion in total. The Company reported a registered capital and paid-in capital of approximately RMB6.1 billion and RMB5.2 billion as of 30 June 2024, respectively. SDSC is jointly owned by several large state-owned enterprises, including SDOC (holding 38.83% of shares), SWS (34.97%), and Shandong Hi-speed Group Co., Ltd ("SDHS") (16.46%), as of the same date.

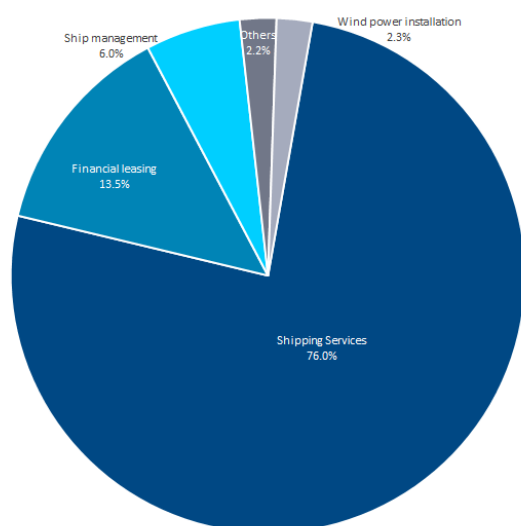
SDOC and SDHS are the key state-owned enterprises under direct supervision and control by the State-owned Assets Supervision and Administration Commission of Shandong Province ("Shandong SASAC"). SWS is one of the major shipbuilders in China and a subsidiary of China State Shipbuilding Corporation Limited, the largest shipbuilding group in the world. As of 30 June 2024, SDSC reported total assets of RMB27.1 billion, accounting for around 53.5% of SDOC's total assets.

**Exhibit 1. Shareholding chart as of 30 June 2024**



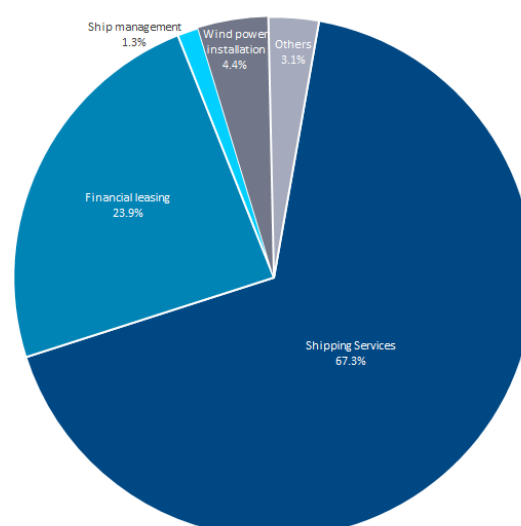
Source: Company information, CCXAP research

**Exhibit 2. Revenue structure in 2023FY**



Source: Company information, CCXAP research

**Exhibit 3. Gross profit structure in 2023FY**



## Rating Considerations

### Strong market position in shipping business

The Company's maritime transportation business includes dry bulk transportation and liquid bulk transportation, with dry bulk transportation being its core business. SDSC stands out as a highly proficient dry bulk shipping fleet in China, boasting over a decade of robust operational expertise. Its proficient ship management team, consisting of senior captains and chief engineers, maintaining an excellent safety track record that fortifies SDSC's competitiveness in the international shipping service market. The Company primarily acquires and operates vessels through construction and leasing. It has mainly adopted leasing to rapidly expand its shipping capacity in recent years, shifting from owning to controlling capacity to achieve cost-effective and low-risk mode. As of 30 June 2024, the Company operates a total of 106 vessels (including the vessels under construction)

through construction and leasing, with a total capacity of 14.0 million deadweight tonnages (“DWT”), positioning as the third largest fleet capacity domestically. SDSC primarily engages in the maritime transportation of bulk commodities such as minerals, grains, and energy products. The Company possesses a variety of mainstream vessel types including VLCCs, Capesize, Panamax and MR, with routes spanning across the globe and services reaching major ports worldwide. Benefiting from high-quality major client resources and capacity expansion, the Company's volumes of dry bulk and liquid bulk (excluding NOF asset packages) have both shown an increasing trend, with compound annual growth rates 17.9% and 62.3% from 2021 to 2023 respectively. With stable major client resources and professional ship operation management capabilities, SDSC will maintain its strong market position in the future.

### **Steady business strategy and solid client base**

SDSC implements a stable business strategy for continuous business expansion. The Company is shifting its operating model towards light-asset operations, primarily through leasing, to achieve cost effectiveness, risk mitigation, and operational efficiency. Under the guidance of SDSC, shipping contracts are directly signed between cargo owners and financial institutions. The Company manages business operations and ship management under light-asset strategy to enhance profitability. As of 30 June 2024, there are 14 vessels, with a total capacity of 1.8 million DWT, that are operating under this light-asset operational mode. In comparison to the self-construction approach, the leasing method reduces capital investments in vessels and carries lower asset risks.

Additionally, SDSC consistently manages operational costs by enhancing its management capabilities. It has established a robust operational and financial management framework and developed a quantitative operating model led by the finance department. SDSC possesses all-round data that supports it to daily operation and major decisions takings such as carrying capacity allocation, contract pricing, and asset acquisition. Moreover, the Company has implemented an overseas fund management system aimed at reducing capital expenses and enhancing capital efficiency. With its solid management structure, we expect that SDSC will maintain control over operational costs and enhance operational efficiency.

SDSC has developed long-term relationships with key clients, such as Vale International SA., BHP Billiton Freight Singapore Pte. (“BHP Billiton”), RWE Supply & Trading GmbH, Shell Tankers (Singapore) Private Limited (“Shell”), as well as China National Cereals, Oils and Foodstuffs Corporation (“COFCO”). Vale International SA and BHP Billiton are well-known iron ore exporters in the world, COFCO is a dominant global grain trader. The Company signs medium or long-term contracts with these customers to ensure demand for shipping services, and then outfits with vessels under self-constructions or leases according to the capacity needs of contracts. However, there is high concentration in key foreign clients, with the top five customers of the Company are all foreign companies, accounting for 65.2% of total sales in 2024H1. As trade relations between China and other countries change, this may affect foreign clients' choice over the SDSC's shipping services. Nevertheless, we believe that the Company will maintain its business sustainability.

### **Vulnerable to cyclical fluctuations in the shipping industry**

The shipping industry's prosperity is closely tied to economic development, as it is a cyclical industry that is vulnerable to external factors such as geopolitical tensions and event risks. Since 2023, global dry bulk trade volume has continued to grow. In the first half of 2024, the Baltic Dry Index (“BDI”), which reflects the general market condition of the industry, averaged 1,836 points, representing a year-on-year increase of 57%. The liquid bulk shipping industry performed differently from the bulk shipping but demonstrated high volatility over the past years. The increasing global tensions on trade and geographic political changes such as the conflict between

Russia and Ukraine and the Israel-Gaza war may continue to give impacts on the market. SDSC intends to reduce the impact of market volatility by signing long-term contracts with key clients and diversifying its pricing model. Spot carrying capacity accounted for around 20% of SDSC's total capacity. Spot carrying capacity refers to the carrying capacity which is allocated in the spot market or the rental rate is determined according to the relevant indices. However, we believe that ups and downs of the industry still challenge SDSC's operations, management, and financial performance.

### **Increasing business diversification through the acquisition of NOF asset package**

In November 2023, after acquiring the NOF asset package, the Company expanded its businesses to include marine oilfield services, offshore wind turbine installation services, and gas transportation businesses. This expansion broadens SDSC's business scope and diversifies its operational risks. It would have the world's largest ultra-large liquefied ethane carry capacity. Moreover, the capacity of ultra-large LPG vessels ranks among the top globally. However, the Company's operation and management capabilities would bear certain challenges caused by the new business segments. Besides, the drilling platform leasing business recorded losses for years while the situation has improved since 2023. As of 30 June 2024, NOF has a total of 4 drilling platforms in operation. With significantly increased in daily rates compared to the original contract, the operational performance of the marine oilfield services business is expected to improve. We should pay close attention to the improvement of profitability of the drilling platform leasing business.

### **Fast debt growth but with stable financial metrics**

SDSC showed a fast debt growth driven by its expanding capacity. SDSC's total debt increased from RMB22.9 billion as of the end-2022 to RMB24.8 billion as of 30 June 2024, the total capital ratio decreased from 77.1% in 2022 to 67.7% in 2024H1 thanks to the retained earnings and capital injection from SDSC and SWS. Although the Company's debt leverage has declined, it remains at a high level.

In addition, the Company's financing exposure was dominant by US dollars. The funding cost of the Company may heighten during the rate-rise cycle of US dollars, which may also erode its bottom-line profitability. The Company may also suffer from the volatility of offshore market when refinancing.

SDSC has maintained relatively stable financial metrics in recent years given its business strategies and financial management. With a solid operational strategy, the Company's profitability has improved amid volatile market conditions. The Company's EBITDA margin exceeded 70% in 2023, driven mainly by increasing shipping volume and a higher proportion of high-yield liquid bulk shipping business. SDSC's EBITDA sharply increased from RMB3.2 billion in 2022 to RMB5.1 billion in 2023. Its total debt to EBITDA ratio also improved from 7.1x in 2022 to 4.8x in 2023.

### **Good access to funding**

SDSC has solid access to diverse funding sources, including bank loans, domestic and offshore bonds, and financial leasing. As of 30 June of 2024, the Company has obtained a total USD credit facility 3.4 billion, with a remaining credit facility of 1.2 billion. It has also secured a total RMB credit line of 15.8 billion, with a remaining credit line of 9.0 billion. The Company has built long-term relationships with policy banks, state-owned commercial banks, and joint-stock commercial banks in China and international commercial banks, including the Export-Import Bank of China, Bank of China, China Merchants Bank, BNP Paribas, DBS Bank, etc. From January 2023 to June 2024, the Company totally issued 3 tranches of domestic bond, raising amount of RMB1.3

billion. Additionally, the Company also had outstanding offshore debt of about USD200 million. The Company is able access low-cost fundings given its strong shareholder background.

Meanwhile, the Company maintained a good debt maturity profile that lowers its refinancing pressure. As of 30 June 2024, the ratio of short-term debt to total debt was 25.7%. The Company normally maintains cash on hand to meet its matured debt. It had cash or cash equivalents of RMB2.9 billion which was around 0.5x of its short-term debts as of 30 June 2024. The sufficient credit facility and stable operating cashflow from its shipping business is supportive to the repayment of its short-term debts.

### External Support

SDSC is likely to receive support from SDOC and the government, when necessary, given its (1) status as the core subsidiary of SDOC in shipping services; (2) moderate legal linkages with SDOC; and (3) reputation risk to the government. We believe that SDOC has a very strong capacity to support the Company because of its (1) ownership by the Shandong Provincial Government; (2) strategic role in the development of marine industry of Shandong Province; and (3) good track record of strong shareholder and government support.

SDSC has a very important position in SDOC's operations as the primary operating subsidiary in shipping services business. At the same time, the Company is also the sole provincial state-owned enterprise in Shandong Province whose main business is ocean shipping. The Company contributes majority of assets and profits for SDOC, which accounting for 72.0% and 77.3% of SDOC's total assets and net revenue, respectively. SDOC is an important operating entity in the Shandong Province's marine industry and its capacity to provide support is largely underpinned by Shandong Provincial Government. In our view, SDSC can receive solid support from SDOC for its daily operation management, business development, and fund lending. SDOC also has moderate legal incentives to provide necessary support to SDSC. A default by SDSC would trigger the cross-default provisions in the offshore bonds issued by SDOC. While the level of SDOC's offshore debt is moderate, we believe that the cross-default provisions are long-term as SDOC tends to refinance its offshore debt on an ongoing basis. A default by SDSC will pose reputation risk to the government as well. It is expected that the Shandong Provincial Government would provide support to SDSC through SDOC when necessary.

In May 2023, SDSC issued 3.0 billion additional shares through a non-public offering. SDOC subscribed for 859 million shares for RMB1.9 billion, while SWS, a wholly-owned subsidiary of the listed company China CSSC Holdings Limited, subscribed for 2.1 billion shares for RMB4.7 billion. SDSC's capital strength significantly enhanced due to capital increase and introduction of strategic investor. SWS is one of the large-scale shipbuilding enterprisers in China, SWS's shipbuilding business and SDSC's shipping business would contribute to business synergies.

### Rating Methodology

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

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