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

Hong Kong, 29 August 2024 – 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 reflects the 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 gross regional production ("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 provide 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) strong 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.

Corporate Profile

Lingang Group is a large state-owned enterprise that focuses on the investment promotion and operation of industrial parks, professional enterprise services and sci-tech industrial investment. The Company takes "Be the main force in the development and construction of Lingang Special Area of China (Shanghai) Pilot Free Trade Zone ("Lingang Special Area"), and become an important participant in the industrial upgrading and urban renewal of key areas" as its main responsibility and development orientation. After more than 40 years of development, Lingang Group owns four major brands, namely "Lingang", "Caohejing", "Innovation Galaxy" and "Lingang Industry Clusters". It is a major construction entity in the 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.

In 2023, the State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government ("Shanghai SASAC") transferred its 25% equity in Lingang Group to its wholly-owned company, Shanghai Electric Holdings Group Co., Ltd. Additionally, Shanghai SASAC also increased the Company's paid-in capital to RMB12.8 billion through asset injections, which had not been completed in the official alteration of registration by 31 March

2024. If completed, Shanghai SASAC's direct ownership would be 52.23% and the remaining 47.77% of shares would be held by other large state-owned enterprises under Shanghai SASAC or the State-Owned Assets Supervision and Administration Commission of Pudong New Area, Shanghai City. As of 31 March 2024, Shanghai Municipal Government remained the ultimate owner and controller of the Company.

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 industrial park development, enterprise services and industrial investment in Shanghai City. 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.

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. 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.

Strong access to funding. Lingang Group has strong access to low-cost financing through bank loans and bond issuances. The Company maintains a good relationship with large domestic banks. In addition, Lingang Group has a good track record in both offshore and onshore debt capital markets and actively issues innovative financial products. In 2024, Lingang Group issued RMB800 million of offshore social responsibility bonds, which was the world's first listed offshore RMB social responsibility bond issued by a non-financial enterprise.

Credit Challenges

Risks in property development business. Lingang Group has large exposure to the property development business, which accounts for around 55% of total revenue from 2021 to 2023. It involves constructing and selling properties within the industrial parks including standard factories, customized factories, warehouses, storage yards, office buildings and social 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 park property development and leasing business. Its total debt (including perpetual bonds) increased notably to RMB121.2 billion as of 31 March 2024 from RMB86.0 billion as of the end of 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 RMB62.8 billion for projects in industrial parks and an estimated capital expenditure plan of around RMB30.0 billion in 2024.

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) the local 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) the local 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.

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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