

**Lianhe Global has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Radiance Group Company Limited to ‘BB’ from ‘BB-’; Issuer Rating Outlook Stable**

HONG KONG, 7 July 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has upgraded the global scale Long-term Issuer Credit Rating of Radiance Group Company Limited (“Radiance” or “the company”) to ‘BB’ from ‘BB-’ (with Positive Outlook). The Outlook is Stable.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Radiance Capital Investments Limited, a wholly-owned subsidiary of Radiance, and guaranteed by Radiance, to ‘BB’ from ‘BB-’ at the same time. A full list of upgraded issuance ratings is included in this press release.

The Issuer Rating upgrade to ‘BB’ reflects Radiance’s improved market position and financial leverage. It also considers the expected enhancement in transparency and corporate governance after the anticipated IPO. Radiance’s continuous expansion in tier 2 and core tier 3 cities, especially in the western region may provide an impetus for its growth. However, Radiance’s rating is constrained by its moderate operating scale, limited visible track record, improved but still high financial leverage and lower-than-peer interest coverage.

The Stable Outlook reflects our expectation that Radiance will replenish its land bank portfolio and expand its operating scale in tier 2 and 3 cities while managing its debt growth cautiously and maintaining its credit profiles commensurate with the ‘BB’ credit rating category.

**Key Rating Rationales**

***Sizable and Diversified Land Bank Supports Consistent Contracted Sales Growth:*** Radiance operates in 5 major regions with a diversified land bank portfolio across China. Radiance’s sizable and diversified land bank portfolio with a total GFA at 30.9 million sqm (attributable at 26.7 million sqm) at end-2019 was sufficient to support Radiance’s contracted sales for the next three to four years. At the same time, Radiance’s land bank helped to maintain its contracted sales growth in 2019, which placed it among the top 40 property developers in China.

Radiance has expanded its land bank into populous metropolitan areas in the Yangtze River Delta Region from the western regions. In 2019, the urbanization rate was faster in the central and western regions than in the eastern and north eastern areas, narrowing the gaps on urbanization between different regions, according to the National Bureau of Statistics of China. Lianhe Global believes the company will likely benefit from the rapid rate of urbanization in the western regions which may provide the impetus for its expansion.

**Financial Leverage to Remain Stable:** Radiance is the operating subsidiary of Radiance Holdings (Group) Company Limited (“the listco”). After the anticipated IPO, the listco intends to use the net proceeds for (1) repayment of debt, (2) financing existing projects, and (3) general corporate purposes. Hence, we expect Radiance to maintain or even improve its financial leverage with the proceeds from the IPO to fill its coffers. We believe the company is not under any land replenishment pressure and hence it will likely keep its debt growth in tandem with its contracted sales growth. Hence, we forecast the company’s financial leverage will likely remain stable in the next 12-18 months.

At end-2019, the company had unrestricted cash of RMB 12.8 billion on hand plus available credit line of nearly RMB 40 billion which was sufficient to cover its debts of RMB 17.25 billion due within one year. The strengthened cash collection also helps provide the company with a stable source of funding to service its capital expenditure.

**Improved Visibility, Corporate Governance and Financing Channel:** Radiance has an ambitious medium-term plan to grow its operation into a national property developer powerhouse. We view this anticipated IPO as credit positive for the company not only from an improved financial leverage perspective but also from an enhanced transparency and corporate governance perspective. After the anticipated IPO, the listco has to abide by the listing rules which include the disclosure of more financial information as well as major transactions. Furthermore, the listco will likely follow the industry practice of voluntarily disclosing periodic operating statistics which will increase its operational transparency. As a listed company, it is also able to issue additional shares as a source of funding when needed.

**Profitability Under Pressure:** We believe Radiance’s profitability may come under pressure as the land-banking expenses increase along with its expansion across China. The company posted higher-than-peer profitability in the past years, exhibited robust gross margins (excluding depreciation and amortization) in the range of 33% to 36% from 2017 to 2018. But the company reported a gross margin of 23.7% in 2019 due to its higher land costs. The company benefited from the low-cost land in the past but as it expands in scale, the company acquires land at higher premium which puts pressure on its profitability. We believe the company would maintain its margin in the range of 20% to 25% in the next 12 to 24 months.

### **Rating Sensitivities**

We would consider downgrading Radiance’s rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 75% or a decrease in its EBITDA interest coverage to below 1.5x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Radiance’s rating if it were to (1) considerably increase its operating scale, and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 4.0x consistently.

Any rating action on Radiance’s rating would result in a similar rating action on the USD notes.

## Full List of Issuance Ratings

- USD250 million 8.80% senior unsecured notes due 2023 upgraded to 'BB' from 'BB-'
- USD250 million 11.75% senior unsecured notes due 2021 upgraded to 'BB' from 'BB-'

## About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

## Rating Methodology

The principal methodology used in this Radiance's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018 which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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