

Lianhe Global has upgraded the global scale Long-term Issuer Credit Rating of CIFI Holdings (Group) Co. Ltd. to ‘BBB-’ from ‘BB+’; Issuer Rating Outlook Stable

HONG KONG, 20 October 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has upgraded the global scale Long-term Issuer Credit Rating of CIFI Holdings (Group) Co. Ltd. (884.HK) (“CIFI” or “the company”) to ‘BBB-’ from ‘BB+’. The Outlook is Stable.

The Issuer Rating upgrade to ‘BBB-’ reflects CIFI’s established leading position in the Chinese property developer market, a track record of prudent operating performance, consistent profitability, and financial discipline demonstrated in the past years. The rating also considers our assessment of CIFI’s position in the credit polarization in the Chinese property development industry exacerbated by the recent COVID-19 outbreak.

The Stable Outlook reflects our expectation that CIFI will continue expanding its franchise, diversifying revenue source, and replicating the success in the Yangtze River Delta (“YRD”) region to continue expanding and deepening its footprint nationally by formulating the strategy of centralized financing, investing and decision-making platform while delegating its project management to the seven decentralized regional teams/offices to streamline the operation to achieve a high efficiency.

Rating Rationale

Leading Position in the Chinese Property Market: The Shanghai-headquartered and Hong Kong-listed company has an ambitious goal to grow into a national property developer powerhouse. CIFI reported contracted sales of over RMB80 billion in 1H2020 despite the COVID-19 outbreak in early 2020. CIFI achieved a single-month record-high contracted sales of RMB25 billion in June 2020. CIFI reported gross contracted sales of RMB154 billion year-to-date September which represented c. 67% of the full-year target of RMB 230 billion. CIFI was ranked 18th in terms of gross contracted sales by CRIC in the 1H2020 which placed it among the top 20 leaders of the Chinese property market. In addition, CIFI was also ranked among the top 10 players (mostly) within the company’s top 10-city coverage which further solidifies its market leader position.

High-Quality Land Bank and Strong Execution to Support Expansion: CIFI has expanded its land bank into populous metropolitan areas in southern, central, and western China as well as the Pan Bohai rim from the YRD region. The YRD region will continue to be an important part of the company’s expansion plan which contributed more than 40% of its contracted sales in 1H2020. At end-June 2020, tier 1 & 2 cities represented over 74% of CIFI’s land bank with the land acquisition from open auction channel representing less than two-thirds. CIFI will continue diversifying its land banking strategy and channels to keep land cost in check to support the expansion and manage financial leverage and profitability.

Furthermore, CIFI's high-quality land bank covers over 60 cities which also reduces its policy risk. Similarly, CIFI has demonstrated strong execution capability evident by its high cash collection rate of over 85% in the past five years. We believe these strong attributes are conducive to support CIFI's expansion.

Profitability to Remain Stable: We believe CIFI's profitability will likely remain stable despite coming under pressure as the land-banking expenses increase, given the company's past strong execution and capability of maintaining its gross margins in the range of 25% to 27% from 2016 to 2019. This was largely attributed to the company's leading market position, brand recognition, cost-control, execution, and project management capability. We believe the company would be able to maintain its gross margin and profitability in the next 12 to 18 months.

Financial Leverage Remains Stable: CIFI's management is mindful of cost control and the use of financial leverage while growing a national franchise and delivering projects by their preset metrics. CIFI's financial leverage ratio, measured by debt/capitalization, was at 63.7% at end-2019. Its attributable land bank of 27.7 million square meters at end-June 2020 was sufficient to support the company's growth target for the next three years. This allows a flexible headroom of land acquisition targets. Aggressive land-banking through increasing financial leverage is hence unlikely, in our view.

At end-June 2020, the company had unrestricted cash of RMB59.27 billion on hand which was sufficient to cover its debts of RMB19.98 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.

High Percentage of JV Contribution: During 2015-2019, CIFI mainly expanded its operating scale through JV participation. This approach helped CIFI gain access to new and unfamiliar markets and control its overall land acquisition cost. However, the decrease in overall interest in the acquired land bank by increasing the JV participation rate will likely impose execution risks for CIFI and lower its financial transparency. However, most of CIFI's JV partners are reputable developers with strong track records of successful project executions. This largely helps mitigating the execution risk for CIFI. Going forward, we expect CIFI's JV participation rate to likely decrease gradually as the company intends to maintain its growth pace in tandem with the overall market.

Rating Sensitivities

We would consider downgrading CIFI's rating if it were to (1) aggressively replenish its land bank which would result in an increase in its financial leverage as measured by debt/capitalization to over 65% or a decrease in its EBITDA interest coverage to below 3.5x 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 CIFI's rating if it were to (1) considerably increase its operating scale, and/or (2) maintain its financial leverage as measured by a debt/capitalization at below

50%, and an EBITDA interest coverage ratio at above 5.0x, consistently.

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 CIFI'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.

Note: The above Issuer Credit Rating is solicited at the request of the rated entity or a related third party.

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