

## **Common Credit Attributes of Chinese Investment Grade Property Developers rated by Lianhe Global**

Lianhe Global examines a number of factors when analyzing the credit of Chinese property developers. In this commentary, we would like to highlight some of the key qualitative credit attributes of Chinese investment grade (“IG”) property developers, using CIFI Holdings (Group) Co. Ltd. (“CIFI”, “BBB-/Stable”) and Logan Group Company Limited (“Logan”, “BBB-/Stable”) as examples. In general, Lianhe Global looks at consistency and predictability of operational and financial performance, as well as contracted sales growth and revenue delivery capabilities, of our rated entities under adverse conditions such as the COVID-19 outbreak:

### **1. Strong market Position Providing Buffer to Weather Market Volatility**

We expect Chinese IG property developers to be consistently in the upper percentile in terms of industry ranking as measured by contracted sales and revenue. We place a great emphasis on the market position, as a strong market position provides a property developer buffer to mobilize its resources and formulate its strategy to deliver a consistent and predictable performance, which is essential under adverse market conditions.

CIFI and Logan have attained leading market positions in terms of contracted sales and revenues, according to data published by China Real Estate Information Corporation. They have delivered high-quality contracted sales growth as evidenced by their not only above-national-average but high average selling price (“ASP”) over the past few years. Even under adverse market conditions such as halting sales and construction activities in China in early 2020 due to the COVID-19 outbreak, both companies were still able to deliver decent and stable operational performance.

Under the anticipated “Three-Redline Test” to be ushered possibly in 2021, we expect CIFI and Logan to continue delivering decent revenue and contracted sales growth.

### **2. Competitiveness in Composition of Land Bank**

Chinese IG property developers exhibit an abundance of high-quality land bank (with above-average ASP) located in higher tier cities, which is sufficient to support future sales growth for at least 3-4 years, as well as consistency of the same. We also look for land banking strategy that compliments such trait. We favour regions and cities with strong economic fundamentals to attract internal migrations to support their local housing market demands.

CIFI and Logan have high-quality land bank to support their sales growth. CIFI had over 80% of its land bank in tier 1 & 2 cities at end-June 2020, while Logan had c. 82% (including

urban renewal projects) of its saleable resources in the Greater Bay Area (“GBA”) with high ASP at end-June 2020.

We also expect both companies to meet their respective contracted sales targets for 2020 given their high-quality land bank and strong sales performance. Both companies are armed with abundant and high-quality land bank which affords them flexibility in land banking strategy as well as headroom in managing their financial leverages.

### **3. Diversity in Operations and Geographical Coverage**

We prefer diversified operations in terms of city and project coverages, as well as consistency of the same. Operational diversity mitigates some of the government policy risks such as a moratorium on home purchases or price increase in China. Additionally, a diversified portfolio of projects enables a property developer to deliver smooth, consistent, and predictable performance unlikely to be severely affected by unexpected project disruptions. We also look for quality of projects particularly urban development projects which generally deliver higher gross profit margins to alleviate the margin pressure associated with high asset turnover rate projects. However, urban development projects usually entail longer execution time and higher uncertainty, which we do pay close attention to on a case-by-case basis.

CIFI has reached a national footprint with coverage of over 230 projects in over 60 cities, spreading across all the key regions in China. The cities that CIFI has operations in usually have good economic fundamentals to support housing demand. We expect CIFI to continue expanding its market share by deepening its city coverage.

Logan has reached over 30 cities with approximately 150 projects in four regions and is expanding its national footprint. Logan remains focused on the GBA to continue benefiting from an internal migration which provides buttress for its housing market. We expect Logan to expand its footprint to regions beyond its home base in Guangdong while at the same time continuing its focus on GBA urban renewal projects.

### **4. Abundant Funding Sources and Healthy Debt Profile**

We also expect Chinese IG property developers to have strong relationships with banks as well as access to both the debt and equity capital markets to draw funding when needed. We favour a diverse funding source over any over-reliance on particular funding sources in which a market dislocation may disrupt the funding condition. We also favour traditional funding sources over non-traditional products such as trust loans due to concerns of policy risk, counter-party risk, as well as refinancing risk associated with the shorter duration and higher yields nature of trust products.

CIFI and Logan have considerable flexibility in utilizing the offshore and onshore debt and equity capital markets to raise funds, with a long and strong track record. In terms of debt profile, both companies had either very low or no exposure to trust loan products at end-June 2020.

We expect both companies to plan and execute their financing plans tactfully and maintain access to both the equity and debt capital markets by maintaining healthy debt structures.

## **5. Operating Efficiency to Execute Plans in a Timely and Effectively Manner**

We expect Chinese IG property developers to have consistent delivery of projects as scheduled, strong execution on property sales as well as cash collection, especially under adverse conditions such as the COVID-19 outbreak. Operating efficiency is key especially in the current industry dynamics, where opportunities of having high churn rate of high return projects have become rarer, due to the pressure from stagnant price growth and rising land costs.

CIFI and Logan were able to deliver consistent revenue growth on the back of strong contracted sales with high cash collection rate. Even with the COVID-19 outbreak, CIFI and Logan could achieve decent contracted sales growth YTD 2020. As funding condition tightens, we expect Chinese IG property developers to rely more on internally-generated resources to partially finance their capital expenditures, which CIFI and Logan have exhibited their capabilities in managing their cash flow cycle.

We expect both companies to continue carrying out land acquisition strategy, presale plan, cash collection effort, construction and delivery schedule of projects effectively.

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