

## **Contracted Sales Figures Are a Better Indicator Than Revenue When Analyzing The Credit of Chinese Property Developers**

Lianhe Global examines a number of factors when analyzing the credit of Chinese property developers. In this commentary, Lianhe Global focuses on the predicative power of contracted sales figures.

Lianhe Global analyzes the market position of a Chinese property developer by considering three key secondary factors: (1) contracted sales amount, (2) revenue size, and (3) market position and ranking. The first factor is the dominant factor supplemented by the other two. We believe contracted sales is a leading indicator as it reflects the actual performance of a Chinese property developer during a specific period, while revenue is a lagging indicator as it is subject to any recognition schedule which usually lags behind by at least one to two years. Lianhe Global analyzes and forecasts the profitability of a Chinese property developer by examining its contracted sales amount, growth pace, average selling price, and variability. We look at gross contracted sales including joint ventures and associates, attributable contracted sales calculated based on percentage ownership of projects, as well as consolidated contracted sales which flow through to revenue. Gross contracted sales represent the headline sales number of a Chinese property developer and do not necessarily reflect its actual sales performance. Consolidated contracted sales are reflected in the financial statements and its relationship with attributable contracted sales can be analyzed to gauge the trend of non-controlling interests.

We compare a Chinese property developer's delivered average selling price of recognized revenue from its financial statements against the most recent reported contracted sales average selling prices. We then analyze the gross margin based on the contracted sales average selling prices.

Lianhe Global examines the latest available contracted sales figures from our rated Chinese property developers<sup>1</sup> in the table below. Despite the spillover effect from the COVID-19 outbreak as well as a recovering Chinese economy, most of our rated Chinese property developers are expected to meet or exceed their respective 2020 full-year contracted sales targets. The average completion rate is c. 90% with some of them achieving 98-99% of 2020 full-year contracted sales targets already.

Furthermore, Chinese property developers generally allocate 40%-60% of the net proceeds from their contracted sales for land acquisitions. This is of particular importance under the spectre of tightening financial leverage measure exacerbated by the anticipated three-redline

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<sup>1</sup> Only public ratings with publicly available contracted sales data are shown

test which limits the annual debt growth rate to 15% at most. Contracted sales will play an increasingly important role as an internal funding source.

## Lianhe Global's Rated Chinese Property Developers' Year-to-Date November 2020 Gross Contracted Sales Figures

Issuer Name	Gross Contracted Sales (RMB in billion)
China Aoyuan Group Limited	113.76
CIFI Holdings (Group) Co. Ltd.	200.02
Jingrui Holdings Limited	22.00
Logan Group Company Limited	108.68
Redsun Properties Group Limited	74.25
Sinic Holdings (Group) Company Limited	98.86
Yango Group Company Limited	188.00
Yincheng International Holding Co., Ltd.	16.23
Yuzhou Group Holdings Company Limited	98.61
Zhongliang Holdings Group Company Limited	148.70

Source: Company public filings and rounded to two decimal places

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