

## **Lianhe Global has affirmed ‘B+’ global scale Long-term Issuer and Issuance Credit Rating to Golden Wheel Tiandi Holdings Company Limited; Issuer Rating Outlook Stable**

HONG KONG, 30 December 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘B+’ global scale Long-term Issuer Credit Rating to Golden Wheel Tiandi Holdings Company Limited (1232.HK) (“Golden Wheel” or “the company”). The Outlook is Stable.

Lianhe Global has also affirmed ‘B+’ global scale Long-term Issuance Credit Rating to the senior unsecured USD notes issued by Golden Wheel. A full list of affirmed issuance ratings is included in this press release.

The Issuer Rating reflects Golden Wheel’s track record in developing and sale of quality property projects with link or proximity to metro stations and stable property investments and metro-leasing business which provides recurring income and healthy margins. However, Golden Wheel’s rating is constrained by its small operating scale, fluctuating financial and operational performance, and weak liquidity.

The Stable Outlook reflects our expectation that Golden Wheel would gradually expand its operating scale in a prudent manner especially regarding land acquisitions, while continuing to maintain its stable recurring income stream, improving margins and deleveraging effort.

### **Key Rating Rationales**

***Small Operating Scale with Regional Focus:*** Positioned as a small regional property developer and operator with a relatively narrow geographical distribution of its business, Golden Wheel’s residential and commercial property development business is concentrated in a few major cities in Jiangsu and Hunan. Golden Wheel’s operating scale is relatively small as its total land bank by GFA at end-June 2020 and contracted sales in 2019 were only 1.56 million square meters and RMB3.48 billion respectively. Revenue from its property development was RMB337 million in 1H 2020, representing a y-o-y decrease of 20.2%.

At end-June 2020, Golden Wheel had unrecognized contracted sales of RMB2,464.7 million, of which c. 70% is expected to be recognized in 2H 2020 as and when the related projects are completed and delivered. Despite the y-o-y decrease in 1H 2020, with the completion of a few key projects in 2H 2020, we expect Golden Wheel to be able to achieve a decent growth in revenue from property development in 2020 versus 2019.

Golden Wheel is expected to commence the pre-sale of its flagship project near Nanjing South Station in 2H 2020 and also its existing joint ventures and associates projects on hand in 2021. Therefore, its contracted sales for the next 12-18 months are expected to reach over RMB55-60 bn with revenue growth following in the subsequent one to two years. Execution will be key

in achieving its target growth, especially amid the backdrop of evolving economic dynamics given commercial properties being more sensitive to economic cycle.

Golden Wheel's small scale and market share brought it relatively weak competitiveness in acquiring low-cost land bank with large scale and volatile financial and operating performance. Golden Wheel's business developing strategy in selective sites, its small operating scale and fluctuating financial and operational performance in the property development segment will be a constraint to Golden Wheel's credit profile in the next 12 to 18 months.

***Growing Property Investments and Metro-leasing Business Hit by Pandemic; On Track in Recovery:*** At end-June 2020, Golden Wheel had completed investment properties with a total GFA of approximately 190,566 sq.m.. Golden Wheel's investment properties portfolio has an average occupancy rate of c. 80%, which provides a recurring rental income as a cushion to the volatility of its property development segment. The carrying value of its investment properties portfolio was at c. RMB6.5 billion at end-June 2020.

However, due to the outbreak of the COVID-19 pandemic, Golden Wheel had voluntarily granted rental waivers of around one to three months to its lessees with an aim to ease the financial pressure on its customers and to maintain its customer relationship. Therefore, leasing and hotel income recorded a y-o-y decrease of 27.0% in 1H 2020. As the pandemic situation in China started to ease since Q2 2020, Golden Wheel's property investments segment has started to slowly recover. The company's new shopping mall in Nanjing, Golden Wheel Binary Star Plaza, was successfully opened in November 2020 with an occupancy rate of over 90%. We expect Golden Wheel to record a slight revenue growth in its property investments business in 2020, and back on its growth trajectory in the next 12-18 months. In addition to its investment properties portfolio, Golden Wheel operates a metro-leasing business in prime locations.

Golden Wheel enjoyed rental revenue growth from RMB129 million in 2015 to RMB209 million in 2019. Net rental income amounted to RMB152 million in 2019, representing c. 0.3x of its gross interest expenses. We expect its rental income to continue its growth, with rental income to gross interest expenses coverage to maintain at above 0.3x in the next 12 to 18 months.

***Cyclical Business and Land Acquisitions Leading to Increasing Leverage Relative to Scale; Expected to Stabilize with Efforts to Monetize Property Projects and Deleveraging:*** As Golden Wheel adopts a cyclical strategy to acquire new lands, and given its small scale, its financial leverage as measured by debt/capitalization ratio was on an increasing trend reaching 52.8% at end-2019 and 54.2% at end-June 2020. Since 2019, the company has slowed down on land acquisitions and focused on deleveraging and monetization of projects. We expect Golden Wheel's financial leverage to improve in the next 12 to 18 months to c. 52-53% level, as the company rolls out the pre-sales of all its projects under development and becomes more selective in its land replenishment pace and types.

However, given its small scale, we expect Golden Wheel to continue acquiring land in order to sustain its expansion and financial performance. We expect the form of land acquisitions to be more focused on joint ventures and associates as these would typically require less capital commitment upfront, which could help ease funding requirements for Golden Wheel.

**Margin Decrease to Bottom Out in the Near Term; Liquidity Profile Continues to be Tight:** Golden Wheel reported decreasing gross margin from over 50% in 2018 to 29.1% in 1H 2020, primarily because of the decrease in gross margin of its property development business (1H 2020: 14.9%) resulting from a higher portion of residential projects with less optimal locations in its property portfolio. With the commercial properties making up a larger portion of Golden Wheel's contracted sales in the next 12-18 months and the expected pre-sale of its high-margin flagship Nanjing South Station project, Golden Wheel's gross margin is expected to improve to 20-23% in the next 12-18 months, with that of property development business improving to close to 20%. The gross margins for the property investment (including metro-leasing) and hotel operation segments are expected to be maintained at c. 80% and c. 40% levels, respectively, in the next 12-18 months.

Golden Wheel held c. RMB988 million cash on hand (c. RMB184 million restricted bank deposits) at end-June 2020. It also had c. RMB340 million of deposits held from pre-sale proceeds accordingly to the relevant laws. The company also had c. RMB1 billion undrawn facilities at end-June 2020.

Golden Wheel's liquidity is tight as it had c. RMB4.5 billion debt due within one year at end-June 2020. The company has access to various financing channels including loans and bond markets in both the onshore and offshore markets, and it also has USD230 million offshore bond issuance quota available. We expect the company to continue its effort in deleveraging and improving its liquidity via refinancing of its existing indebtedness, given its track record of successful refinancing, and monetization of its property projects in the next 12 to 18 months.

### **Rating Sensitivities**

We would consider downgrading Golden Wheel's rating if it were to aggressively replenish its land bank which 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 1.0x consistently, and/or its operating performance were to deteriorate such that its sales, revenue and/or rental income experience a material decline or liquidity profile is worsened.

We would consider upgrading Golden Wheel's rating if it were to (1) considerably increase its operating scale and recurring income stream, (2) maintain its financial leverage as measured by debt/capitalization at below 50% or EBITDA interest coverage at above 2.5x consistently, and (3) notably improve its liquidity profile.

Any rating action on Golden Wheel's rating would result in a similar rating action on the USD notes.

### **Full List of Issuance Ratings**

- USD200 million 12.95% senior unsecured notes due 2022 affirmed at 'B+'
- USD170 million 14.25% senior unsecured notes due 2023 affirmed at 'B+'

### **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 Golden Wheel'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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