Lianhe Global has assigned 'BB-' global scale Long-term Issuer and Issuance Credit Rating to Dexin China Holdings Company Limited and its USD notes; Issuer Rating Outlook is Stable

HONG KONG, 4 January 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BB-' global scale Long-term Issuer Credit Rating to Dexin China Holdings Company Limited (2019.HK) ("Dexin China" or "the company"). The Outlook is Stable.

At the same time, Lianhe Global has assigned 'BB-' global scale Long-term Issuance Credit Rating to the senior unsecured USD notes ("the USD notes") issued by Dexin China Holdings Company Limited.

Dexin China intends to use the net proceeds from the USD notes primarily for refinancing its existing indebtedness.

Rating Rationale

The USD notes are rated at the same level as Dexin China's global scale Long-term Issuer Credit Rating of 'BB-' as they constitute Dexin China's senior and unsecured obligations. Dexin China's obligations for the USD notes shall at all times rank pari passu with all its other present and future unsecured and unsubordinated obligations.

The Issuer Rating reflects our assessment of Dexin China's improving operating scale, adequate profitability, and regional market franchise. The rating also considers Dexin China's capability to grow from its home base in Zhejiang Province into new regions. The rating constraints include the company's moderate financial leverage, geographic concentration, and limited funding sources.

The Stable Outlook reflects our expectation that Dexin China will maintain a steady financial position and mindful growth pace, given its sizeable contracted sales proceeds which will partially fund its expansion. At the same time, we expect the company to gradually pivot away from the reliance on short-term funding and trust loans in the medium term.

Sizeable Sales Proceed Fund Regional Expansion: Dexin China's management expects to further grow its scale by deepening the city coverage and expanding into new regions through its centralized platform of financing, land acquisition, and procurement. Although Dexin China was not highly ranked in terms of contracted sales on a national scale, it was highly ranked in terms of customer satisfaction surveys in its home base of Hangzhou and Wenzhou solidifying its local brand recognition. Dexin China uses cash received from its project developments to partly fund the growth plan into the cities in the Yangtze River Delta, and Chengdu-Chongqing Economic Circle as well as Guangdong Province of higher growth potential. Dexin China employs a quick asset turnover strategy and focuses on projects with small footprints (i.e.

sellable GFA between 100,000-150,000 sq.m) to achieve high sell-through and cash collection rates to maintain adequate cash flow to fund its growth.

Concentrated But Quality Projects with Sizeable Land Bank Allowing Financial Flexibility: Dexin China has a long operating history of over 20 years in property development in the Yangtze River Delta region. At end-June 2020, Dexin China had a gross and attributable land bank portfolio of 15.71 million sq.m. and 6.30 million sq.m, respectively. Most of the company's land bank was located in Hangzhou and Wenzhou, each representing 31.7% and 19%, respectively, at end-June 2020. In aggregate, Zhejiang Province represented nearly c. 70% of its gross land bank at end-June 2020. The average contracted sales selling price of RMB21,160/sq.m in 1H2020 was evidenced of its high-quality projects. In 1H2020, the average new acquisition of land cost by GFA was RMB7,503/sq.m. We believe Dexin China's established regional franchise and high-quality land bank, as well as strong latent demand in Hangzhou and Zhejiang Province, could partially compensate for the company's geographic concentration. In addition, given its sizeable land bank, Dexin China will not likely encounter any land replenishment pressure which affords more financial flexibility in the near term, in our view.

Material Reliance on Short-term Loans and Alternative Financing Expose the Company to Refinancing and Regulatory Risks: The company relies on short-term and trust loans, as well as funds from joint venture partners to finance its business activities which are subject to both refinance and regulatory risks. Short-term loans (excluding trust loans and asset management products) represented c. 23% while trust loans and asset management products (including both short-term and long-term) represented c. 19% of the company's total debt at end-June 2020. In addition, the company has limited access to the onshore debt capital market and instead relies primarily on onshore bank loans for funding. The company only had c. 16% of offshore bond outstanding at end-June 2020. The company plans to gradually replace both the short-term and trust loans with debt capital instruments. We expect the company to gain more recognition in both the onshore and offshore debt capital markets to diversify its funding sources.

Moderately High and Increasing Financial Leverage Constraints Rating: Dexin China's credit profile is constrained by its moderately high financial leverage as measured by gross debt over capitalization ratio (end-2018: 62.5%; end-2019: 61.75%; end-June 2020: 64.48%). As the company plans to adopt a debt-funded footprint expansion, we expect its moderately high financial leverage to moderately increase in the next 12-18 months.

In addition, Dexin China's interest coverage ratio above 3x was largely due to its gross margin of above 30% and moderate level of debt in the past two years. However, as the company faces margin compression along with increasing debt level as well as reducing short-term financing from the current level, we expect its interest coverage ratio to likely weaken to below 3x in the next 12-18 months.

Rising Land Costs to Further Pressure Profitability: We forecast Dexin China will register a moderate decline in gross profit margin down to about 25% in 2020 and 2021-2022 (2018: 38%; 2019: 32.2%; 1H2020: 25.7%), given the continual profitability compression from rising land costs largely due to the company's current reliance on land acquisition through open-auctions. Nonetheless, Dexin China's general cost control via centralized financing, procurement, product standardization, and expected land acquisition diversification may help partially alleviate the pinch.

Liquidity Remains Tight: Dexin China had cash and liquid investments on hand totalling RMB13.29 billion (including restricted cash of RMB 1.091 billion), and the total debt due in the next 12 months was approximately RMB9.229 billion (including interest bearing advances from joint ventures and associates) at end-June 2020. Dexin China had a total bank credit line of RMB17.040 billion with RMB2.0673 billion unused at end-June 2020. The company also had contracted for but unpaid commitment of approximately RMB6.7 billion at end-June 2020. The company's strong contracted sales and cash collection rate may partially alleviate its tight liquidity.

High Percentage of JV Contribution: Dexin China mainly expanded its operating scale through JV participation. This approach helped Dexin China gain market share and control its overall land acquisition cost. However, the decrease in the overall interest in the acquired land bank by increasing the JV participation rate will likely impose execution risks for Dexin China and lower its financial transparency. However, Dexin China's operating history of over 20 years and its controls and operates over 90% of the projects under construction largely help mitigating the execution risk.

Rating Sensitivities

Any rating action on Dexin China's rating would result in a similar rating action on the USD notes.

We would consider downgrading Dexin China'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 70% or a decrease in its EBITDA interest coverage to below 2.0x consistently, and/or 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 Dexin China'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 4x 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 Dexin China'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/Issuance Credit Rating is solicited at the request of the rated entity or a related third party.

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