Lianhe Ratings Global

Yincheng International Holding Co., Ltd.

Surveillance Report

Summary	
Issuer Rating	B+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
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Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'B+' global scale Long-term Issuer and Issuance Credit Rating to Yincheng International Holding Co., Ltd.; Issuer Rating Outlook is Stable

Summary

The Issuer Rating reflects Yincheng International Holding Co., Ltd. ("Yincheng" or "the company") established market position and branding in its home market Nanjing, a steady expansion of its development projects' pipeline to sustain its contracted sales growth momentum, and a gradual diversification of its land bank from the heavy reliance on Nanjing. However, Yincheng's rating is constrained by its small operating scale and geographical concentration as compared with its peers.

The Stable Outlook reflects our expectation that Yincheng would sustain its contracted sales growth outlook and maintain its competitive position in core markets such as Nanjing, while expanding its operating scale and diversifying its land bank in a prudent manner.

Rating Rationale

Regional Focus in Tier-2 and Tier-3 Cities; Gradual Diversification from Reliance on Nanjing: Yincheng commenced its operations in Nanjing in 2002 and has expanded its footprint to other cities in the Yangtze River Delta Region, including Wuxi, Hangzhou, Suzhou, Zhenjiang, Ma'anshan and Xuzhou. Yincheng continued its pace of geographical diversification through entering new cities in recent years, including Taizhou and Wenzhou in 2019 and 2020, respectively. Currently, Yincheng has operations in 10 cities, covering Jiangsu, Zhejiang and Anhui provinces. Yincheng's operating scale is relatively small as compared with other larger regional players. Its land bank by total GFA at end-June 2020 and contracted sales in 2020 were 5.5 million sq.m. and RMB23.2 billion, respectively. It was ranked over 100th in terms of both contracted sales amount and contracted sales GFA in 1H2020, according to CRIC's statistics.

The majority of Yincheng's revenue was derived from projects in Nanjing, while its effort of regional diversification started to pay off in recent years, as seen by the increasing contribution to the total contracted sales revenue from the other cities. In 2017, all of Yincheng's contracted sales revenue solely came from Nanjing (86%) and Wuxi (14%). In 2018, the contribution from these two cities was 52.7% and 27.0%, respectively, with the rest from Suzhou (8.2%), Zhenjiang (8.3%) and Ma'anshan (3.8%). In 2019, Hangzhou, Hefei, Xuzhou and Taizhou commenced their contributions with 8.0%, 3.7%, 3.5% and 1.0% of the total contracted sale revenue, respectively. On the other hand, Nanjing remained the most important city, contributing 57.7% and 64.1% of the total contracted sales in 2019 and 1H2020, respectively.

Similarly, in terms of recognized sales revenue, Nanjing accounted for 93.5%, 97.8%, 73.05% and 63.3% in 2017, 2018, 2019 and 1H2020, respectively, with the rest primarily from Wuxi. Yincheng started to expand its geographical focus to the other cities in the Yangtze River Delta Region as aforementioned. In view of the increasing contribution to the total contracted sales revenue from those new cities, we expect the delivery of those projects and contribution to the recognized sales revenue to commence in 2020. As a result, recognized sales revenue generated from Nanjing is expected to decline to c. 45-65% in 2020-2022.

Going forward, we expect Yincheng to sustain its promising performance in Nanjing, and the contribution from the other cities will become more evident. Having said that, given Yincheng's reliance on Nanjing (contributing over 50% of both contracted sales revenue and recognized sales revenue) and its regional focus on the Yangtze River Delta Region, we expect market concentration risk remains. Execution capability for operations outside Nanjing is yet to be proven, given Yincheng's relatively limited track record of operation and small operating scale in these cities. As a whole, Yincheng's operating scale and market concentration will continue to be a constraint to its credit profile in the next 12 to 18 months.

Quality Land Bank with Aggressive Land Replenishment: Yincheng employs the strategy of "Regional focus with in-depth market penetration in metropolitan cities" (區域聚焦、深耕都市圈), whereby it focuses on a few key cities in the Yangtze River Delta Region while cautiously penetrating into the other surrounding metropolitan cities. Yincheng's land bank amounted to 5.51 million sq.m. of total GFA at end-June 2020, which is sufficient for its growth in the next 2 to 3 years. Over 80% of the land bank (in terms of total GFA) is located in Nanjing, Hangzhou, Wuxi, Ma'anshan and Zhenjiang, with Nanjing accounting for 37%, at end-June 2020. Therefore, it presents Yincheng's sound fundamentals with the support from the resilient property markets in the Yangtze River Delta Region.

Historically, Yincheng has been using public tender, auction and list-for-sale to acquire land parcels, complimented by M&As. With a history of proven experience and branding in Nanjing, Yincheng has been able to purchase high quality land parcels for its development. Yincheng is striving to diversify its land acquisition channels in the recent years, in order to obtain a balance between public markets (i.e. tender, auction and list-for-sale) and M&As, and achieve more reasonable land acquisition costs as well. Per management's guidance, 52% of its land purchase was obtained through public markets in 2020, with the rest from M&As.

Yincheng had 46 projects on hand at end-June 2020. Yincheng acquired 18 pieces of land in 2020, with the total GFA of 2.62 million sq.m. and total land acquisition cost of RMB16.5 billion (or attributable cost of RMB8.8 billion). Given that 6 and 12 pieces of land were bought in 1H2020 and 2H2020, respectively, it demonstrated that Yincheng's pace of land purchase has accelerated in 2H2020. Following the aggressive land bank expansion, Yincheng has a land bank in terms saleable resources of approximately RMB59 billion at end-2020, which is adequate to support its contracted sales growth in 2021-2022.

Sustainable Contracted Sales Momentum Allowing for Scale Expansion: Yincheng recorded continuous growth of its total contracted sales by 65.7%, 107.7% and 17.1% to RMB9.5 billion, RMB19.8 billion and RMB23.2 billion in 2018, 2019 and 2020, respectively. Given its aggressive land bank replenishment and gradual geographical expansion with more cities generating contracted sales, we expect Yincheng to be able to sustain its contracted sales momentum with a growth of c. 20-25% per annum in 2021-2022. Based on Yincheng's land bank composition and its land acquisition record, we expect the revenue generating from Hangzhou will climb significantly and become the second major contributing city following Nanjing going into 2021-2022, further implementing Yincheng's diversification strategy and contributing to Yincheng's contracted sales growth outlook.

As Yincheng is in the stage of contracted sales growth, it will be able to generate decent cash flow to support its land cost payment and debt repayment in the next 12-18 months. Historically, Yincheng was able to achieve a cash collection rate of above 80%. As the scale expands, we expect this rate to remain at the c. 80% level. That said, we remain conservative on projects outside Nanjing, given Yincheng's limited experience outside this city and its relatively small operating scale.

Diversified Product Portfolio with Efficient Development-to-Sale Cycle: Yincheng offers a wide array of residential properties, including high-rise apartments, multi-storey apartments and low-density houses, with ancillary facilities catering to the needs and preferences of different segments of target customers. The company focuses on customer-oriented design philosophy which it pays attention to details with an aim to bringing increasing convenience and value-added experience to its customers.

Yincheng typically targets to commence pre-sale within eight months from the land acquisition. While Yincheng strives to shorten its property development cycle, it has placed and will continue to place significant emphasis on personalized design and quality control of its properties, so as to strike a balance between turnover and quality of property projects. Also, Yincheng has been maintaining a customer satisfaction rate of over 80% in 2017–2019, vis-à-vis an industry average of 70-75% in accordance to customer satisfaction surveys conducted by an independent third party research organization with respect to its properties covering areas such as after-sale services, delivery of properties, quality, maintenance, design and/or complaints.

Weakened Profit Margin; Adequate Financial Profile: Yincheng's gross margin fluctuated during 2017-1H2020. It recorded a gross margin of 16.8%, 29.0%, 16.3% and 15.7% in 2017, 2018, 2019 and 1H2020, respectively. Going forward, we expect Yincheng's gross margin outlook remains challenging, given: i) rising land acquisition cost, ii) pressure on profit margin for projects in new cities given Yincheng's limited track record of operations, and iii) certain price restrictions in Nanjing. We anticipate a slow margin recovery for Yincheng from c. 13-15% in 2020 to c. 17-20% in 2022, but its gross margin may remain lagging behind its peers.

Nevertheless, we expect Yincheng to maintain its contracted sales momentum at a growth of c. 20-25% for 2021-2022. Together with the decent cash collection of c. 80% and the decent development cycle (i.e. commencing pre-sales in 8 months after acquiring land certificates), Yincheng is expected to be able to generate sufficient cash inflow to support its land bank expansion and geographical diversification strategies. We expect the company's financial leverage as measured by debt/capitalization to be at a c.73-75% level in 2020-2022 as compared with 80.1% in 2018 and 70.3% in 2019.

The major source of Yincheng's funding is bank loan, which accounted for about 80% of its total loan at end-June 2020. We believe this structure will help Yincheng to achieve reasonable average financing costs and stable financing channels. That said, the company's funding source remains to be relatively narrow though it has diversified into the offshore USD bond market.

Yincheng held RMB6,584 million cash on hand (including RMB1,176 million of restricted cash and RMB864 million of pledged deposits) at end-June 2020. Yincheng also had c. RMB4 billion of undrawn facilities at end-June 2020, to cover its RMB5,161 million debt due within one year at end-June 2020.

Rating Sensitivities

We would consider downgrading Yincheng'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 80% or a decrease in its EBITDA interest coverage to below 1.0x consistently, and/or its operating performance were to deteriorate such that its property development business market position or sales experience a material decline.

We would consider upgrading Yincheng's rating if it were to (1) expand its operating scale and demonstrate successful diversification into other regions and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 3.0x consistently.

Company Profile

Yincheng International Holding Co., Ltd is a Chinese property developer that focuses on mass residential property development in China. It was first established as a state-owned enterprise in 1993 and approved to be restructured into a limited company in 2001. Its former employees (including Mr. Huang Qingping and Mr. Xie Chenguang) became its shareholders. The company has been listed on the Hong Kong Stock Exchange (1902.HK) since 2019.

Yincheng is majority owned (35.79%) by Mr. Huang Qingping, the current Chairman and non-executive director of Yincheng. Mr. Dai Chengshu and Mr. Zhu Linnan are the second and third largest shareholders and own 12.98% and 7.03% of the company respectively, at end-June 2020.

Yincheng's Shareholding Structure (at end-June 2020)

Shareholder	Percentage
Mr. Huang Qingping	35.79%
Mr. Dai Chengshu	12.98%
Mr. Zhu Linnan	7.03%
Mr .Xie Chenguang	5.40%
Mr. Ma Baohua	4.97%
Public	33.83%
Total	**100.0%**

Source: Yincheng

Key Financial Assumptions

- Contracted sales amount: RMB23-35 billion for 2020-2022
- Contracted average selling price: c. 5% growth per annum for 2021-2022
- Total revenue: RMB10-18 billion for 2020-2022

Key Financial Metrics

2018A-2022F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	55.3%	2.07x	74.3%	0.23x

Source: Yincheng's 2018-2019 annual and 2020 interim reports, Lianhe Global's adjustments and forecasts

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Yincheng's rating would result in a similar rating action on its USD notes:

- USD200 million 12.0% senior unsecured notes due 2021 affirmed at 'B+'

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