

**Lianhe Global places Yuzhou Group Holdings Company Limited on Rating Watch Negative**

HONG KONG, 26 March 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has placed the ‘BB’ global scale Long-term Issuer Credit Rating to Yuzhou Group Holdings Company Limited (01628.HK) (“Yuzhou” or “the company”) on Rating Watch Negative (RWN).

Lianhe Global has also placed the ‘BB’ global scale Long-term Issuance Credit Rating to the senior unsecured USD notes issued by Yuzhou on RWN.

The RWN reflects the expected deterioration in Yuzhou’s operating performance and weakening of credit metrics in the next 12-18 months. Pursuant to the profit warning announcements on March 21 and March 25, 2021, Yuzhou’s profit for 2020 experienced a more than 90% decrease compared to 2019, primarily due to a delay in project delivery and decrease in gross margin. Reported debt increased to c. RMB63.9 billion at end-2020, compared to c. RMB55.7 billion as at end-2019. As a result, Yuzhou’s credit metrics, particularly revenue scale and EBITDA interest coverage, were worsened significantly in 2020 and fell far below our original expectations. The deterioration in operating and financial performance in 2020 also reflects uncertainties on Yuzhou’s ability to timely deliver pre-sold properties (consolidated basis) in a consistent and scalable manner, as well as to maintain gross margin level and stable credit metrics, in the next 12-18 months.

**Rating Sensitivities**

We would consider downgrading Yuzhou’s rating if it were to aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 75% or a decrease in its EBITDA interest coverage to below 2.5x consistently, and/or its operating performance were to experience a material deterioration or liquidity position is worsened.

An upgrade is unlikely given the RWN on Yuzhou. We will resolve the RWN after Yuzhou’s 2020 annual results announcement.

Any rating action on Yuzhou’s rating would result in a similar rating action on the USD notes.

**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 Yuzhou'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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