聯合評級國際
Lianhe Ratings Global

Non-Rating Commentary
19 April 2021

Chinese Property Developers 2020 Annual Results Announcement Review: Marching Forward Amidst Turbulence

Summary

2020 Annual Result Performance in Line with Forecast

Lianhe Ratings Global Limited ("Lianhe Global")'s rated Chinese property entities achieved 2020 annual results with an average growth of 24.5% in contracted sales, together with 14.7% and 5.4% on average increase in total revenue and core net profit, respectively. Also, the developers' deleveraging efforts were demonstrated as their average net gearing ratio dropped from 84.7% in 2019 to 76.0% in 2020, while the average financing costs varied in 2020. Nevertheless, the developers' average gross profit margin (GPM) was squeezed to 22.5% in 2020 (from 29.5% in 2019). Most of the Lianhe Global's rated developers were able to pass 2 out of the 3 thresholds stated in the "3 Red Lines" rules, but 9 out of 14 developers failed the asset-to-liability ratio with an average of 74.1%. They recorded 18.9% of total debt growth rate on average. Many property developers accelerated their project deliveries and increased their contracted sales paces resulting in hoarding more cash in their coffers, which lowered their net gearing ratios even though some of them increased their total borrowings.

Overall, the developers' revenue and earnings were roughly in-line with our forecasts, though there were a few individual cases of missed revenues on project delivery delays. Their financial leverage ratios also improved, driven by the deleveraging since 2H2020. However, their GPMs fell short of our expectations generally and are yet to be stabilized, dragged down by the price restriction in certain higher-tier cities, and the rising land and construction costs.

Moderate Contracted Sales Targets in 2021, Focusing on Urban Renewal in the GBA

At large, the developers remain optimistic on contracted sales outlook generally with 5-30% growth target (16.1% on average) for 2021. They also focus on the following operation strategies: i) concentrating on affluent areas with promising property sales outlook, such as the Yangtze River Delta (YRD) and the Greater Bay Area (GBA) regions, ii) continuous deleveraging with more focus on cash collection ratios and restrained loan growth, and iii) diversifying land acquisition methods to control land costs, such as urban renewal projects (URP). We believe land replenishment via URP not only enriches the developers' land bank in tier 1 and 2 cities, but also alleviate their liquidity burdens with less land cost premium payments in the early stages.

Pressure on Small-sized Developers in Offshore USD Bond Market

Polarization of developers' credit profile is becoming more evident, as investors' risk appetite turns more conservative. Some small-sized developers are increasingly relying on short-term bond issuance (i.e. maturity of less than 1 year), and eventually go for private debt as alternatives. There is virtually no impact on Lianhe Global's investment-grade (IG) issuers, as their newly-issued bonds are well received with oversubscriptions and tight pricings.

Review of 2020 Annual Results

Steady Revenue and Earnings Growth, Gross Margins Under Pressure

Most of the Chinese property developers managed to achieve growth in both contracted sales and revenue in 2020, despite the coronavirus outbreak (“COVID-19”) in 1Q2020 and the return of policy tightening in higher-tier cities in 2H2020. Benefiting from more project deliveries, Lianhe Global’s rated Chinese property developers posted 14.7% and 5.4% increase on average in their total revenues and core profits in 2020, respectively, mainly supported by the higher recognized property sales revenues (EXHIBIT 1).

However, we observed the developers’ average GPM was squeezed to 22.5% in 2020 (from 29.5% in 2019), due to the rising land and construction costs, together with the limited room for average selling price growth under the price restriction policies in some higher-tier cities. 13 out of 14 developers recorded GPM decline in 2020.

Exhibit 1: Lianhe Global’s Rated Chinese Property Developers’ 2020 Annual Results

Issuers name	% Change of Total Revenue	% Change of Core Profit	Gross Margin 2019	Gross Margin 2020
China Aoyuan Group Limited ("Aoyuan")	34.2%	17.8%	29.7%	25.1%
CIFI Holdings (Group) Co. Ltd. ("CIFI")	27.2%	16.3%	25.0%	21.7%
Dexin China Holdings Company Limited ("Dexin")	64.7%	7.1%	32.2%	24.9%
Golden Wheel Tiandi Holdings Company Limited ("GWT")	-13.5%	-86.2%	33.1%	16.8%
Jingrui Holdings Limited ("Jingrui")	-3.8%	6.0%	20.2%	19.6%
Logan Group Company Limited ("Logan")	23.7%	20.1%	31.5%	30.0%
LVGEM (China) Real Estate Investment Company Limited ("LVGEM")	-21.4%	97.3%	64.2%	49.1%
Radiance Holdings (Group) Company Limited ("Radiance")	34.3%	24.7%	21.8%	22.1%
Redco Properties Group Limited ("Redco")	44.8%	25.2%	34.3%	22.6%
Redsun Properties Group Limited ("Redsun")	32.9%	10.7%	25.1%	22.4%
Sinic Holdings (Group) Company Limited ("Sinic")	4.0%	0.8%	29.6%	24.4%
Yincheng International Holding Co., Ltd. ("Yincheng")	17.5%	21.5%	16.3%	10.8%
Yuzhou Group Holdings Company Limited ("Yuzhou")	-55.2%	-81.6%	26.2%	4.6%
Zhongliang Holdings Group Company Limited ("Zhongliang")	16.4%	-3.8%	23.3%	21.0%
Average:	**14.7%**	**5.4%**	**29.5%**	**22.5%**

Source: Issuers’ 2019 and 2020 result announcements, Lianhe Global

Disciplined Financial Leverage and Debt Growth to Comply with the "3 Red Lines"

Deleveraging emerged as a prevailing theme in the Chinese property sector in 2020, particularly following the introduction of the "3 Red Lines" rules in August 2020. Despite the need for land bank replenishment following the contracted sales recovery, developers still managed to echo with the government's advocate of deleveraging through accelerating contracted sales pace, inventory clearance, higher cash collection ratios, faster project delivery and revenue/earnings recognition. As a result, their efforts were demonstrated in the improvement in their financial leverage ratios. Lianhe Global's rated Chinese property developers recorded an average increase of 18.9% of total debt in 2020. However, their average net gearing ratio dropped from 84.7% in 2019 to 76.0% in 2020 (EXHIBIT 2) with 8 out of 14 developers posting decline in net gearing ratio in 2020.

Under the backdrop of loosening monetary policy and polarization of credit profile, the average financing cost varied among the developers. Lianhe Global's rated Chinese property entities' average financing cost rose marginally from 7.72% in 2019 to 7.86% in 2020, but actually 7 out of 12 developers showed decline in their average financing costs in 2020.

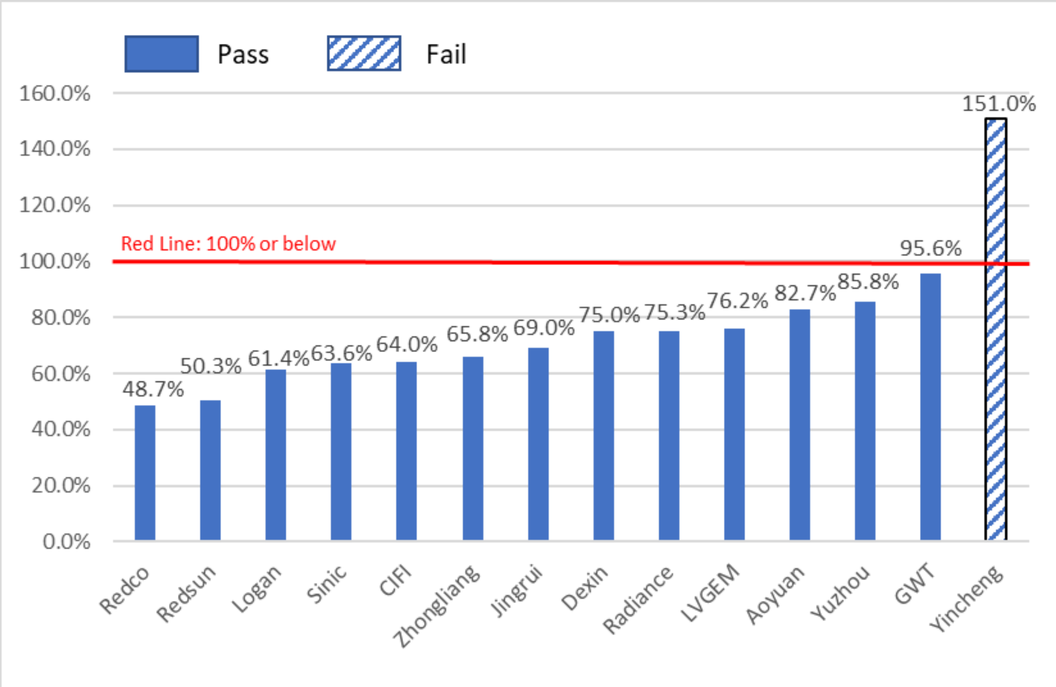
Exhibit 2: Lianhe Global's Rated Chinese Property Developers' Financial Positions at End-2020

Issuer	% Change of Total Debt	Net Gearing Ratio		Average Financing Cost	
		2019	2020	2019	2020
Aoyuan	20.0%	74.9%	82.7%	7.5%	7.2%
CIFI	1.0%	65.6%	64.0%	6.0%	5.4%
Dexin	65.9%	68.7%	75.0%	8.4%	N/A[(1)]
GWT	-4.9%	96.8%	95.6%	7.8%	11.0%
Jingrui	12.8%	57.7%	69.0%	8.3%	8.3%
Logan	15.0%	67.4%	61.4%	6.1%	5.6%
LVGEM	18.0%	135.2%	76.2%	6.3%	7.1%
Radiance	9.6%	166.9%	75.3%	7.8%	7.5%
Redco	19.8%	17.9%	48.7%	9.3%	9.8%
Redsun	9.3%	70.4%	50.3%	7.9%	7.7%
Sinic	11.2%	67.6%	63.6%	9.2%	9.1%
Yincheng	36.8%	160.6%	151.0%	N/A[(1)]	7.7%
Yuzhou	14.8%	70.2%	85.8%	7.1%	7.2%
Zhongliang	34.6%	65.6%	65.8%	9.4%	8.5%
Average:	**18.9%**	**84.7%**	**76.0%**	**7.72%**	**7.86%**

Note: Average financing cost is derived from developers with comparable data in 2019 and 2020 only
(1) Not disclosed
Source: Issuers' 2019 and 2020 result announcements, Lianhe Global

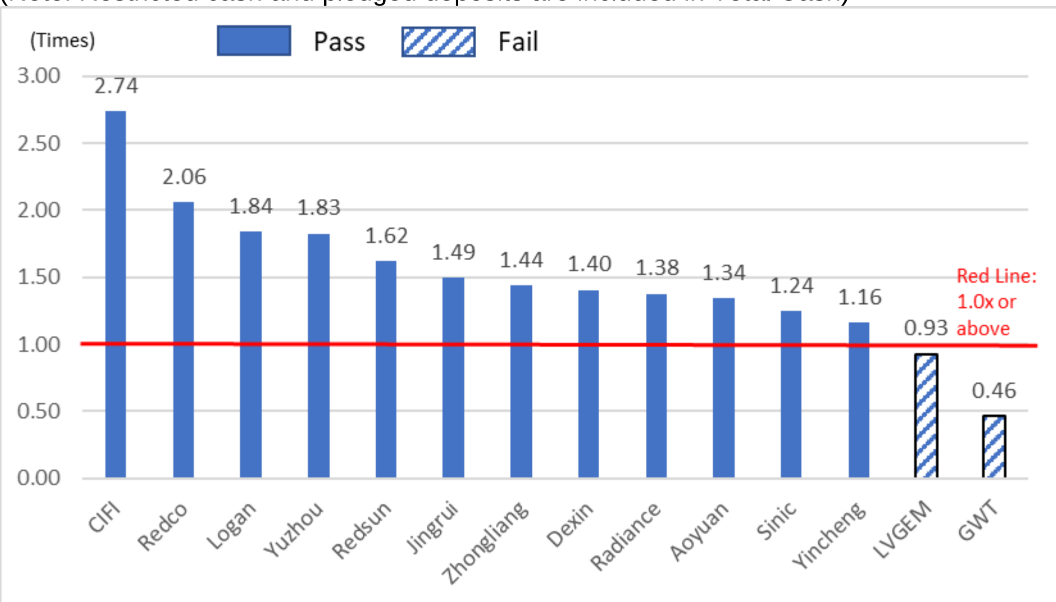
Most of the Lianhe Global's rated developers was able to pass 2 out of the 3 thresholds stated in the "3 Red Lines" rules, namely net gearing ratio and cash/short-term debt ratio, at end-2020 (EXHIBIT 3 and 4) with 13 out of 14 developers passing the net gearing ratio threshold which required 100% or below. Similarly, 12 developers passed the cash/short-term debt ratio threshold which required 1.0x or above.

Exhibit 3: "3 Red Lines" – Net Gearing Ratio
Formula: Net Debt (i.e. Total Debt minus Total Cash) / Total Equity
Requirement: 100% or below



Source: Issuers' 2020 result announcements, Lianhe Global

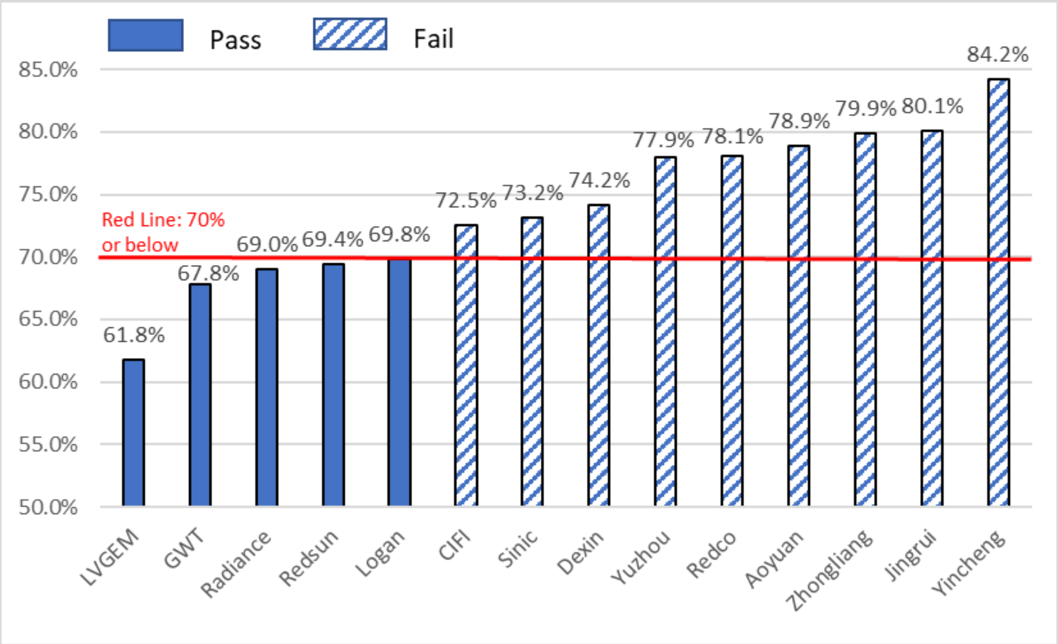
Exhibit 4: "3 Red Lines" – Cash-to-Short-term Debt Ratio
Formula: Total Cash / Short-term Debt
Requirement: 1.0 time or above
(Note: Restricted cash and pledged deposits are included in Total Cash)



Source: Issuers' 2020 result announcements, Lianhe Global

However, a majority of them (9 out of 14 developers) failed the asset-to-liability ratio with the average at 74.1%, exceeding the minimum requirement of 70% or below (EXHIBIT 5). Many of them target meeting all of the requirements by the end of either 2021 or 2022.

Exhibit 5: "3 Red Lines" – Asset-to-Liabilities Ratio
Formula: Total Liabilities less Contract Liabilities / Total Assets less Contract Liabilities
Requirement: 70% or below



Source: Issuers' 2020 result announcements, Lianhe Global

Deleveraging Ahead of Our Forecast, but Gross Margin yet to be Stabilized

Overall, most of the developers' contracted sales, revenue and earnings were roughly in-line with our forecasts. A few individual cases missed our expectations, due to the delay on project delivery and thus the revenue recognition. Also, developers' financial leverages improved and went down in 2020, mainly driven by the prompt deleveraging as aforementioned.

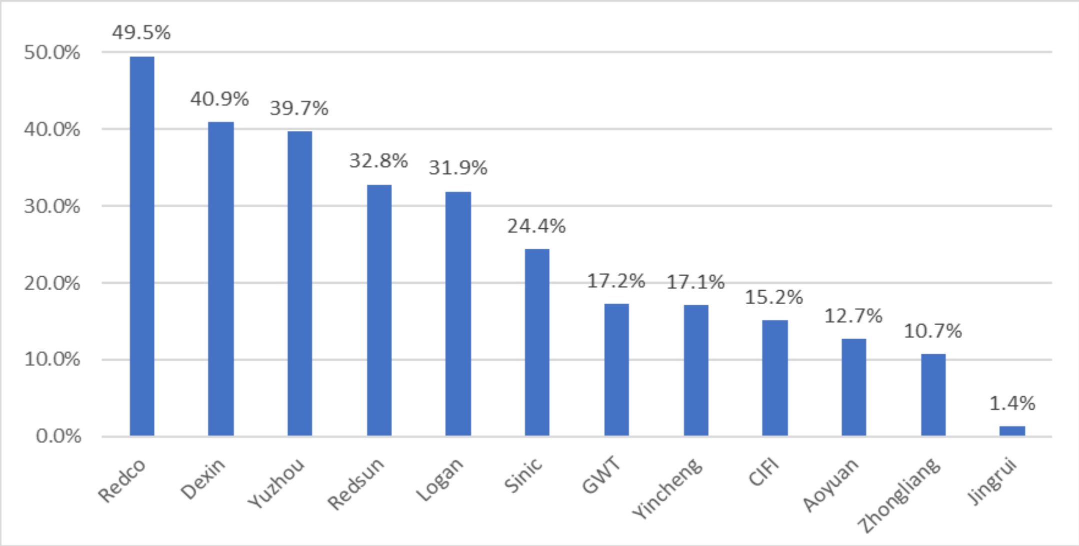
However, their GPMs fell short of our expectations generally and are yet to be stabilized. The limited average selling price growth under the price restrictions in higher-tier cities were not adequate to offset the rising land and construction costs. Given the fierce competition in land purchase in tier 1 and 2 cities in the past few years, we believe the developers' GPM will continue to be normalized at 20-25% going forward. Some of the developers will be able to partially offset the declining GPM trend by including more URP in their contracted sales and revenue recognition portfolio, as URP normally commands higher profit margins compared with the land acquired via the traditional methods, i.e. public tender, auction and listing.

2021 Outlook and Strategy

Moderate Contracted Sales Targets in 2021, Focusing on Higher-tier Cities

For Lianhe Global's rated Chinese property developers, all of them were able to record contracted sales increase in 2020, with the average growth rate of 24.5% (EXHIBIT 6). Most of the developers regarded tier 1 and 2 cities as the major drivers of contracted sales growth in 2020.

Exhibit 6: Lianhe Global's Rated Chinese Property Developers' Contracted Sales Growth in 2020

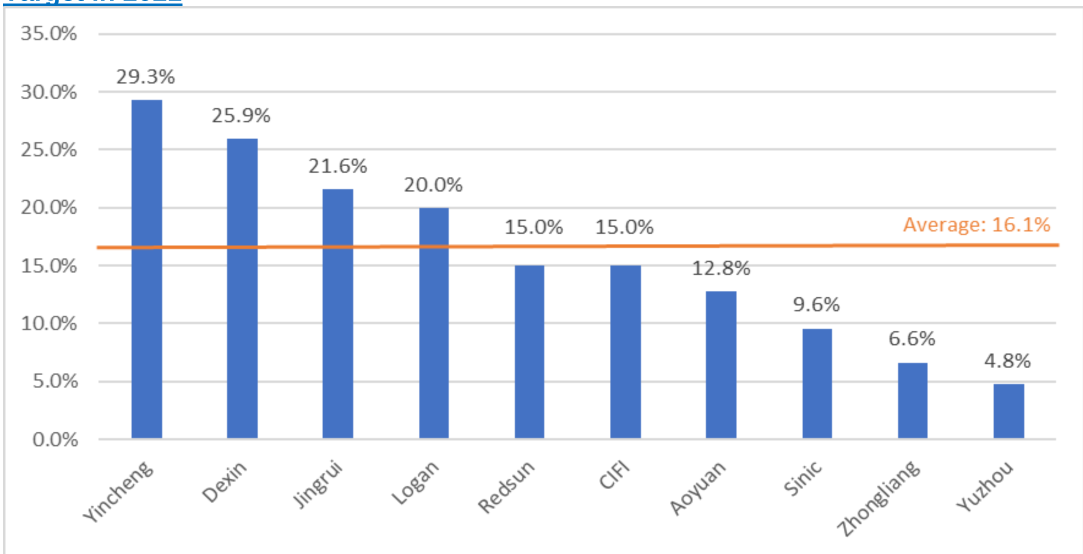


Note: Comparison is made only for developers with comparable contracted sales data in 2019 and 2020
Source: Issuers' 2020 result announcements, Lianhe Global

Going forward, the developers remain optimistic on contracted sales outlook generally with 5-30% growth target (16.1% on average) (EXHIBIT 7) for 2021. We summarize the following contracted sales strategies applied by most of the developers:

i) Concentrating on affluent regions with promising property sales outlook, such as the YRD and the GBA regions,
ii) Focusing on tier 1 and 2 cities given their desirable sell-through rates, despite the risk of fierce competition and policy tightening in these cities,
iii) Penetrating into some high potential tier 2 and 3 cities for scale expansion and mitigating the risk of price growth restrictions in higher-tier cities, and
iv) Emphasizing the importance on cash collection ratios and fast asset turnover.

Exhibit 7: Lianhe Global's Rated Chinese Property Developers' Contracted Sales Growth Target in 2021



Note: Developers announcing 2021 contracted sales growth targets are listed in this exhibit
Source: Lianhe Global

On the financial front, we expect a majority of the developers will apply the following approach going forward:

i) Continuing their deleveraging pace since 2H2020 and fulfil all of the thresholds under the “3 Red Lines” rules as soon as possible,
ii) Limiting their total debt growth to comply with the “3 Red Lines” rules as if they have been implemented,
iii) Optimizing their loan structure with less reliance on trust loans and asset management products,
iv) Tapping both the onshore and offshore bond markets, either to lower their average financing costs (mainly for IG issuers) and widen their financing channels (mainly for newly-listed and/or low-rated issuers), and
v) Higher reliance on joint ventures, associates and minority interests in land acquisitions, which helps to lower the need of capital but probably increase off-balance sheet debt.

Urban Renewal Projects as Major Diversified Land Acquisition Methods

In view of the surging land costs amid fierce competition in land purchase, particular in higher-tier cities and affluent regions, the developers strive to diversify land acquisition methods away from the traditional approaches in order to acquire quality land at reasonable costs. URP and merges and acquisitions (M&As) are the most popular methods adopted by the developers.

Given the complexity of relocation process and less competition among developers for the land parcels, URPs normally command higher profit margins compared with those acquired from traditional methods. Also, unlike those traditional methods which require settling land premium consideration within a few months following the transactions, developers involved in URPs do not need to incur huge land cost payment during the early stages. Instead, the major costs of URP are relocation expenses and compensations to incumbent residents, which are more evenly distributed throughout the development course. Moreover, most of the URPs are located in the developed areas or city centres in tier 1 and 2 cities, particularly in the GBA. Their locations are valuable to developers since developers are difficult to acquire land parcels with similar locations in the open land markets.

Therefore, we believe land replenishment via URP not only safeguard developers’ profit margins in the long term, but also alleviates their liquidity burdens with less land premium payment in the early stages, and enriches their land bank in tier 1 and 2 cities. Nevertheless, developers need to face the uncertainty regarding the redevelopment pace, especially since it usually takes a lengthy period (e.g. a few years) to complete the entire negotiation, approval, and relocation process. It will probably drag developers’ invested capital in these URPs, and disrupt developers’ schedule of their capital expenditure and contracted sales.

For some Lianhe Global’s rated issuers, diversified land acquisition methods, which consist of URPs and other M&As, contributed 50-80% of the total land acquisitions (in terms of saleable resources) and exceeded the traditional methods in 2020, such as Logan (78%), Aoyuan (73%), Yuzhou (64%) and CIFI (51%).

Further Polarization in Offshore USD Bond Market

Pressure on Small-sized Developers in Offshore USD Bond Market

The credit polarization of developers is becoming more evident in the offshore USD bond market, as investors' risk appetite turns more conservative following the default of China Fortune Land Development Co., Ltd. ("CFLD"). As the need of capital is imminent for refinancing offshore debts and accelerating construction pace, some small-sized developers are increasingly relying on short-term bond issuance (i.e. maturity of less than 1 year). That said, these developers probably encounter pressure on pricing and investor response for their short-term bond issuance, due to investors' prevailing risk-averse stance and plenty of supply for bond with similar risk levels and duration. As a result, some of them eventually go for private debt as an alternative.

Some developers in these categories experienced rapid scale expansions in the previous years, and they shift their focus to deleveraging and construction pace from now on. Therefore, we suggest paying close attention to some criteria for scrutinize any potential deterioration of developers' credit profiles, such as adequate liquidity, project delivery according to the schedule, significant increase in payables, etc.

On the other hand, there is virtually no impact on Lianhe Global's IG issuers, as their newly-issued bonds are well received with oversubscriptions and tight pricing. Given the higher concern on counter-party risk, IG issuers usually prefer same-tier peers or large-scale developers when forming joint ventures for property development projects.

Appendix

List of Lianhe Global's Rated Chinese Property Developers

Issuer Name	Long-term Issuer Credit Rating	Outlook
Yuzhou Group Holdings Company Limited	BB-	Stable
CIFI Holdings (Group) Co. Ltd.	BBB-	Stable
Logan Group Company Limited	BBB-	Stable
Jingrui Holdings Limited	B+	Stable
Redsun Properties Group Limited	BB-	Stable
Yango Group Co., Ltd.	BB	Stable
Radiance Holdings (Group) Company Limited	BB	Stable
China Aoyuan Group Limited	BB+	Stable
Golden Wheel Tiandi Holdings Company Limited	B+	Stable
LVGEM (China) Real Estate Investment Company Limited	BB-	Stable
Zhongliang Holdings Group Company Limited	BB	Stable
Yincheng International Holding Co., Ltd.	B+	Stable
Sinic Holdings (Group) Company Limited	BB-	Positive
Dexin China Holdings Company Limited	BB-	Stable
Redco Properties Group Limited	BB-	Stable
Source: Lianhe Global		

List of Lianhe Global's Issuance Rating Actions on Chinese Property Developers Year-to-date in 2021

Date	Issuer Name	Issuance / Long-term Issuance Credit Rating
4 January 2021	Dexin China Holdings Company Limited	BB-
5 January 2021	Zhongliang Holdings Group Company Limited	BB
5 January 2021	CIFI Holdings (Group) Co. Ltd.	BBB-
6 January 2021	Redsun Properties Group Limited	BB-
6 January 2021	Logan Group Company Limited	BBB-
6 January 2021	Dexin China Holdings Company Limited	BB-
6 January 2021	Golden Wheel Tiandi Holdings Company Limited	B+
18 January 2021	Sinic Holdings (Group) Company Limited	BB-
16 March 2021	Jingrui Holdings Limited	B+
31 March 2021	Logan Group Company Limited	BBB-
7 April 2021	Redco Properties Group Limited	BB-
Source: Lianhe Global		

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