Lianhe Ratings Global

Press Release
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Lianhe Global downgrades Golden Wheel Tiandi Holdings Company Limited's global scale Long-term Issuer and Issuance Credit Rating from 'B+' to 'B'; Issuer Rating Outlook Stable; Removes Rating Watch Negative

HONG KONG, 30 April 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has downgraded the global scale Long-term Issuer Credit Rating to Golden Wheel Tiandi Holdings Company Limited (1232.HK) ("Golden Wheel" or "the company") from 'B+' to 'B'. The Outlook is Stable.

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

Lianhe Global has removed the Rating Watch Negative on the company's issuer and issuance credit rating.

The Issuer Rating downgrades to 'B' reflects Golden Wheel's tight liquidity and rising refinancing risk in the near-term. Additionally, the company had a limited number of projects under construction in regions with exposure to policy risk of home price restrictions and material exposure to commercial real estate market with the associated execution risks. Golden Wheel's margin compression and rising funding cost also resulted in the fluctuation of its financial metrics which translates into low interest coverage and tight liquidity.

The Stable Outlook reflects our expectation that Golden Wheel would gradually improve its liquidity position and manage its refinancing risk especially regarding the management of its funding cost, while continuing to monetize its property project portfolio, maintain its stable recurring income stream and deleveraging effort, and improve its margins.

Key Rating Rationales

Liquidity Profile Remains Tight with Rising Refinancing Risk; Margin Compression in Near-Term: Golden Wheel's liquidity is tight as it had c. RMB3.0 billion debt due within one year at end-2020. Golden Wheel had c. RMB1,413 million cash and bank deposits (including c. RMB849 million unrestricted cash) at end-2020. It had c. RMB257 million of deposits held from pre-sale proceeds according to the relevant laws. The company also had c. RMB180 million undrawn facilities at end-2020. Golden Wheel expects to have stable cashflow from its contracted sales proceeds in 2021 with saleable value of over RMB3 billion. The company has access to various financing channels including loans and bond markets in both the onshore and offshore markets and it also has USD150 million offshore bond issuance quota available. While we expect the company to continue its effort in deleveraging and improving its liquidity via 1) refinancing of its existing indebtedness given its track record of refinancing, and 2) monetization of its property projects, in the next 12 to 18 months, the company faces rising refinancing risk as its average funding cost increased substantially to 11% in 2020 from 7.8% in 2019, and the uncertainty it faces in the execution of its refinancing plan given the recent capital market sentiments.

Golden Wheel reported decreasing gross margin from over 50% in 2018 and over 33% in 2019 to 19 % in 2020, primarily due to home price restrictions placed on residential properties and rising construction costs from the delay of project delivery in Nanjing and Zhuzhou etc. As commercial properties are expected to make up a larger portion of Golden Wheel's contracted sales in the next 12-18 months, Golden Wheel's overall gross margin is expected to gradually recover to c. 20% level in the next 12-18 months on the heels of improving margin from the property development business. Gross margins for the investment properties (including metro-leasing) and hotel operation segments are expected to be maintained at c. 80% and c. 40% level, respectively, in the next 12-18 months.

Limited Number of Projects (including Commercial Properties) Exposes the Company to Execution Risk Constraining Financial Metrics: At end-2020, the company had 13 projects available for sale. Any delays in the construction pace and subsequently the delivery schedule of the projects would cause lags in the recognition of its revenue. In 2020, the company experienced delays in two of its projects in Nanjing, Jiangsu, which subsequently led to a delay in the recognition of revenue. In addition, the company experienced margin compression on its residential projects largely due to home price restrictions and the rising construction costs in Nanjing and Zhuzhou etc. While Golden Wheel's commercial property projects are less exposed to margin compression, they are more susceptible to business cyclicality and economic gyration than residential property projects. Thus, we believe execution risk is still present regarding the company's ability to successfully monetize its commercial properties portfolio. At end-2020, Golden Wheel had unrecognized contracted sales of RMB3.2 billion, of which c. 50% is expected to be recognized in 2021 as and when the related projects are completed and delivered. We estimate that the company had c. 36% of residential and commercial projects (excluding JVs and associates) under development by GFA at end-2020.

As a result of the delay in revenue recognition and the margin compression, Golden Wheel reported a decrease in its gross profit to RMB233 million in 2020 from RMB531 million in 2019. Consequently, the company showed a material deterioration of its financial metrics such as interest coverage ratio falling below 1.0x. Golden Wheel delivered one of the delayed projects (residential) in January 2021 and we expect it to deliver the delayed commercial project in Q2 2021. We also expect the company to improve its interest coverage slightly in the next 12-18 months. While we expect Golden Wheel to deliver its projects under construction as scheduled in 2021, we continue to pay attention to the execution certainty, given the limited number of projects in the company's property portfolio, the prevailing margin compression on its residential projects, and the material exposure to commercial properties.

Rating Sensitivities

We would consider downgrading Golden Wheel's rating if it were to (1) fail to refinance its maturing debt or experience material decline in its refinancing capacity, (2) aggressively replenish its land bank which result in an increase in its financial leverage as measured by debt/capitalization to over 65%, and/or (2) 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 65% or EBITDA interest coverage at above 1.5x 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 downgraded from 'B+' to 'B'
- USD255 million 14.25% senior unsecured notes due 2023 downgraded from 'B+' to '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.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst
Alex Kung
Senior Director
(852) 3462 9577
alex.kung@lhratingsglobal.com

Committee Chairperson
Ben Yau
Director
(852) 3462 9586
ben.yau@lhratingsglobal.com

Business Development Contact

Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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