

Lianhe Global downgrades Yuzhou Group Holdings Company Limited's global scale Long-term Issuer and Issuance Credit Rating from 'BB' to 'BB-'; Issuer Rating Outlook Stable; Removes Rating Watch Negative

HONG KONG, 13 April 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has downgraded the global scale Long-term Issuer Credit Rating to Yuzhou Group Holdings Company Limited (01628.HK) (“Yuzhou” or “the company”) from ‘BB’ to ‘BB-’. 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 Yuzhou from ‘BB’ to ‘BB-’. 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 downgrade to ‘BB-’ reflects Yuzhou’s shift in credit profile with the negative impact of a significant decrease in the revenue recognition and the increasing prominent effect of the margin compression, and a recovery to a ‘BB’ credit profile in the near term is unlikely.

The Stable Outlook reflects our expectation that Yuzhou would improve its revenue scale and from the margin compression of its projects commensurate with a “BB-” credit profile. Yuzhou will however still need to continuously replenish its land bank to sustain its contracted sales growth, particularly on a consolidated basis, while at the same time manage its debt growth and improve its margins in the next 12-18 months.

Key Rating Rationales

Expanding Sales Scale with Uncertainty on Project Consolidation; Reliance on Joint Ventures and Associates Further Weakens Control and Financial Visibility: Yuzhou reported contracted sales of RMB104.9 billion for 2020, representing an increase of c. 39.7% on a year-over-year basis, attributable to the increasing use of joint ventures and associates, which would reduce the corporate transparency of Yuzhou’s ability to control the operations of the joint ventures, and the company’s financial visibility.

Yuzhou’s revenue experienced a decrease of c. 55% to RMB10.4 billion in 2020. The company indicated that the decrease was mainly attributable to delay in the development progress due to the COVID-19 outbreak and the inability to consolidate certain joint ventures. Yuzhou indicated that the revenue recognition is expected to rebound in 2021. The certainty on project consolidation still needs to be observed, despite the company’s c. RMB23 billion of contract liabilities on its balance sheet at end-2020 and the scale will still fall short to an extent of our original expectations.

Quality Land Bank with Relatively Short Life Span; Rising Land Cost and Margin Compression: Yuzhou's land bank at end-2020 was sufficient for its development for 2-2.5 years, therefore we expect Yuzhou to continue replenishing its land bank to keep up with its growth plan, which inevitably will put pressure on the company's land acquisition expenditures and cash flow.

In 2020, the attributable land consideration was c. RMB30 billion, which showed that Yuzhou still needs to continue reducing its land acquisition pace, despite being more selective in terms of paying premiums on land cost. In the first three months of 2021, Yuzhou spent c. RMB1.4 billion, on an attributable basis, for land acquisitions, as compared with c. RMB6.3 billion in the same period in 2020. Yuzhou's average land cost increased from c. RMB5,000 per sq.m. in 2018, to c. RMB12,479 per sq.m. in 2020. Although Yuzhou's rising land cost could be partly compensated by higher average selling prices (ASP) of its quality land bank of higher tier cities, the buffer has been narrowing, as shown by a slower growth rate in the average contracted selling price during the same periods.

Moderate Financial Leverage with Good Maturity Profile and Liquidity: Yuzhou's financial leverage was moderate as measured by its debt/capitalization ratio of 67.0% at end-2020. Its reported debt level increased to RMB63.9 billion at end-2020 from RMB55.5 billion at end-2019. On the other hand, guarantees in relation to joint ventures and associates came down from RMB12.4 billion at end-2019 to RMB7.7 billion at end-2020, which partially helped in stabilizing Yuzhou's financial leverage. Non-controlling interests increased to RMB9.7 billion at end-2020, as compared to RMB5.8 billion at end-2019.

Yuzhou's liquidity was adequate as it had RMB34.5 billion (RMB31.7 billion unrestricted) cash on hand against its short-term debt of RMB18.9 billion at end-2020. While the company has indicated that financing plans have been well-put in place for the short-term debt, we continue observing the execution of its onshore corporate bond re-financing and negotiation process regarding certain maintenance covenants with financial institutions of its syndicated loans.

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 80% or a decrease in its EBITDA interest coverage to below 1.5x consistently, and/or it were to fail to improve its revenue recognition as planned or its operating performance were to experience a material deterioration or liquidity position is worsened.

We would consider upgrading Yuzhou's rating if it could sustain its contracted sales growth and diversity while continue to strengthen its revenue recognition and profitability, and maintaining its financial leverage as measured by debt/capitalization at below 70% or EBITDA interest coverage at above 3x consistently.

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

Full List of Issuance Ratings

- USD500 million 8.625% senior unsecured notes due 2022 downgraded from 'BB' to 'BB-'
- USD500 million 8.500% senior unsecured notes due 2023 downgraded from 'BB' to 'BB-'
- USD500 million 8.500% senior unsecured notes due 2024 downgraded from 'BB' to 'BB-'
- USD500 million 8.375% senior unsecured notes due 2024 downgraded from 'BB' to 'BB-'
- USD500 million 8.300% senior unsecured notes due 2025 downgraded from 'BB' to 'BB-'
- USD645 million 7.375% senior unsecured notes due 2026 downgraded from 'BB' to 'BB-'

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.

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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