聯合評級國際
Lianhe Ratings Global

Press Release
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Lianhe Global has assigned 'BB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Shinsun Holdings (Group) Co., Ltd.

HONG KONG, 12 May 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BB-' global scale Long-term Issuer Credit Rating to Shinsun Holdings (Group) Co., Ltd. (2599.HK) ("Shinsun" or "the company"). The Outlook is Stable.

The Issuer Rating reflects Shinsun's sizable contracted sales scale, average profitability and regional market franchise. The rating also considers Shinsun's established market position in Zhejiang province and its capability to grow from its home base to the Pan-Yangtze River Delta (Pan-YRD) region and other selective high growth potential cities. However, Shinsun's rating is constrained by its high financial leverage, the geographical concentration with significant land bank exposure in low-tier cities, and reliance on non-traditional bank financings.

The Stable Outlook reflects our expectation that Shinsun will maintain its market position in Zhejiang province with a moderate expansion pace, driven by its sizable contracted sales scale and prudent land acquisition approach. Also, we expect Shinsun to reduce its reliance on trust financing and improve its financial leverage in the next 12-18 months.

Rating Rationales

Large-scale Developer with Strong Regional Presence: Established in 1995, Shinsun has evolved itself into a large-scale developer in China through over 20 years of development. Shinsun is headquartered in Shanghai and has a strong presence in both Zhejiang province and Pan-YRD region. At end-2020, Shinsun had a land bank with attributable GFA of 23.3 million square meters (sqm). Of which, 48.2% of the land bank is located in Zhejiang province, and 38.5% and 13.3% are located in Pan-YRD region (excluding Zhejiang province) and other high growth potential cities, respectively. Shinsun had 218 projects at various stage of development, across 45 cities in 11 provinces in China at end-2020.

Supported by its fast-growing land bank, Shinsun achieved sizable contracted sales scale and growth. The company recorded attributable contracted sales of RMB78.2 billion in 2020, representing a year-on-year growth of 25.1%. According to China Real Estate Information Corp (CRIC), Shinsun ranked among the top 30 property developers in terms of total contracted sales in 2020.

Shinsun achieved a total revenue of RMB6.3/14.2/35.5/46.6 billion in 2017-2020, representing a year-on-year growth of 125.9%, 149.9% and 31.3% in 2018, 2019 and 2020, respectively. We believe the rapid revenue growth was mainly driven by the booking of its robust contracted sales growth. Its contracted sales consolidation ratio, however, has been decreasing in 2017-2019, from c. 80% to c. 60%, which can also be seen from the tapering revenue growth in 2020. We expect its revenue growth to slow down in the next 12-18 months, vis-à-vis 2020 and 2019. In 2020, 61.3% and 36.5% of the total revenue was generated from Zhejiang province and Pan-YRD region, respectively.

Shinsun has established a solid brand recognition in Zhejiang province, and become a sizable property developer in China in terms of both contracted sales metrics and land bank scale. That said, Shinsun's credit profile is constrained by its geographical concentration compared with same-tier peers, given that 86% of its land bank is located in Pan-YRD region with c. 50% located in a single province.

Strategic Nationwide Expansion via the "1+1+X" Strategy: Shinsun's "1+1+X" business strategy, formulated in 2016, strives to consolidate its presence in Zhejiang province, penetrate into the Pan-YRD region, and selectively expand into the other high growth potential cities outside Pan-YRD region. Shinsun identifies Changsha and Xiamen as its next target of expansion, which indicates that the company will expand from eastern China to southern and central regions.

Shinsun established a "Shinsun Town" model, in which Shinsun cooperates with local governments to develop property projects comprising residential and commercial properties. This model enables Shinsun to acquire land with relatively low land cost and with policy support from the local governments. At end-2020, Shinsun had 10 projects operating under the "Shinsun Town" model.

Steady Contracted Sales Growth Outlook and Average Gross Margin; ***Increasing Use of Joint Ventures Model:*** Shinsun intends to spend c. 50% of the cash collection from contracted sales for land acquisitions each year. Shinsun's land bank size at end-2020 was adequate to support its contracted sales growth for the next 3 years. Overall, we expect Shinsun to achieve a moderate total contracted sales growth of c. 10-15% in the next 12-18 months, with its consolidation ratio gradually increasing and being maintained at c. 70-75% (c. 78% in 2020) level compared with c. 60% in 2019, as and when more existing consolidated projects are monetized into presales.

Shinsun is expected to utilize more the joint ventures model which would result in a notable increase in its non-controlling interests. This model could partially ease Shinsun's capital requirement when expanding its operating scale, especially under the heightened liquidity requirements for China property developers under the backdrop of the "centralized land supply" policy and industry dynamics. We expect the company to be selective in choosing partners and to employ a prudent manner in land acquisitions to manage non-controlling interest leakage and contingent liabilities. Having said that, the increasing use of joint ventures would reduce the corporate transparency of Shinsun's ability to control the operations of the joint ventures, and the company's financial visibility.

At end-2020, Shinsun had contract liabilities of c. RMB68.8 billion, decreasing from c. RMB77.9 billion at end-2019, indicating a slower revenue growth prospect in the next 12-18 months. Together with the expected contracted sales for 2021-2023, we expect Shinsun to archive a total revenue growth of c. 10-15% in the next 12-18 months.

Shinsun's reported gross margin was 21.1%, 23.9% and 18.1% in 2018, 2019 and 2020 respectively. We foresee some challenges for Shinsun's gross margin, mainly from the revenue booking in some low-tier cities, as well as the rising land costs from the gradual shift in targeting higher tier cities. We expect Shinsun to maintain a gross margin of c. 20% level in the next 12-18 months, in-line with the industry average level.

Improved Visibility and Financing Channel after IPO Listing: Shinsun was listed on the Stock Exchange of Hong Kong in November 2020. The proceeds raised from the IPO listing helped Shinsun strengthen its cash base and enlarge its equity base. Moreover, the listing status enables Shinsun to explore its financing channels more to equity financings and offshore capital markets. It could help Shinsun better manage its capital structure, lengthen its debt duration and lower its average financing costs.

Shinsun intends to diversify its financing channels, including asset-backed securities (ABS), senior notes, other debt offerings and strategic investments. For example, Shinsun issued a couple of senior notes and raised a total proceed of USD500 million in 2020. We expect Shinsun to continue these fund-raising activities in order to diversify its financing channel and lengthen its debt maturity profile.

High but Improving Financial Leverage with Exposure to Alternative Financings: Shinsun's financial leverage was high as measured by debt/capitalization ratio of c. 91% and c. 84% at end-2018 and end-2019, respectively. However, Shinsun's financial leverage and financial position improved following its IPO listing with increased equity base and widened financing channels. We expect Shinsun's debt/capitalization ratio to improve to c. 70-75% level in the next 12-18 months.

Shinsun's reported debt increased from RMB25.9 billion in 2017 to RMB46.2 billion at end-2020. Of which, alternative financings such as trust loans contributed 58.9% of Shinsun's total debts. Given the increasing proportion of trust loans to the total debt, Shinsun's average financing costs rose from c. 8.1% in 2017 to c. 9.1% in 2020. The reliance on alternative financings such as trust loans with higher financing cost and shorter tenors will constrain the company's credit profile in the next 12-18 months.

Shinsun's liquidity is adequate. At end-2020, the company had a total cash balance of RMB24.3 billion, compared with its short-term debt of RMB22.2 billion. The company also had certain unutilized committed banking facilities at end-2020. Shinsun's liquidity is expected to be sufficient to cover its maturity debt and committed land premium due in the next 12 months.

Rating Sensitivities

We would consider downgrading Shinsun's rating if it were to (1) aggressively expand and 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 (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Shinsun's rating if it were to (1) considerably increase its operating scale without over-reliance on the joint venture model while maintaining competitive position in its core markets, (2) considerably reduce its exposure to non-traditional bank financings, and (3) maintain its financial leverage as measured by debt/capitalization at below 65% or EBITDA interest coverage at above 3.0x consistently.

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 Shinsun'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 Credit Rating is solicited at the request of the rated entity or a related third party.

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