Jingrui Holdings Limited

Surveillance Report

Summary	
Issuer Rating	B+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	27 May 2021

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'B+' global scale Long-term Issuer and Issuance Credit Rating of Jingrui Holdings Limited; Issuer Rating Outlook Stable

Summary

The Issuer Rating reflects Jingrui Holdings Limited's (1862.HK) ("Jingrui" or "the company") operating track record and continuous expansion in tier 1 and 2 cities, especially in the Yangtze River Delta ("YRD") region. However, Jingrui's rating is constrained by its small operating scale, less competitive on land acquisition, moderately high financial leverage and moderate gross margin.

The Stable Outlook reflects our expectation that Jingrui will replenish its land bank portfolio and expand its operating scale, while managing its debt growth in tandem cautiously and improving its gross margin.

Rating Rationale

Long Operating Track Record with Focus on High-tier Cities: Jingrui was established in 1993 and has a long operating track record in Shanghai and the YRD. Following the addition of Chengdu, Hefei and Nanchang, Jingrui is operating the property development business in 22 cities across China. Jingrui reshuffled its operating strategy by returning its focus on high-tier cities and destocking in low-tier cities. At end-2020, Jingrui's total land bank GFA increased by 5.3% to 4.96 million square meters (sq.m.). Tier 1 and 2 cities accounted for 91.2% of Jingrui's total land bank GFA, and over 90% of its saleable resources. The YRD, which includes Shanghai, Jiangsu and Zhejiang provinces, accounted for 45.5% of Jingrui's total land bank GFA at end-2020.

Jingrui is strengthening its competitiveness in acquiring quality new land through cooperating with other developers and third parties. The average land acquisition cost was lowered to RMB5,438/sq.m. in 2020 (2019: RMB6,602/sq.m.). Also, the attributable ratio of its land bank improved to 53% at end-2020 (end-2019: 46%). However, the fierce competition for land acquisition and price restriction for contracted sales in high-tier cities still put pressure on Jingrui's profitability. Therefore, Jingrui will selectively enter some tier 3 cities with high-growth potential and in close proximity to its existing footprint in the YRD.

Target to Resume Contracted Sales Growth: Jingrui's contracted sales remained in the range of RMB25-26 billion in 2018-2020. In 2020, Jingrui achieved a 1.4% growth of contracted sales to RMB25.5 billion. Nanjing, Hangzhou, Tianjin and Ningbo were the major contributing cities to Jingrui's contracted sales. According to CRIC, Jingrui was ranked 102nd in terms of contracted sales in 2020, versus 84th in 2019. Supported by the property markets in high-tier cities in the YRD, Jingrui targets to resume contracted sales growth with a target of RMB31 billion in 2021, implying a 21.5% year-on-year increase. Jingrui has saleable resources of RMB43 billion planned for 2021, with the majority of them located in tier 1 and 2 cities.

Analysts
Alex Kung
+852 3462 9577
alex.kung@lhratingsglobal.com

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

Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

Profitability Under Pressure: Jingrui's gross margin was volatile due to both high land cost in high-tier cities and destocking in low-tier cities. In 2020, Jingrui's reported gross margin dropped to 19.6%, due to the increasing land cost which made up 40.2% of the recognized property sales revenue (2019: 38.0%).

We expect Jingrui's gross margin to stabilize at c.20% in 2021-2023, given the decrease of average land acquisition cost in both 2019 and 2020, together with increased contracted average selling price by 5.8% in 2020. However, Jingrui's contracted average selling price will be under pressure, given a higher proportion of contracted sales will be generated from tier 3 cities.

Moderately High Financial Leverage on Accelerated Land Replenishment: Jingrui intends to expand its operating scale, deepen its coverage in high-tier cities and restore contracted sales growth. Jingrui bought 15 pieces of land with total investment of RMB11.7 billion in 2020, compared with 10 pieces of land and RMB8.6 billion in 2019. Also, Jingrui plans to have higher capital expenditure on both land acquisition and construction in 2021. As a result, Jingrui's reported total debt increased to RMB21.4 billion at end-2020 (end-2019: RMB19 billion). Of which, trust loans surged to RMB10.5 billion in 2020 from RMB3.8 billion in 2019, and accounted for 5% of the total borrowings (end-2019: 2%). Similarly, debts from asset management companies accounted for 6% of Jingrui's total borrowings at end-2020 (end-2019: nil). In terms of tenor, short-term borrowings accounted for 43% of Jingrui's total borrowings at end-2020 (end-2019: 50%).

Having said that, Jingrui's capital expenditure is expected to be supported by cash inflow from its contracted sales. Jingrui has been able to maintain a cash collection rate at above 90% since 2015. Its sell-through rate also improved to 72% in 2020 from 70% in 2019. As a whole, we expect Jingrui's financial leverage as measured by a debt/capitalization ratio to remain moderately high at 63-65% in 2021-2023.

At end-2020, Jingrui had unrestricted cash of RMB10.9 billion on hand which was sufficient to cover its borrowings of RMB9.1 billion due within one year. Together with its undrawn facilities of RMB26.5 billion at end-2020, we expect Jingrui's liquidity to be adequate.

Rating Sensitivities

We would consider downgrading Jingrui's rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 70% or a decrease in its EBITDA interest coverage to below 1.0x 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 Jingrui's rating if it were to (1) expand its operating scale, and/or (2) maintain its financial leverage as measured by debt/capitalization at below 60% and EBITDA interest coverage at above 2.0x consistently.

Company Profile

Jingrui is a Chinese property developer established in 1993, with a major focus in the YRD and other tier 2 cities in China. The company is home-based in Shanghai, and it has been listed on the Hong Kong Stock Exchange since 2013 (Stock code: 1862.HK).

Jingrui is majority owned and managed by Mr. Yan Hao (co-chairman and chief executive officer) and Mr. Chen Xin Ge (co-chairman), who held 40.5% and 26.7% of Jingrui's stake at end-2020, respectively.

Exhibit 1: Jingrui's Shareholding Structure at end-2020

Shareholder	Percentage
Mr. Yan Hao	40.5%
Mr. Chen Xin Ge	26.7%
Mr. Xu Hai Feng	0.4%
Mr. Chen Chao	0.1%
Public	32.3%
Total	**100.0%**

Source: Jingrui

Key Financial Assumptions

- Contracted sales growth: 10-19% per annum for 2021-2023
- Delivered average selling price: -5% to 0% change per annum for 2021-2023
- Total revenue: RMB15-22 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	71.0%	1.6x	64.0%	0.3x

Source: Jingrui's annual reports, Lianhe Global's adjustments and forecasts

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Jingrui's rating would result in a similar rating action on its USD notes:

- USD200 million 10.875% senior unsecured notes due 2021 affirmed at 'B+'
- USD260 million 12% senior unsecured notes due 2022 affirmed at 'B+'
- USD350 million 14.5% senior unsecured notes due 2023 affirmed at 'B+'
- USD190 million 12.5% senior unsecured notes due 2023 affirmed at 'B+"

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited ("Lianhe Global" or "the Company" or "us") are subject to certain terms and conditions. Please read these terms and conditions at the Company's website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company's independent credit ratings and research.