Redsun Properties Group Limited

Surveillance Report

Summary	
Issuer Rating	BB
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	3 May 2021

Lianhe Ratings Global Limited ("Lianhe Global") has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Redsun Properties Group Limited to 'BB' from 'BB-'; Issuer Rating Outlook Stable

Summary

The Issuer Rating upgrade to 'BB' reflects Redsun's improved market position and financial leverage. It also considers the company's operating track record and continuous expansion, especially in the Jiangsu Province and the Yangtze River Delta ("YRD") region. However, Redsun's rating is constrained by its moderate operating scale, less competitiveness on land acquisitions, moderate financial leverage, and lower interest coverage commensurate with the 'BB' category.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Redsun to 'BB' from 'BB-', at the same time. A full list of issuance ratings is included in this report.

The Stable Outlook reflects our expectation that Redsun will continue expanding its operating scale in the tier 2 & 3 cities and replenishing its land bank portfolio while managing its debt growth in tandem with its contracted sales growth cautiously. At the same time, we expect Redsun to improve its interest coverage ratio.

Rating Rationale

Operating Efficiency Supports Regional Expansion: Redsun has a proven track record in Jiangsu Province, especially in Nanjing. In addition, it has diversified its land bank portfolio and expanded its footprint to more than 50 cities across China since 2017. Redsun had about 71% of land bank GFA located in Jiangsu Province and the YRD region, at end-2020. A majority of about 37% of Redsun's projects are located in tier 2 cities, such as Nanjing, Wuxi, and Nantong where housing demand and industry dynamics remain sound. Redsun's projects are largely located in economically strong areas which help reduce execution risks and secure high asset turnover and cash collection rate. Redsun achieved a comprehensive sell-through rate of 65% and a cash collection rate of around 88%, and shortened its project average launch time to less than 6.5 months in 2020. Furthermore, Redsun applies product and management standardization processes to reduce project costs and delivery time to increase cash flow and profitability. We believe Redsun will be able to build on the success and experience it has achieved and accumulated in Jiangsu Province and replicate them in new cities.

Competitive Edges with a Focus on Recurring Income from Commercial Real Estate and Valued-added Services: Redsun's quick asset turnover strategy and strong execution capability support the company's fast expansion in land bank and strong sales in recent years. Given the fierce competition in the YRD region, Redsun strives to distinguish itself from its competitors by focusing on (1) a quick asset turnover strategy, (2) offering value-added services such as hi-tech services and fully decorated units for homebuyers, as well as (3) recurring income from commercial real estate to boost revenue. In addition, Redsun operates six Hong Yang Plazas so far, which has been providing stable recurring revenue for the company. Its newly opened plazas

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Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

in Yantai, Changzhou, and Nanjing enjoyed high occupancy rates of above 90% in 2020. Redsun plans to open two new plazas in 2021 and more than four in 2022 and thereafter.

Financial Leverage Remains Stable with Improving Debt Maturity Profile and Composition with Abundant Liquidity: Redsun's management is mindful of cost control and use of leverage while growing a national franchise and delivering projects by the preset targets. Redsun's financial leverage ratio, measured by the reported gross debt over capitalization, maintained at between 62.5% and 56% from 2017 to 2020. The company has set a gross contracted sales target of RMB100 billion for 2021 and plans to utilize approximately 50-55% of the attributable contracted sales proceeds for land acquisition. Hence, it will maintain a disciplined use of financial leverage. Its attributable land bank of 9.67 million square meters at end-2020 together with the anticipated new land acquisitions in 2021 will be sufficient to support the company's growth target for the next three years. Redsun passed the 3-redline tests at end-2020 which affords the company a bit more financial flexibility.

At end-2020, Redsun reduced its short-term borrowings as a percent of its total borrowings to c. 35% from c. 49% at end-2018. Additionally, Redsun has been reducing its reliance on non-bank financings since 2017. At end-2020, Redsun had c. 19% of borrowings as non-bank financings (of which trust loans comprised of c. 13%), reducing from that of c. 31% at end-2017. We expect the company to continue lengthening its debt maturity profile and reducing exposure to non-bank financings in the next 12-18 months.

At end-2020, the company had unrestricted cash of RMB12.4 billion on hand along with an available undrawn credit line of RMB46.56 billion, which was sufficient to cover its debts of RMB11.4 billion due within one year. The strengthened cash collection from contracted sales also helps provide the company a stable source of funding to service its capital expenditure.

Rising Land Costs Put Pressure on Gross Margins: We expect Redsun to maintain a gross margin in the low 20% area in 2021 and 2022, considering the management's mindful cost control, strategic land-banking selection, and competitive product standardization, all of which could help alleviate its profitability compression as the company expanded into new second-tier cities from its home base in Jiangsu Province. The company enjoyed the windfalls of strong economic growth in the early years and posted above-peer gross margin on the solid basis of its low-cost land bank in Jiangsu Province. The average land acquisition cost was RMB7,157/sqm in 2020 which was higher than that of RMB5,607/sqm in 2019. Redsun primarily targets an upgrader market with a strong latent demand which reduces to a certain extent the pressure on its gross margins.

Reliance on Partnerships Could Obscure Transparency: Redsun cooperates with other peers through joint ventures (JVs) and associates to expand its footprint. Redsun's attributable land bank and contracted sales accounted for approximately 50% of their respective gross figures at end- and in 2020. As Redusn continues to expand, we expect its exposure to JVs and associates to remain high which gives rise to financial transparency concerns.

Due to its moderate market share, Redsun relies on JVs and mergers and acquisitions ("M&A") strategy to gain access to land in tier 2 & 3 cities. Redsun acquired about 35% of its land via M&A activities and the residential plus commercial land acquisition approach in 2020 which was conducive to expand its footprint nationally. However, its geographic expansion into more cities has also led to rising operating costs and exposing the company to execution risks. In addition, we believe that the fierce competition in the YRD region, Redsun's core market, will likely impose pressure on Redsun's land acquisition expenditure and profitability. The company plans to fall back to its M&A strategy and the residential plus commercial land acquisition approach to keep

land cost in check. It targets to obtain c. 35% of future land acquisition via M&A and the residential plus commercial land acquisition channels.

Rating Sensitivities

We would consider downgrading Redsun's rating if it were to (1) aggressively replenish its land bank which results in an increase of its financial leverage as measured by debt/capitalization to over 65% 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 Redsun's rating if it were to (1) consistently 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 3.5x consistently.

Company Profile

Redsun is a Chinese property developer, established in 1996, with a major business focus in the YRD. Redsun has headquarters in both Shanghai and Nanjing, and it has been listed on the Hong Kong Stock Exchange (1996.HK) since 2018.

Redsun is majority owned by Mr. Zeng Huansha (72.24% of total shares) through Redsun Properties Group (Holdings).

Redsun's Shareholding Structure (at end-2020)

Shareholder	Percentage
Mr. Zeng Huansha	72.24%
Mr. Jiang Daqiang	0.48%
Mr. Zhang Liang	0.40%
Mr. He Jie	0.29%
Public	26.59%
Total	**100.0%**

Source: Redsun

Key Financial Assumptions

- Contracted sales amount: RMB100-115 billion for 2021-2023
- Delivered average selling price: c. 5% growth per annum for 2021-2023
- Total revenue: RMB27-43 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	42%	1.6x	61%	0.14x

Source: Redsun'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 Redsun's rating would result in a similar rating action on its USD notes:

- USD450 million 9.95% senior unsecured notes due 2022 upgraded from 'BB-' to 'BB'

- USD250 million 10.5% senior unsecured notes due 2022 upgraded from 'BB-' to 'BB'
- USD455 million 9.7% senior unsecured notes due 2023 upgraded from 'BB-' to 'BB'
- USD350 million 7.3% senior unsecured notes due 2025 upgraded from 'BB-' to 'BB'

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