聯合評級國際
Lianhe Ratings Global

Press Release
3 June 2021

Lianhe Global has assigned 'BBB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Agile Group Holdings Ltd.

HONG KONG, 3 June 2021 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BBB-' global scale Long-term Issuer Credit Rating to Agile Group Holdings Ltd. (3383.HK) ("Agile" or "the company"). The Outlook is Stable.

The Issuer Rating reflects Agile's national footprint with a focus on the eastern and southern regions of China, above-average profitability, and diversifying revenue source. However, Agile's rating is constrained by its moderately high financial leverage, moderate but improving interest coverage, and exposure to short-term borrowings and alternative financings.

The Stable Outlook reflects our expectation that Agile will maintain its national market position and moderate debt expansion pace in tandem with its contracted sales scale. At the same time, we expect Agile to maintain its stable and above-average profitability through its existing low-cost land portfolio and continue diversifying its revenue and funding channels, as well as reducing its reliance on short-term borrowings in the next 12-18 months.

Key Rating Rationales

Established Large-Scale Property Developer with National Presence: Established in 1992, Agile has evolved into a large-scale property developer through nearly 30 years of development in China. Agile is headquartered in Guangzhou and has a diversified national footprint with a focus on the Greater Bay Area (GBA), the Yangtze River Delta (YRD), and Hainan regions. At end-2020, Agile had a total land bank GFA of c. 53 million square meters (sqm) with an attributable land bank GFA of 41.46 million sqm (or attributable ratio at c. 78%) of which 25.5%, 13.1% and 8% of the total land bank is located in the GBA, YRD and Hainan regions, respectively. At end-2020, Agile had over 200 projects at various stages of development across 80 cities in China.

Steady Contracted Sales Growth to Support Credit Profile: Agile adopts a steady, strategic and selective expansion model regarding both its operation scale and geographical coverage. Under its strategy of "2+3+N", Agile focuses on deepening its existing city coverage (a) in 2 of the major city clusters of the GBA and YRD regions, (b) in 3 of the city clusters of the Beijing-Tianjin-Hebei, Chengyu, and Central & Western regions, and (c) the remaining N city clusters opportunistically in China. We believe this focused growth strategy will likely give support to the company's sales execution and high cash collection rate at above 85% given its accumulated experience and brand recognition in the GBA and YRD regions.

Featured Town, Hainan and Urban Renewal Projects to Sustain Gross Margin: We expect Agile to sustain its gross margin at c. 30% from the sale of properties given its high margin Featured Town and Hainan projects at around 35% and 45% respectively, which will likely give boost to the overall segment margin. In addition, Agile has established its urban renewal segment since June 2020 which is expected to deliver higher margin projects in excess of 40% with the forecasted saleable resource at RMB360 billion by 2023. We reckon Agile benefits from the higher margin projects both in the near and medium terms which help boost its overall segment margin in the face of industry-wide margin compression as a result of rising land costs and home price restrictions. We believe its stable and higher-than-average margin, moderate contracted sales growth, and revenue growth will give support to Agile's improving financial metrics and subsequently its credit rating in the near and medium-term.

Diversify Land Acquisition Channels to Keep Land Cost Low Ensuring Above-Average Profitability: Agile employs multiple land acquisition strategies including open auctions, mergers and acquisitions ("M&A"), cooperation/joint ventures ("JVs"), and other alternatives including urban renewals. At end-2020, the company's land acquisitions through open auctions, M&A, Featured Town, and Urban Renewal were 45%, 17.6%, 33.3%, and 4.1%, respectively. Land acquisitions through diversified channels could secure adequate land replenishment at competitive prices, ensuring above-average profitability. In general, Agile targets a land cost to price ratio of c. 25%. The average land cost was at RMB3,627 per sq.m at end-2020. During 2020, the company acquired 40 parcels of land at an average land cost of RMB 4,270 per sq.m. In comparison, the average selling price was RMB13,482 per sq.m. in 2020.

Diversifying Revenue Source with Consolidation of Listed Subsidiaries: Agile has multiple revenue sources with higher expected growth rates than that of its property sale segment, which provides revenue diversification. The company consolidates its listed subsidiary, A-Living Smart City Services Co., Ltd. (3319.hk), and plans a listing of its A-City segment which includes landscaping and home decoration businesses. Agile expects to retain at least 50% of the listed and to-be-listed subsidiaries in the near future and consolidates them. In particular, the A-Living segment recorded a significant consolidated revenue growth of c. 120% to RMB 7.9 billion at end-2020 as a result of the acquisition of CMIG Futurelife Property Management Limited. Furthermore, over 70% of the property management business from A-Living segment was from third-party referrals because of its above-average industry quality of services and brand recognition. While this segment may not experience a similarly high growth rate (absence of any major acquisitions), the company expects a growth rate of 20% per annum in the next 2 years.

Multiple Funding Channels to Lower Cost of Fund: Agile as a listed company has broad access to multiple funding channels including bank borrowings, onshore and offshore debt capital markets (including ABS and CMBS products) as well as equity capital market. In addition, Agile has a partnership with Ping An which acts as an equity investor at Agile's project level through its subsidiaries. These multiple funding channels enable the company to diversify its financing risk which gives support to its credit profile.

Agile intends to diversify its financing channel, including strategic equity investors at the project level, senior notes, and other debt offerings such as ABS, corporate bond etc. We expect Agile to continue these fund raising actions, in order to diversify its financing channel and lengthen its debt maturity profile. Agile also plans to either repay or refinance its higher coupon debts as its credit profile improves, which could help Agile better manage its capital structure, lengthen its debt maturity profile and lower its average financing costs. We expect all these will fuel the gradual improvement of Agile's financial leverage and financing cost.

Moderately High but Improving Financial Leverage with Exposure to Short-Term Borrowings: Agile's financial leverage was moderately high as measured by its debt/capitalization ratio of c. 63.5% and c. 59.7% at end-2019 and end-2020, respectively. We expect Agile's debt/capitalization ratio to stay at between 62% to 58% in the next 12-18 months, as the company continues expanding its footprint cautiously in tandem with its contracted sales pace. We also expect the company to enlarge its equity base with the anticipated cash flow from its property management (or A-Living) and landscape & decoration (or A-City) segments as they are cash-rich with minimal capital expenditures and will likely lead to lower financial leverage on a consolidated basis. At the same time, we expect Agile's interest coverage ratio to improve to above 4x in the next 1 to 2 years given its steady revenue growth rate of 15% per annum (with the steady margin of c. 30%) which outpaces its debt growth rate of 10% per annum.

Agile's reported borrowings increased to RMB97.81 billion at end-2020 from RMB96.67 billion at end-2019, of which short-term borrowings accounted for c. 39% while alternative financings such as trust loans accounted for c. 15.6%. Agile plans to reduce its reliance on short-term borrowings to c. 30% in the next 1-2 years.

Rating Sensitivities

We would consider downgrading Agile'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 65% or a decrease in its EBITDA interest coverage to below 3.0x 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 Agile's rating if it were to (1) considerably increase its operating scale while maintaining competitive position in its core markets, and (2) maintain its financial leverage as measured by debt/capitalization at below 50% or EBITDA interest coverage at above 5.0x 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 Agile'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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