

## **Lianhe Global has assigned ‘B+’ global scale Long-term Issuer Credit Rating with Positive Outlook to Huijing Holdings Company Limited**

HONG KONG, 16 June 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘B+’ global scale Long-term Issuer Credit Rating to Huijing Holdings Company Limited (9968.HK) (“Huijing” or “the company”). The Outlook is Positive.

The Issuer Rating reflects Huijing’s track record of its contracted sales growth, gradual geographical diversification of its land bank and its above-average profitability. However, Huijing’s rating is constrained by its small operating scale, limited number of projects and geographical concentration of its contracted sales and revenue contributions, and reliance on short-term financings.

The Positive Outlook reflects our expectation that Huijing will sustain its contracted sales growth and deliver its planned projects, while expanding its operating scale and diversifying its land bank in a measured manner. Also, we expect Huijing’s involvement in urban renewal projects (URPs) will help the company to enlarge its land bank, sustain its contracted sales growth and profit margins in the medium term.

### **Rating Rationales**

***Small Scale Developer with Focus on Greater Bay Area:*** Huijing was established in Dongguan and obtained the presales permit for its first property development project in 2004. Also, Huijing commenced the development of its first integrated development project, namely Huijing City, in 2011. Based in Dongguan, Huijing has commenced geographical expansion through expanding its business to Heyuan and other cities outside Guangdong Province since 2016. Currently, Huijing focuses on Guangdong and Hunan provinces for its property development business, which contributed 33.9% and 49.8% of its total land bank GFA at end-2020, respectively. Besides, the company further penetrates into other regions as well, such as eastern, northern and south-western regions in China.

At end-2020, Huijing had a total land bank GFA of 3.28 million square meters (sq.m.), comprising 22 projects and 7 parcels of land located in 10 cities in China. Going forward, Huijing plans to strengthen its presence in Guangdong Province and Greater Bay Area (GBA), while expanding steadily to high growth potential areas such as Yangtze River Delta (YRD), Central China and Chengdu-Chongqing regions.

***Fast-growing Contracted Sales Record and Outlook:*** Huijing recorded rapid contracted sales annual growth rate of 97.7%, 71.4% and 75.5% from 2018 to 2020, respectively. Huijing achieved total contracted sales of RMB7.7 billion in 2020. The company plans to sustain its contracted sales growth momentum through continuing the scale and geographical expansions of its land bank. Huijing plans to spend c. 30-50% of contracted sales proceed for

land acquisitions, while keeping the land cost/average selling price ratio and gross margin in check. We expect Huijing to post 26-55% contracted sales growth per annum in 2021-2023.

Huijing's revenue growth was in tandem with its contracted sales growth in 2018-2020, as the company was able to maintain a high consolidation level for its land bank. Huijing posted 86.9%, 61.1% and 42.9% of revenue growth in 2018-2020, respectively. Dongguan is the major contributing city, generating 61% and 33% of Huijing's recognized sales revenue in 2019 and 2020, respectively. Also, Huijing's source of revenue was diversified to Heyuan and Xichang, as these two cities contributed 28% and 29% of Huijing's recognized sales revenue in 2020, respectively. At end-2020, Huijing's contract liabilities increased to RMB2.2 billion, compared with RMB1.7 billion at end-2019. It shows a higher amount of presales proceed can be recognized in the next 1 to 2 years. We forecast Huijing to record 21-26% of revenue growth in 2021-2023.

**Low Land Cost Advantage to Preserve Gross Margins:** Huijing was able to maintain low land cost and high gross margin in 2018-2020. The company's gross margin was 53.3%, 45.6% and 34.6% for 2018-2020, respectively. The majority of Huijing's land bank is located in tier 2 and 3 cities, where most of them are not under strict price restrictions and other policy tightening. Together with the low land cost of the current land bank, we expect Huijing to maintain a gross margin of 34-36% in 2021-2023, which is higher than the industry average level.

With more than 15 years of operation experience in Dongguan, Huijing participates in URPs as an additional source of land bank replenishment from this city, other than traditional methods (i.e. public tender, auction and listing) and merger and acquisitions (M&As). URPs bring a lot of advantages to Huijing, including low land cost, relatively less upfront land premium payment and land parcels in premium locations. However, Huijing has to bear the risk of lengthy and uncertain redevelopment pace. The Zhangmutou Baoshan Area project is expected to be materialized with pre-sales commencing in Q4 2021. We expect the potential benefits of URPs to Huijing will be more apparent when more URPs are included in Huijing's land bank in the medium term.

**Disciplined Increase in Financial Leverage Ahead:** Huijing's total debt increased to RMB2.8 billion at end-2020 from RMB2.1 billion at end-2019. However, Huijing managed to pass all of the three thresholds stated in the "3 Red Lines" rules at end-2020. In order to tap the unutilized financial leverage (with Huijing's net gearing ratio improving to 18% at end-2020) and expanding its operation scale to support contracted sales growth, Huijing plans to increase its financial leverage in the next 2 to 3 years. At the same time, Huijing intends to widen its financing channels, which helps to maintain its average financing cost level.

Huijing's financial leverage measured by gross debt over capitalization ratio improved from 56.1% at end-2019 to 41.3% at end-2020, mainly due to the higher cash balance and enlarged equity base following its IPO listing in January 2020. As the company intends to ramp up debt-funded land acquisition, we forecast its financial leverage will increase to 52-60% in 2021-2023. Huijing's interest coverage improved to 5.1x at end-2020 (end-2019: 4.9x). We expect

a higher interest expense burden for Huijing in the next 2 to 3 years, associated with the increasing debt level, but it will be partially alleviated by Huijing's EBITDA growth. We forecast Huijing's interest coverage ratio to go down to 3.1-4.0x in 2021-2023.

At end-2020, Huijing's short-term debt increased to RMB1.7 billion, which accounted for 61% of its total debt. The high proportion of short-term debt was partially due to the issuance of USD135 million (including tap issuance) of 364-day senior notes in August 2020. Non-traditional loans (i.e. trust loans, asset management, etc.) consisted of 23% of Huijing's total debt at end-2020. Huijing had an unrestricted cash balance of RMB1.7 billion at end-2020. Together with an unutilized bank line of RMB2.1 billion, the company is able to cover its short-term debt and unpaid land premium. However, the reliance on short-term financings poses refinancing and liquidity pressures on Huijing and we expect the company to continue monitoring its liquidity position in a prudent manner.

### **Rating Sensitivities**

We would consider downgrading Huijing's rating if it were to (1) aggressively expand and replenish its land bank which result 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 2.0x 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 Huijing's rating if it were to (1) considerably expand its operating scale and demonstrate successful diversification into other regions, and (2) maintain its financial leverage as measured by debt/capitalization at below 50% and EBITDA interest coverage at above 4.5x consistently, and (3) improve its liquidity position.

### **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 Huijing'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](http://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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