Jinke Property Group Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BB+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	30 June 2021

Operating Data:
Jinke Propery Group Co., Ltd

	31 Dec 2019	31 Dec 2020
Revenue (RMB: in million)	67,773	87,704
Contracted Sales (RMB: in million)	186,000	223,300
Contracted Average Selling Price (RMB/square meter)	9,738	9,969
Contracted Sales GFA (million square meters)	19.1	22.4
Land Bank GFA (million square meters)	66.9	71.1

GFA: Gross Floor Area
Source: Jinke

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)

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned ‘BB+’ global scale Long-term Issuer Credit Rating to Jinke Property Group Co., Ltd; Outlook is Stable

Summary

The Issuer Rating reflects Jinke Property Group Co., Ltd’s (“Jinke” or “the company”) established market position in the Chongqing market and evident land bank diversification into eastern China, as well as into southern, central and southwestern China. Jinke has been able to contain its financial leverage while achieving its contracted sales and revenue growth. However, Jinke’s rating is constrained by the execution risk in changing of its business model into an operating efficiency focus, and the continuous stagnant margin growth resulting from the nominal average selling price growth and rising land cost.

The Stable Outlook reflects our expectation that Jinke would defense its established market position, continue to focus on improving its operating efficiency while maintaining steady contracted sales and revenue growth and margins, and diversify its product offerings and land bank with a prudent manner in controlling financial leverage.

Rating Rationale

Sizable and Gradually Diversifying Land Bank Supports Strong Contracted Sales Growth: Jinke had a sizable and diversified land bank portfolio with a total saleable GFA of c. 71.1 million sq.m across 118 cities in China at end-2020. The company has over 20 years of property development experience and has deep penetration and brand awareness in eastern China and Chongqing, while selectively entering into the other strategic cities in southern, central and southwestern China.

Jinke’s saleable land bank is primarily located in tier 2 and 3 cities, which accounted for close to 80% of its saleable land bank at end-2020. Chongqing accounted for c. 25% of Jinke’s saleable land bank at end-2020, decreasing from c. 29% at end-2019 and c. 40% at end-2018. We believe the company is moving well towards the direction of reducing concentration risk, although the expansion comes with execution risks. The diversification enables Jinke to shelter away from regional market and policy risks which further enables the company to focus on enhancing its operating efficiency.

Jinke’s total contracted sales reached RMB217.8 billion in 2020, representing a year-on-year increase of c. 20% and placing the company at 16th among Chinese property developers. Eastern China and Chongqing accounted for 41% and 19% of its total contracted sales for 2020, compared with 28% and 30%, respectively in 2019. Jinke was able to achieve a double-digit growth of its contracted sales in 2020, despite the impact of COVID-19. We expect the company to achieve RMB230-250 billion of total contracted sales in the next 12 to 18 months.

Jinke’s average gross margin was c. 25% in 2018 to 2020. Jinke normally commences pre-sales in approximately five to seven months from land acquisition, with the development cycle to delivery of approximately two years. As such, we believe the company can maintain a steady revenue growth in the next 12-18 months, on the back of its strong contracted sales growth in the previous two years. At end-2020, Jinke had c. RMB136 billion of contract liabilities, which carry a gross margin in 20%-25% area and will be booked in the next one to two years. As the company focused on open market auctions for its land acquisitions in the past two years, we expect Jinke's property development segment gross margins to be constrained in the low-20% area in the next 12 to 18 months.

Moderate and Improving Leverage with Managed Land Acquisition Strategy: Jinke spent c. 59%, 48% and 40% of its total contracted sales on land acquisitions in 2018, 2019 and 2020, respectively. We believe Jinke is turning its focus away from a fast-churn aggressive expansion model to an operating efficiency and product offerings enhancement model. The company targets to gradually reduce its reliance on open market auctions and increase the proportion of land bank acquisitions from the other sources such as mergers & acquisitions, industrial real estates and urban renewal projects in the next 12-18 months, although its track record of diversification is yet to be demonstrated.

Jinke's saleable land bank on hand at-end 2020 was sufficient to support the company's contracted sales for approximately the next three years. We expect Jinke to continue to replenish its land bank in a measured manner. We expect the company to utilize c. 35-40% of its total contracted sales for land acquisitions in the next 12-18 months.

Jinke's reported debt decreased from RMB98.8 billion at end-2019 and RMB97.7 billion at end-2020, while its adjusted debt increased from RMB112.4 billion to RMB119.0 billion in the same period. The moderate increase of c. 6% in adjusted debt showed Jinke's deleveraging effort with a focus on managed expansion. Total debt/capitalization decreased from 68.3% at end-2019 to 61.8% at end-2020.

Jinke's total cash collection rate increased further from 87% in 2019 to 90% in 2020. We expect the company to maintain a cash collection rate of close to 90% and a consolidation ratio of c. 65% in the next 12-18 months. The company also generated RMB14.5 billion of net operating cash flow in 2020. As Jinke continues to maintain a healthy operating cash flow and deleveraging effort, we expect the company's total debt/capitalization ratio to maintain at c. 60-63% level in the next 12 to 18 months.

Wide Access to Onshore Financing Channels Despite Exposure to Alternative Financing; Decent Liquidity Profile: Jinke has wide access to various financing channels in the onshore markets, such as bank facilities and bond issuance. The company also has good relationship with onshore lending banks. At end-2020, Jinke had c. RMB52 billion onshore bank loans and RMB16 billion onshore bonds outstanding, representing c. 69% of total reported debt portfolio. Its exposure to non-traditional banking products, which typical carry higher funding cost and shorter tenor, increased at end-2020 as compared with end-2019. The increase in funding from non-traditional banking products will subject the company to heightened funding cost and lesser financial flexibility in the next 12-18 months.

Jinke's liquidity is good with cash on hand of RMB43.5 billion at end-2020 to cover its RMB32.5 billion of debt due within one year. The company also had RMB145.8 billion of approved but unutilized bank line at end-2020. We expect Jinke's strong cash position and operating cash flow generation to be able to cover its short-term debt and committed land premium due in the next 12 months. Jinke has also tried to diversify its funding sources with an issue of its debut commercial mortgage-backed securities (CMBS) in April 2021.

Rating Sensitivities

We would consider downgrading Jinke'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 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.

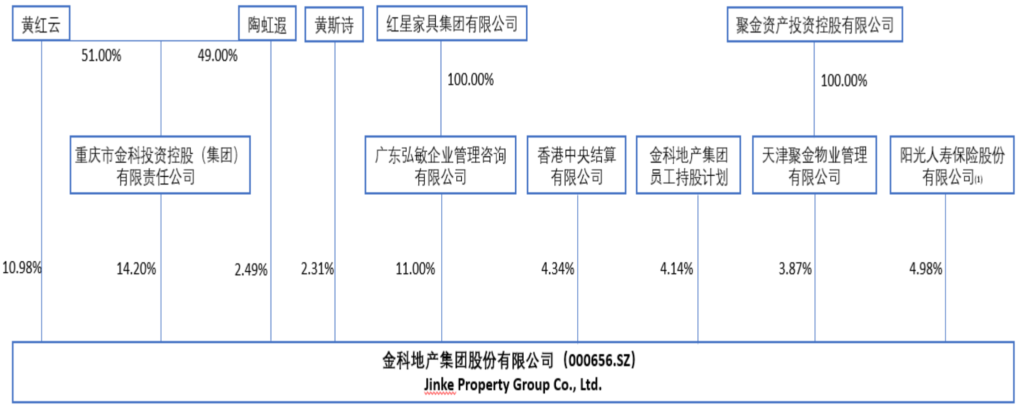
We would consider upgrading Jinke's rating if it were to (1) considerably increase its operating scale while maintaining competitive position in its core markets, and (2) maintain its financial leverage as measured by debt/capitalization at below 50% or EBITDA interest coverage at above 4.0x consistently.

Company Profile

Jinke is a Chinese property developer that mainly focuses on mass residential property development and the company also diversifies its business to property management service and new energy industry in China. The company was initially established as a steel producer in 1986, named 重庆东源钢业股份有限公司. It has been listed on the Shenzhen Stock Exchange (000656.SZ) since 1996. After material asset restructuring, with the acquisition of 重庆市金科实业（集团）有限公司, the company renamed as Jinke Property Group Co., Ltd. and its major business was changed to property development in 2011.

Jinke is majority owned and controlled by Mr. Huang Hongyun, the current Chairman of Jinke, and his persons acting in concert directly and indirectly through 重庆市金科投资控股（集团）有限责任公司. Ms. Tao Hongxia and Ms. Huang Sishi act in concert with Mr. Huang Hongyun. 天津聚金物业管理有限公司 transferred 587,368,740 shares of Jinke to 红星家具集团有限公司 in 2020, which accounted for 11% of the company's total shares. Therefore, 红星家具集团有限公司 owned 11% of Jinke indirectly through 广东弘敏企业管理咨询有限公司 and became Jinke's second largest shareholder. The ownership structure has introduced other capital like insurance institution and employee stock ownership plan at end-2020.

Exhibit 1:



Note: (1) 包括阳光人寿保险股份有限公司的分红保险产品和万能保险产品

Source: Jinke's 2020 annual report

Business Profile

Jinke's main business operation consists of three business lines: (1) sales of properties, (ii) property management and service, and (iii) new energy and others. Revenue from sales of properties is Jinke's major source. Its contribution to total revenue remained at c. 93% over the past few years. Revenue derived from sales of properties amounted to RMB81.5 billion for 2020, representing a year-on-year increase of c. 29%.

Property management and service segment is another significant revenue source of the company. Though it only accounted for less than 5% of Jinke's total revenue, it achieved rapid growth in the past few years. Revenue from this segment was RMB2.2 billion with a year-on-year growth of c. 25% in 2020. For strategic consideration, Jinke span off its property management and service business (owned by its subsidiary 金科智慧服务集团股份有限公司) in Hong Kong and listed in the HKEx in December 2020 (Stock code: 9666.HK) Revenue from other segments (including property construction, hotel operation and materials sales etc.) only accounted for less than 5% of total revenue and their contribution to the whole company was limited when compared with Jinke's property sales and property service business.

Exhibit 2: Jinke's Revenue Breakdown by Business Segment (RMB: in million)

Revenue/% of total	FY2017	%	FY2018	%	FY2019	%	FY2020	%
Sales of properties	32,850	94.5	38,006	92.2	63,110	93.1	81,529	93.0
Property management and Service	1,227	3.5	1,734	4.2	2,310	3.4	2,227	2.5
New energy	157	0.5	188	0.5	414	0.6	835	1.0
Others	523	1.5	1,306	3.2	1,939	2.9	3,113	3.5
Total	**34,758**	**100.0**	**41,234**	**100.0**	**67,773**	**100.0**	**87,704**	**100.0**

Source: Jinke's annual reports

Jinke is a relatively large-size property developer as measured by contracted sales and land bank. After three years of debt-funded expansion, Jinke became a 100-billion property developer in 2018 and its total contracted sales reached RMB223.3 billion in 2020, representing a year-on-year increase of c. 20.1%. Its ranking in terms of contracted sales amount increased to 16th in 2020 from 22nd in 2018. Jinke's contracted sales GFA ranked (9th in 2020) much higher than its ranking in contracted sales amount due to its focusing on sales in tier 2 and tier 3 cities with relatively low average selling price ("ASP").

Jinke's saleable land bank GFA increased to c. 71.1 million sq.m at end-2020. Jinke began to actively replenish its land bank and expanded its operation to high-tier cities (such as Hangzhou and Nanjing) since 2017. After Jinke's aggressive debt-funded expansion, its land bank is sufficient for development for the next three years. Meanwhile, Jinke has also diversified its land supplement channels to acquisitions, joint ventures and urban renewal projects. In order to manage down its leverage and optimize credit profile, Jinke slowed down its pace of land acquisition in 1H 2020.

Exhibit 3: Jinke's Rankings by Contracted Sales Among Chinese Property Developers

Amount / Ranking	FY2018		FY2019		FY2020		Ranking Changes (2020 vs 2018)
Contracted sales amount (RMB bn)	118.8	22nd	186.0	17th	223.3	16th	+6
Contracted sales by GFA (m sq.m.)	13.4	10th	19.1	8th	22.4	9th	+1

Note: CRIC might use adjusted numbers of contracted sales and GFA in the ranking
Source: CRIC

Exhibit 4: Jinke's Rankings by Land Bank Among Chinese Property Developers

Amount / Ranking	FY2018		FY2019		FY2020	
Attributed land bank by value (RMB bn)	289.6	29th	387.1	21st	343.8	30th
Land bank by GFA (m sq.m.)	41	14th	47.9	12th	48.6	12th
Newly acquired land bank by value (RMB bn)*	153.5	19th	220.6	13th	181.6	12th
New land acquisition by GFA (m sqm)*	17.9	11st	24.6	5th	14.8	8th

Note: The amount is based on statistics from CRIC. Differences may exist between company's reported amount as a different calculation method was applied
**: The amount for FY2020 are based on the first eight-month figures of 2020 from CRIC.*
Source: CRIC

Exhibit 5: Jinke's Land Bank Composition by Region & City Tier at end-2020

GFA (in m sq.m.)	2019	%	2020	%	Major Cities
Chongqing	19.16	28.6%	17.40	24.5%	Chongqing
Eastern	14.85	22.2%	16.24	22.8%	Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Shandong…
Southwest (exclude Chongqing)	11.87	17.7%	11.76	16.5%	Sichuan, Guizhou, Yunnan
Central	10.84	16.2%	12.25	17.2%	Henan, Hubei, Hunan
Southern	4.86	7.3%	6.85	9.6%	Guangdong, Guangxi
Northern	3.16	4.7%	3.38	4.8%	Beijing, Tianjin, Hebei, Shanxi
Others	2.16	3.2%	3.26	4.6%	Shaanxi, Liaoning
Total	**66.91**	**100.0%**	**71.13**	**100.0%**	**N/A**

Source:The company's annual reports and Lianhe Global

Financial Profile

We expect Jinke to maintain a moderate contracted sales growth pace at c. 10% for 2021-2023. We expect its revenue growth to be higher, driven by the revenue booking of its rapid contracted sales growth in the previous years. Jinke mainly focused on open market auction for land acquisition, hence we expect its margin to continue to face pressure with an expected level of c. 20% for 2021-2023.

Jinke has been trying to reduce its financial leverage and to have a slower growth in debt than in contracted sales, while maintaining a high cash collection rate of close to 90%. We expect Jinke to be able to maintain 60-63% debt/capitalization ratio and c. 2x EBITDA/Interest coverage ratio. We expect a reduction of Jinke's reliance on trust financing in the next 1-2 years from c. 30% at end-2020 to below 20-25% in the next 12-18 months, which will help lowering its average financing cost and thus improving its EBITDA interest coverage.

Key Assumptions

- Contracted sales growth: c. 10% growth for 2021-2023
- Contracted average selling price: c. 1% growth for 2021-2023
- Total Land acquisition expenditures: c. RMB60-80 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	40.1%	2.13x	62.2%	0.16x

Source: Jinke's 2018-2020 annual reports, Lianhe Global's adjustments and forecasts

Liquidity

Jinke held RMB43.5 billion of cash on hand to cover its RMB32.5 billion of debt due within one year at end-2020. The company also had RMB145.8 billion of approved but unutilized bank line at end-2020. We expect Jinke's strong cash position and operating cash flow generation to be able to cover its short-term debt and committed land premium due in the next 12 months. Jinke has also tried to diversify its funding sources with an issue of its debut commercial mortgage-backed securities (CMBS) product in April 2021.

Appendix I: Jinke's Rating Factors

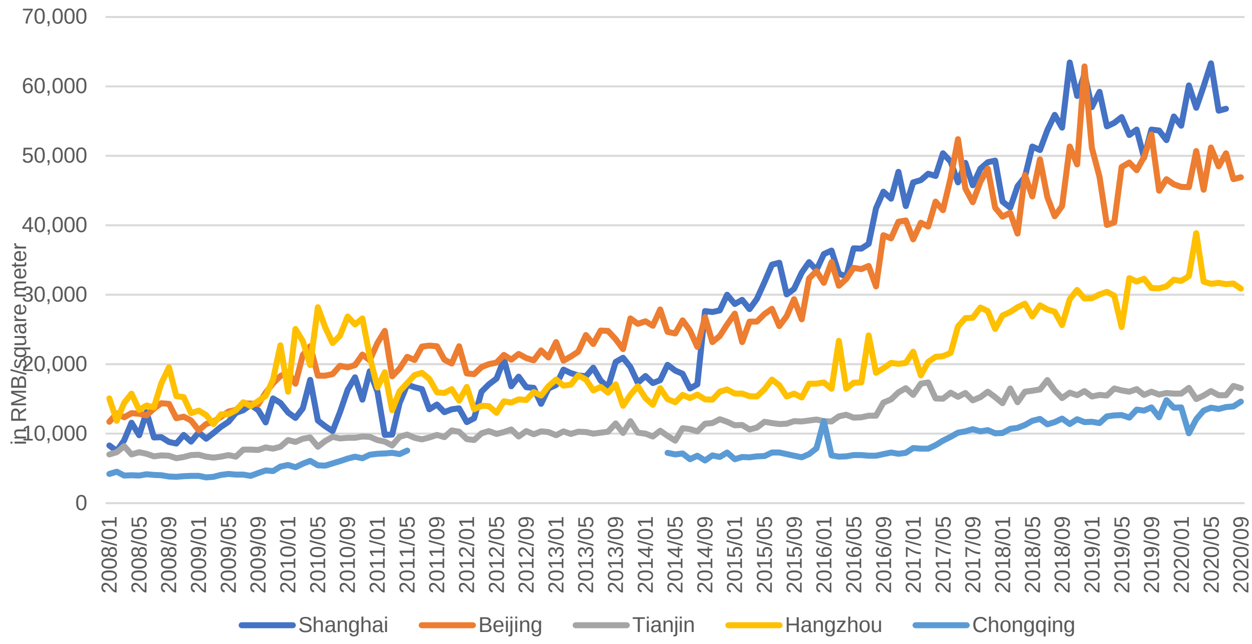
Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	**15.0%**	**a-**
II. Business Analysis[1]	**45.0%**	**bbb-**
III. Financial Analysis[2]	**40.0%**	**b+**
IV. Base Score	**100.0%**	**bb+**
V. Industry Risk		**bbb**
Base Rating		**bb+**
VI. Qualifiers		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
Stand-Alone Creditworthiness (SAC)		**BB+**
VII. External Support		
Corporate Entity Support		Not Applicable
Issuer Credit Rating		**BB+/Stable**

Source: Lianhe Global

[1] Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

[2] Financial Analysis contains sub-factors of debt/land bank, EBITDA interest coverage, debt/capitalization and quick ratio.

Appendix II: Major Chinese Cities' Monthly Contracted Sales Average Selling Price



Source: WIND and Lianhe Global's Adjustments

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