Shinsun Holdings (Group) Co., Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BB-
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	28 June 2021

Operating Data:
Shinsun Holdings (Group) Co., Ltd.

	31 Dec 2019	31 Dec 2020
Revenue (RMB: in million)	35,520	46,638
Contracted Sales (RMB: in million)	62,497	78,168
Contracted Average Selling Price (RMB/square meter)	11,297	13,781
Contracted Sales GFA (million square meters)	5.53	5.67
Land Bank GFA (million square meters)	23.4	23.3

GFA: Gross Floor Area
Source: Shinsun

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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 Shinsun Holdings (Group) Co., Ltd.; Outlook is Stable

Summary

The Issuer Rating reflects Shinsun Holdings (Group) Co., Ltd.'s ("Shinsun" or "the company") sizable contracted sales scale, average profitability and regional market franchise. The rating also considers Shinsun's established market position in Zhejiang province and its capability to grow from its home base to the Pan-Yangtze River Delta (Pan-YRD) region and other selective high growth potential cities. However, Shinsun's rating is constrained by its high financial leverage, the geographical concentration with significant land bank exposure in low-tier cities, and reliance on non-traditional bank financings.

The Stable Outlook reflects our expectation that Shinsun will maintain its market position in Zhejiang province with a moderate expansion pace, driven by its sizable contracted sales scale and prudent land acquisition approach. Also, we expect Shinsun to reduce its reliance on trust financing and improve its financial leverage in the next 12-18 months.

Rating Rationale

Large-scale Developer with Strong Regional Presence: Established in 1995, Shinsun has evolved itself into a large-scale developer in China through over 20 years of development. Shinsun is headquartered in Shanghai and has a strong presence in both Zhejiang province and Pan-YRD region. At end-2020, Shinsun had a land bank with attributable GFA of 23.3 million square meters (sqm). Of which, 48.2% of the land bank is located in Zhejiang province, and 38.5% and 13.3% are located in Pan-YRD region (excluding Zhejiang province) and other high growth potential cities, respectively. Shinsun had 218 projects at various stage of development, across 45 cities in 11 provinces in China at end-2020.

Supported by its fast-growing land bank, Shinsun achieved sizable contracted sales scale and growth. The company recorded attributable contracted sales of RMB78.2 billion in 2020, representing a year-on-year growth of 25.1%. According to China Real Estate Information Corp (CRIC), Shinsun ranked among the top 30 property developers in terms of total contracted sales in 2020.

Shinsun achieved a total revenue of RMB6.3/14.2/35.5/46.6 billion in 2017-2020, representing a year-on-year growth of 125.9%, 149.9% and 31.3% in 2018, 2019 and 2020, respectively. We believe the rapid revenue growth was mainly driven by the booking of its robust contracted sales growth. Its contracted sales consolidation ratio, however, has been decreasing in 2017-2019, from c. 80% to c. 60%, which can also be seen from the tapering revenue growth in 2020. We expect its revenue growth to slow down in the next 12-18 months, vis-à-vis 2020 and 2019. In 2020, 61.3% and 36.5% of the total revenue was generated from Zhejiang province and Pan-YRD region, respectively.

Shinsun has established a solid brand recognition in Zhejiang province, and become a sizable property developer in China in terms of both contracted sales metrics and land bank scale. That said, Shinsun's credit profile is constrained by its geographical concentration compared with same-tier peers, given that 86% of its land bank is located in Pan-YRD region with c. 50% located in a single province.

Strategic Nationwide Expansion via the "1+1+x" Strategy: Shinsun's "1+1+X" business strategy, formulated in 2016, strives to consolidate its presence in Zhejiang province, penetrate into the Pan-YRD region, and selectively expand into the other high growth potential cities outside Pan-YRD region. Shinsun identifies Changsha and Xiamen as its next target of expansion, which indicates that the company will expand from eastern China to southern and central regions.

Shinsun established a "Shinsun Town" model, in which Shinsun cooperates with local governments to develop property projects comprising residential and commercial properties. This model enables Shinsun to acquire land with relatively low land cost and with policy support from the local governments. At end-2020, Shinsun had 10 projects operating under the "Shinsun Town" model.

Steady Contracted Sales Growth Outlook and Average Gross Margin; Increasing Use of Joint Ventures Model: Shinsun intends to spend c. 50% of the cash collection from contracted sales for land acquisitions each year. Shinsun's land bank size at end-2020 was adequate to support its contracted sales growth for the next 3 years. Overall, we expect Shinsun to achieve a moderate total contracted sales growth of c. 10-15% in the next 12-18 months, with its consolidation ratio gradually increasing and being maintained at c. 70-75% (c. 78% in 2020) level compared with c. 60% in 2019, as and when more existing consolidated projects are monetized into presales.

Shinsun is expected to utilize more the joint ventures model which would result in a notable increase in its non-controlling interests. This model could partially ease Shinsun's capital requirement when expanding its operating scale, especially under the heightened liquidity requirements for China property developers under the backdrop of the "centralized land supply" policy and industry dynamics. We expect the company to be selective in choosing partners and to employ a prudent manner in land acquisitions to manage non-controlling interest leakage and contingent liabilities. Having said that, the increasing use of joint ventures would reduce the corporate transparency of Shinsun's ability to control the operations of the joint ventures, and the company's financial visibility.

At end-2020, Shinsun had contract liabilities of c. RMB68.8 billion, decreasing from c. RMB77.9 billion at end-2019, indicating a slower revenue growth prospect in the next 12-18 months. Together with the expected contracted sales for 2021-2023, we expect Shinsun to achieve a total revenue growth of c. 10-15% in the next 12-18 months. Shinsun's reported gross margin was 21.1%, 23.9% and 18.1% in 2018, 2019 and 2020 respectively. We foresee some challenges for Shinsun's gross margin, mainly from the revenue booking in some low-tier cities, as well as the rising land costs from the gradual shift in targeting higher tier cities. We expect Shinsun to maintain a gross margin of c. 20% level in the next 12-18 months, in-line with the industry average level.

Improved Visibility and Financing Channel after IPO Listing: Shinsun was listed on the Stock Exchange of Hong Kong in November 2020. The proceeds raised from the IPO listing helped Shinsun strengthen its cash base and enlarge its equity base. Moreover, the listing status enables Shinsun to explore its financing channels more to equity financings and offshore capital markets. It could help Shinsun better manage its capital structure, lengthen its debt duration and lower its average financing costs.

Shinsun intends to diversify its financing channels, including asset-backed securities (ABS), senior notes, other debt offerings and strategic investments. For example, Shinsun issued a couple of senior notes and raised a total proceed of USD500 million in 2020. We expect Shinsun to continue these fund-raising activities in order to diversify its financing channel and lengthen its debt maturity profile.

High but Improving Financial Leverage with Exposure to Alternative Financings: Shinsun's financial leverage was high as measured by debt/capitalization ratio of c. 91% and c. 84% at end-2018 and end-2019, respectively. However, Shinsun's financial leverage and financial position improved following its IPO listing with increased equity base and widened financing channels. We expect Shinsun's debt/capitalization ratio to improve to c. 70-75% level in the next 12-18 months.

Shinsun's reported debt increased from RMB25.9 billion in 2017 to RMB46.2 billion at end-2020. Of which, alternative financings such as trust loans contributed 58.9% of Shinsun's total debts. Given the increasing proportion of trust loans to the total debt, Shinsun's average financing costs rose from c. 8.1% in 2017 to c. 9.1% in 2020. The reliance on alternative financings such as trust loans with higher financing cost and shorter tenors will constrain the company's credit profile in the next 12-18 months.

Shinsun's liquidity is adequate. At end-2020, the company had a total cash balance of RMB24.3 billion, compared with its short-term debt of RMB22.2 billion. The company also had certain unutilized committed banking facilities at end-2020. Shinsun's liquidity is expected to be sufficient to cover its maturity debt and committed land premium due in the next 12 months.

Rating Sensitivities

We would consider downgrading Shinsun'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 80% 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.

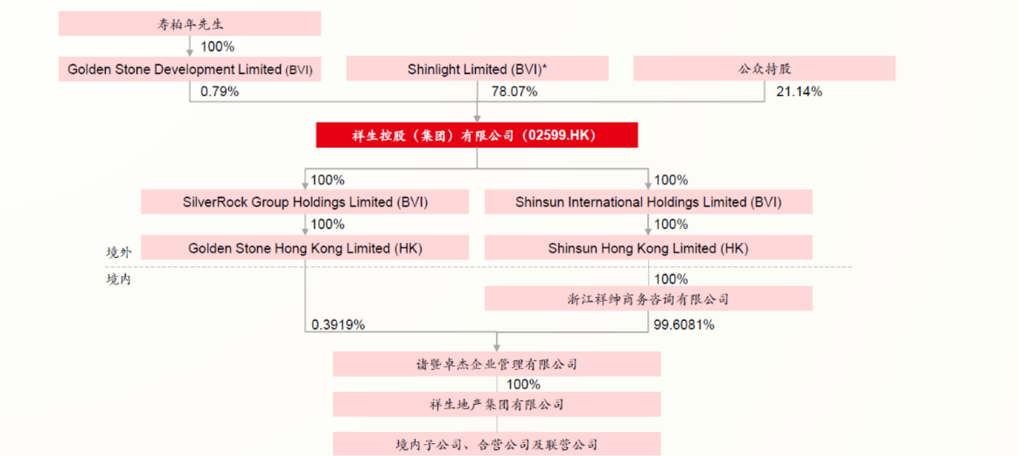
We would consider upgrading Shinsun's rating if it were to (1) considerably increase its operating scale without over-reliance on the joint venture model while maintaining competitive position in its core markets, (2) considerably reduce its exposure to non-traditional bank financings, and (3) maintain its financial leverage as measured by debt/capitalization at below 65% or EBITDA interest coverage at above 3.0x consistently.

Company Profile

Shinsun is a comprehensive real estate developer that focuses on quality residential property development in China. It was established by Mr. Guoxiang Chen in Zhuji City, Zhejiang Province in 1995 with an initial registered capital of RMB6 million. Through over 20 years of development, the company has established a leading market position in the property industry in Zhejiang province. Its operation has expanded from Zhejiang province to the Pan-YRD region, which includes Shanghai, Jiangsu, Anhui, Shandong and Jiangxi provinces, and selectively into the other high growth potential cities outside Pan-YRD region, according to its "1+1+X" business strategy. Shinsun was listed on the Stock Exchange of Hong Kong in November, 2020. (Stock code: 2599.HK)

After the reorganization in 2020, Shinlight Limited directly holds the company with approximately 79.2% of the outstanding shares after listing. Shinlight Limited is wholly owned by Shinfamily Holdings, which is wholly owned by the trustee of the Family trust, TMF (Cayman) Ltd. Mr.

Guoxiang Chen is the actual controller of the company through Shinlight Limited as he is the settlor of the Family Trust.



<u>Shinsun's shareholding chart</u>

Source: Shinsun's Annual Results Presentation, at end-2020

Business Profile

Moderate Market Position

Benefiting from Shinsun's Expansion Strategy of "1+1+X" made since 2016, the company has experienced significant growth in recent years. The business strategy represents that the company's development base to be in Zhejiang Province, and to deeply penetrate into the Pan-Yangtze River Delta Region and expand into other cities with high growth potential. The total revenue increased rapidly from RMB6.29 billion in 2017 to RMB46.64 billion in 2020, with a compound annual growth rate of 95%. Shinsun's revenue is mainly derived from sales of residential and commercial properties, which contributed 99%, 99.6% and 99.7% of the total revenue in 2018, 2019 and 2020, respectively. At end-2020, the company had 218 property projects at various stages of development.

Other businesses contributing to the total revenue include management consulting services, property leasing, hotel services and property management services in the past few years, which were small components. To further develop the business of property sales, the company organized its business into 5 subsidiaries, namely Huzhou Shinsun Yiyue Real Estate Development Co., Ltd. (湖州祥生宜越房地产开发有限公司), Shinsun Plaza Trading (祥生广场商贸), Scien International Limited (弘润国际有限公司), Hangzhou Shinsun Hongyue Real Estate Development Co., Ltd. (杭州祥生弘越房地产开发有限公司) and Zhejiang Shinsun Hongchuang Construction Technology Co., Ltd. (浙江祥生弘创建筑科技有限公司). In addition, the company divested its hotel services business as well as property management services business in 2020 upon its listing in Hong Kong.

Exhibit 1: Shinsun's Revenue Breakdown by Business Segment (RMB: in million)

Revenue/% of total	FY2017	%	FY2018	%	FY2019	%	FY2020	%
Sales of properties	**6,166**	**98.0**	**14,077**	**99.0**	**35,372**	**99.6**	**46,487**	**99.7**
Management Consulting Services	-	-	9	0.1	24	0.1	8	0.2
Property Leasing	14	0.2	15	0.1	13	0.0	4	0.1

Hotel services	110	1.7	112	0.8	107	0.3	2	0.0
Property Management Services	4	0.1	3	0.0	4	0.0	1	0.0
Total	**6,734**	**100.0**	**6,736**	**100.0**	**8,602**	**100.0**	**6,703**	**100.0**

Source: Shinsun's Initial Public Offering Circular and annual reports

Shinsun is a relatively large-size property developer as measured by contracted sales and land bank. According to CRIC, Shinsun's ranking in terms of contracted sales amount increased to 30th in 2020 from 35th in 2017. Shinsun's ranking in terms of contracted sales GFA increased to 27th from 30th during the same period. However, the company's growth was slightly behind peers in 2020 as shown in its marginal drop in rankings.

Exhibit 2: Shinsun's Rankings by Contracted Sales Among Chinese Property Developers

Amount / Ranking	FY2018		FY2019		FY2020		Ranking Changes (2020 vs 2018)
Contracted sales amount (RMB bn)	102.9	28th	115.9	28th	130.6	30th	-2
Contracted sales by GFA (m sq.m.)	7.4	29th	8.2	27th	8.2	29th	0

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

Exhibit 3: Shinsun's Rankings by Land Bank Among Chinese Property Developers

Amount / Ranking	FY2018		FY2019		FY2020	
Attributed land bank by value (RMB bn)	214.1	43th	276.2	33th	N/A	N/A
Land bank by GFA (m sq.m.)	19.8	39st	23.4	38th	23.3	N/A

Note: The amount is based on statistics from CRIC. Differences may exist between company's reported amount as a different calculation method was applied
Source: CRIC

Geographical Concentration

Shinsun has established a solid brand recognition in Zhejiang province, and became a sizable property developer in China in terms of both contracted sales and land bank scale. That said, Shinsun's credit profile is constrained by its geographical concentration compared with same-tier peers, given that 86% of its land bank is located in the Pan-YRD region with c. 50% being located in one single province.

Exhibit 4: Shinsun's Land Bank Composition by Region & City Tier at end-2020

GFA (in m sq.m.)	2020	%	Major Cities
Zhejiang Province	11,220	48.2%	Hangzhou, Shaoxing, Huzhou
Other Pan-YRD regions	8,984	38.5%	Anhui, Shandong, Jiangsu, Jiangxi and Shanghai Provinces
Sub-total (Pan-YRD region)	**20,204**	86.7%	
Others	3,123	13.3%	Hubei, Hunan, Inner Mongolia, Fujian, Liaoning
Total	**23,327**	**100.0%**	

Source: Shinsun's annual report 2020

Financial Profile

Shinsun intends to maintain a moderate contracted sales growth pace at 10-15% for 2021-2022. We expect its revenue growth to be at c. 10-15% for 2021-2023, driven by the revenue booking of its rapid contracted sales growth in the previous years. Although Shinsun will likely face the challenges of rising costs and revenue booking from some low-tier cities, which probably commands lower margin, we anticipate Shinsun to be able to maintain its gross profit margin at c. 20% level for 2021-2023, which should be similar to the industry average.

We expect an improvement of Shinsun's financial leverage and liquidity position in 2021-2023. We forecast the company's financial leverage, as measured by debt/capitalization ratio, will gradually improve and normalize from over 90% before listing to c. 70-73% level in 2021-2023, comparable with same-tier listed peers. We also expect the company's cash balance to improve, partly due to the increase in sales scale as well as capital contribution from minority shareholders. In terms of debt profile, we expect a reduction of Shinsun's reliance on trust financing in the next 12-18 months, which could help lower its average financing cost and improve its EBITDA interest coverage.

Key Assumptions

- Contracted sales growth: c. 10-15% growth for 2021-2023
- Contracted average selling price: c. 5% growth for 2021-2023
- Total Land acquisition expenditures: RMB45-60 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	37.5%	1.9x	70.9%	0.3x

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

Liquidity

At end-2020, the company had a total cash balance of RMB24.3 billion, compared with its short-term debt of RMB22.2 billion. The company also had certain unutilized committed banking facilities at end-2020. Shinsun's liquidity is expected to be sufficient to cover its maturity debt and committed land premium due in the next 12 months.

Shinsun raised a net proceed of c. HKD3.2 billion through an IPO listing in Hong Kong in November 2020. Moreover, the company also raised total proceeds of USD500 million through issuing a number of senior notes in 2020. Shinsun plans to explore diversified financing channels with both debt financings (such as ABS, senior notes, etc.) and equity financings (such as strategic investments) following its listing.

Appendix I: Shinsun's Rating Factors

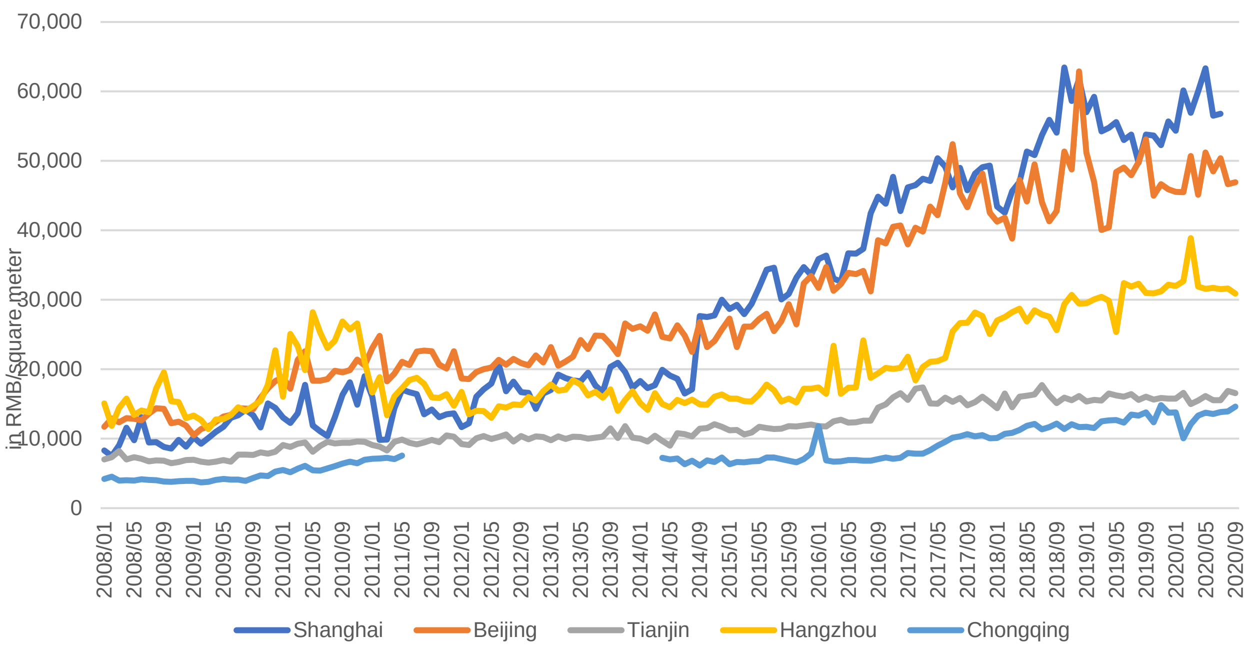
Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	**15.0%**	**a-**
II. Business Analysis[1]	**45.0%**	**bb**
III. Financial Analysis[2]	**40.0%**	**b-**
IV. Base Score	**100.0%**	**bb-**
V. Industry Risk		**bbb**
Base Rating		**bb-**
VI. Qualifiers		
Liquidity		Neutral
Corporate Governance		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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