Huijing Holdings Company Limited

Initial Issuer Report

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'B+' global scale Long-term Issuer Credit Rating to Huijing Holdings Company Limited; Outlook is Positive

Summary	
Issuer Rating	B+
Outlook	Positive
Location	China
Industry	Homebuilder and Real Estate
Date	19 July 2021

Operating Data:
Huijing Holdings Company Limited

	31 Dec 2019	31 Dec 2020
Revenue (RMB: in million)	3,606	5,153
Contracted Sales (RMB: in million)	4,392	7,706
Contracted Average Selling Price (RMB/square meter)	12,979	10,168
Contracted Sales GFA (million square meters)	0.34	0.76
Land Bank GFA (million square meters)	2.94	3.28

GFA: Gross Floor Area
Source: Huijing

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Applicable Criteria
General Corporate Rating Criteria (16 July 2018)

Summary

The Issuer Rating reflects Huijing Holdings Company Limited's (9968.HK) ("Huijing" or "the company") 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 Rationale

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. 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. On the other hand, Huijing commenced the development of its first integrated development project, namely Huijing City, in 2011.

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.

Company Profile

Huijing is an established integrated residential and commercial real estate developer in China, focusing in the Guangdong and Hunan provinces. The company was established by Mr. Lun Ruixiang, the chairman of Huijing, in Dongguan, Guangdong province in 2004. Started with property projects in Dongguan, Huijing gradually spread to Heyuan, the Yangtze River Delta Urban Cluster (which includes Anhui Province, Jiangsu Province and Zhejiang Province) and the Yangtze Mid-stream Urban Cluster (which includes Hubei Province, Hunan Province and Jiangxi Province). Huijing was listed on the Stock Exchange of Hong Kong in January 2020. (Stock code: 9968.HK)

Wui Ying Holdings Limited directly held the company with approximately 84.15% of outstanding shares at end-2020. Wui Ying Holdings Limited is wholly owned by Mr. Lun Ruixiang. Ms. Chan Hau Wan, the spouse of Mr. Lun Ruixiang, owns approximately 0.90% of Huijing's shares and is the second largest shareholder.

Exhibit 1: Huijing's Shareholding Structure at end-2020

Shareholder	Percentage
Wui Ying Holdings Limited (100%-owned by Mr. Lun Ruixiang)	84.15%
Ms. Chan Hau Wan (Spouse of Mr. Lun Ruixiang)	0.90%
Mr. Lun Ruixiang	0.18%
Mr. Lun Zhao Ming	0.11%
Mr. Lu Peijun	0.11%
Mr. Lau Kam Kwok Dickson	0.04%
Public	14.51%
Total	**100.0%**

Source: Huijing

Business Profile

Moderate Market Position

Huijing adheres to the strategy of a steady and balanced development and focuses on the mission of "Maintain foothold in Greater Bay Area", thus it constantly improves operational efficiency and business structure. With a foothold in Dongguan, the company will continue to focus on developments in Guangdong Province and expand into regions such as the Central China Region. The total revenue increased rapidly from RMB1.2 billion in 2017 to RMB5.2 billion in 2020, with a compound annual growth rate (CAGR) of 63.0%. Huijing's revenue is mainly derived from sale of properties, which contributed over 99.8% of total

revenue in 2017-2020. At end-2020, Huijing had 22 property projects at various stages of development.

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

Revenue/ % of total	FY2017	%	FY2018	%	FY2019	%	FY2020	%
Sales of properties	**1,198**	**100.0**	**2,238**	**100.0**	**3,601**	**99.8**	**5,150**	**99.9**
Property Leasing	0	0	0	0	5	0.2	3	0.1
Total	**1,198**	**100.0**	**2,238**	**100.0**	**3,606**	**100**	**5,153**	**100**

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

Huijing's market position is modest in terms of both contracted sales and land bank. Its contracted sales reached RMB7.7 billion in 2020. According to CRIC, Huijing's ranking in terms of contracted sales was over 200th in 2017-2020. That said, Huijing achieved rapid contracted sales growth with a CAGR of 81.0% in 2017-2020, attributed to its strategy of scale expansion and geographical diversification from Dongguan to various regions in China. The company mainly focuses on tier 2 and 3 cities for its operation.

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

Amount / Ranking	FY2018		FY2019		FY2020		Ranking Changes (2020 vs 2018)
Contracted sales amount (RMB bn)	2.56	>200th	4.39	>200th	7.71	>200th	N/A
Contracted sales by GFA (m sq.m.)	0.21	>200th	0.34	>200th	0.76	>200th	N/A

Note: CRIC Information Centre might use adjusted numbers of contracted sales and GFA in the ranking
Source: Huijing's Initial Public Offering Circular and annual reports (Actual amounts), CRIC Information Centre (Ranking)

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

Amount / Ranking	FY2018		FY2019		FY2020	
Attributed land bank by value (RMB bn)	N/A	>100th	N/A	>100th	N/A	>100th
Land bank by GFA (m sq.m.)	N/A	>100th	2.94	>100th	3.28	>100th

Note: CRIC Information Centre might use adjusted numbers of contracted sales and GFA in the ranking
Source: Huijing's Initial Public Offering Circular and annual reports (Actual amounts), CRIC Information Centre (Ranking)

Geographical Concentration

Huijing's land bank reached 3.28 million sq.m. of total GFA at end-2020. Huijing expanded its geographical coverage from its base in Dongguan to 10 cities in central, eastern, northern and south-western regions in China at end-2020. We expect Huijing's current land bank to be sufficient to support its contracted sales for the next 3 years. The company plans to increase its financial leverage to enlarge its land bank in the next 2 to 3 years. Huijing mainly relies on open-bid market and M&A for replenishing its land bank, and it also participates in URPs to expand its land bank and lower its average land acquisition cost.

Exhibit 5: Huijing's Land Bank Composition by Region at end-2020

Regions/Provinces	Total GFA (in sqm)	% of total	Cities
Guangdong Province	1,112,231	33.9	Dongguan, Heyuan
Hunan Province	1,635,739	49.8	Changsha, Hengyeng, Chenzhou
Yangtze River Delta Urban Cluster	388,518	11.9	Hefei, Pinghu, Xuzhou
Others	145,073	4.4	Xichang, Bazhou
Total	**3,281,561**	**100.0**	

Source: Huijing and Lianhe Global

Financial Profile

Huijing targets to maintain its fast contracted sales growth in 2021-2023, mainly driven by the increase in land bank and saleable resources. Huijing typically starts presales in 7-9 months after commencing construction for its fast turnover projects. We expect Huijing's revenue to grow in tandem with its contracted sales growth, attributable to the relatively high consolidation ratio of over 70% for its projects and land bank. Supported by the low land cost, we expect Huijing to maintain a gross margin of 34-36% in 2021-2023, higher than the industry average.

Given Huijing's plan to utilize its financial leverage and enlarge its land bank scale to sustain its contracted sales growth, we expect the company to raise its debt level, and its financial leverage will go up from the current trough in 2020. We expect Huijing's debt/capitalization ratio will increase to 52-60% in 2021-2023, from 41.3% in 2020. Similarly, its debt/land bank ratio will surge to 62-71% in 2021-2023, compared with 50.2% in 2020. As we expect the surge in Huijing's interest expense will surpass its EBITDA growth, its interest coverage ratio is expected to decrease to 3.1-4.0x in 2021-2023 from 5.1x in 2020.

At end-2020, non-traditional financings (i.e. trust loans, asset management, etc.) accounted for 23% of Huijing's total debt. The company intends to lower its proportion to total debt to 15-20% in the next 2 to 3 years. Huijing's average financing cost (after tax) was 7.4% in 2020, and the company intends to maintain at 8-10% (after tax) in the next 2 to 3 years.

Key Assumptions

- Contracted sales growth: c. 26-55% growth for 2021-2023
- Contracted average selling price: c. 3-5% growth for 2021-2023
- Total land acquisition expenditures: RMB3.9-7.0 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	65.9%	3.8x	55.2%	0.6x

Source: Huijing's annual reports, Lianhe Global's adjustments and forecasts

Liquidity

At end-2020, Huijing held RMB1.7 billion unrestricted cash and c. RMB2.1 billion of unutilized credit facilities. Also, Huijing had short-term debt of RMB1.7 billion, and committed unpaid land premium due within one year.

Huijing issued its first 364-day senior notes in August 2020, which led to the increase in its short-term debt at end-2020. We expect Huijing to refinance this note in 2021, and continue to expand and diversify its financing channels in the next 12 to 18 months, in order to optimize its debt structure and stabilize its average financing costs.

Appendix I: Huijing's Rating Factors

Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	**15.0%**	**a-**
II. Business Analysis[1]	**45.0%**	**b**
III. Financial Analysis[2]	**40.0%**	**b+**
IV. Base Score	**100.0%**	**b+**
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		B+/Positive

Source: Lianhe Global

The "bb-" SAC vs. Issuer Credit Rating of "B+" Positive Outlook is mainly attributed to the lack of track record in URPs and moderately weak liquidity relative to the "BB" rating category.

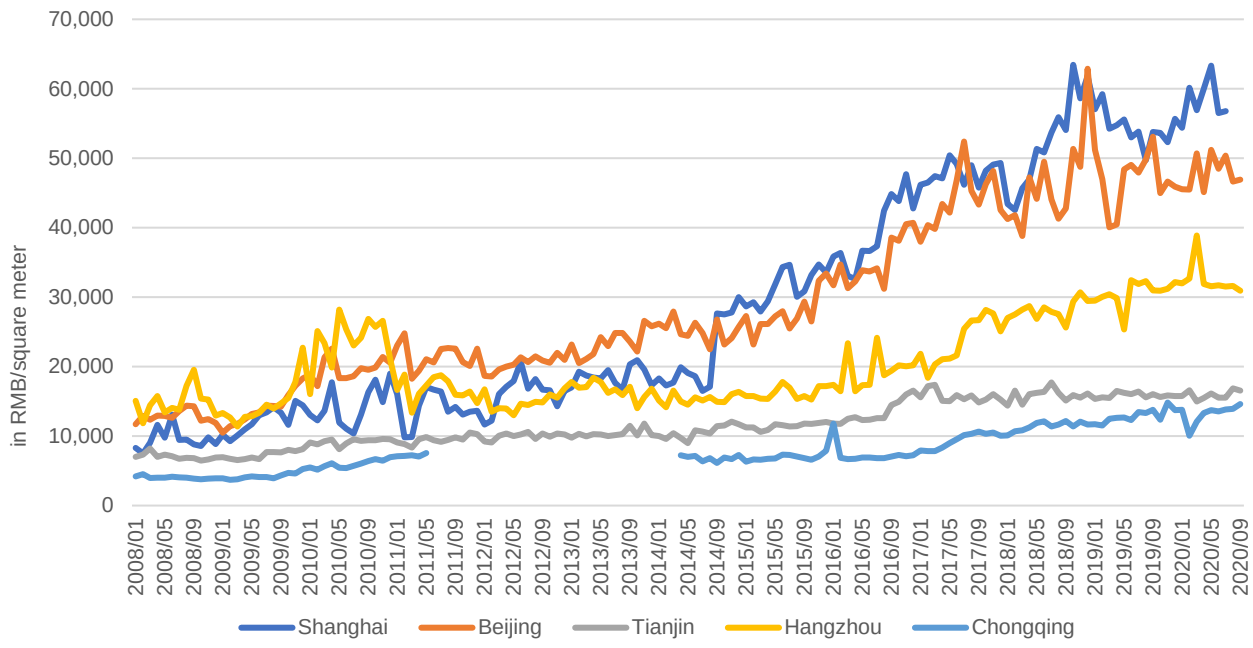
Of the 22 projects Huijing had on hand at end-2020, there was only one completed URP while the rest are still work in progress. There is yet to be a proven track record in successfully executing URPs, which inherently carry higher uncertainty in execution and longer completion cycle than traditional property projects. Nevertheless, the Positive Outlook reflects our expectation that Huijing could demonstrate more of its execution capabilities of URPs in the next 12-18 months.

Huijing's liquidity is moderately weak with RMB1.7 billion unrestricted cash on hand, short-term debt of RMB1.7 billion, and committed unpaid land premium due within one year. The increase in short-term debt was mainly attributable to the issuance of 364-day note, where re-financing will be subject to market conditions. We expect Huijing to refinance this note in 2021, and continue to expand and diversify its financing channels in the next 12 to 18 months.

[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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