

Radiance Group Company Limited

Surveillance Report

Summary

Issuer Rating	BB
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	5 July 2021

Lianhe Global has affirmed 'BB' global scale Long-term Issuer and Issuance Credit Rating of Radiance Group Company Limited; Issuer Rating Outlook Stable

Summary

The Issuer Rating reflects Radiance Group Company Limited's ("Radiance" or "the company") improved market position and financial leverage, enhancement in transparency and corporate governance following the listing of Radiance Holdings (Group) Company Limited ("the listco"), continuous expansion in tier 2 and core tier 3 cities, and steady project delivery. However, Radiance's rating is constrained by its moderate operating scale, limited visible track record, and moderate financial metrics.

The Stable Outlook reflects our expectation that Radiance will replenish its land bank portfolio and expand its operating scale in tier 2 and 3 cities while managing its debt growth cautiously and maintaining its credit profile commensurate with the 'BB' credit rating category.

Rating Rationale

Sizable and Diversified Land Bank Supports Consistent Contracted Sales Growth:

Radiance operates in six major regions with a diversified land bank portfolio in China. At end-2020, Radiance's land bank had a total GFA of 30.73 million sq.m, or an attributable GFA of 24.05 million sq.m, with 191 projects located in 32 cities in China. Radiance's land bank is primarily located in tier 1 and 2 cities, which accounted for over 70% of its total land bank GFA at end-2020. The company targets first-time homebuyers and upgraders which provide a strong demand base.

The company plans to expand its land bank in the Yangtze River Delta (YRD) and Greater Bay Area (GBA) regions, along with its existing presence in north western, north eastern, Bohai Rim and central China regions. In terms of new land acquisitions, Radiance acquired 35 parcels of land with a total GFA of 4.3 million sq.m in 2020. Of which, the YRD and GBA regions accounted for 64% and 20% of the newly acquired GFA, respectively.

Radiance's sizable and diversified land bank helped to maintain its contracted sales growth. The company achieved total contracted sales of RMB97.2 billion in 2020, representing a year-on-year growth of 37.9%. According to CRIC Information Centre, Radiance was ranked 45th among the Chinese property developers in terms of contracted sales in 2020. We expect Radiance to maintain c. 5-10% growth per annum in total contracted sales in the next 12 to 18 months.

Improved Visibility, Corporate Governance and Financing Channels: Radiance is the operating subsidiary of the listco, which has been listed on the Hong Kong Stock Exchange since October 2020. It is our understanding that the operating statistics of the listco reflect primarily those of the company. We view the listing of the listco as credit positive for Radiance. Following the listing, the listco has to abide by the listing rules which include the disclosure of more financial information as well as major transactions. This will provide an improved transparency and corporate governance. Also, the listco follows the industry

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Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

practice of voluntarily disclosing periodic operating statistics which increases its operational transparency. Furthermore, as a listed company, the listco is able to explore and widen its financing channels as new sources of funding.

Profitability Under Pressure: Radiance's gross margin (excluding depreciation and amortization) remained steady at 24.5% in 2020. The company targets to maintain an average selling price ("ASP") to average land cost ratio of c. 3.0x. Given the rising land cost and the reliance on open markets for land acquisitions, we expect Radiance's profitability to be under pressure. Having said that, the revenue recognition of some of the low-cost projects may partially help to alleviate the pressure on profit margin in the next 12 to 18 months.

Financial Leverage to Remain Stable: In order to maintain contracted sales growth, we expect Radiance to continue replenishing its land bank, but in a measured manner. Radiance spent c. 32% of its contracted sales proceeds for land acquisitions in 2020. We expect the company to spend 40-50% of its contracted sales proceeds for land acquisitions in the next 12 to 18 months, depending on the land price and land market condition. We expect Radiance's land bank to be sufficient to support its contracted sales for the next two to three years.

Radiance's financial leverage, as measured by gross debt/capitalization, improved to 61.7% at end-2020, compared with 69.9% at end-2019, primarily due to the higher cash on hand and higher equity base. We expect Radiance's financial leverage to remain stable in the next 12 to 18 months.

At end-2020, Radiance had cash on hand of RMB26.6 billion (including RMB25.2 billion unrestricted) plus undrawn credit line of c. RMB86.2 billion, which was sufficient to cover its debts of RMB15.6 billion due within one year. We expect Radiance to be able to maintain its liquidity profile in the next 12 to 18 months. The strengthened cash collection also helps the company with a stable source of funding to service its capital expenditure.

Rating Sensitivities

We would consider downgrading Radiance's rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 75% 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 Radiance's rating if it were to (1) expand its operating scale, and/or (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 4.0x consistently.

Company Profile

Radiance Group Co., Ltd is a privately-owned Chinese real estate group with its business coverage extending from mass residential property development and investment to property management. It was established by Mr. Lam Ting Keung in Fuzhou in 1996 and is now headquartered in Beijing.

Property development segment served as Radiance's major revenue contributor in 2018-2020, accounting for over 93% of the group's revenue. Radiance's development projects are widely distributed in 32 cities in China, which include the major municipal and provincial cities such as Shanghai, Beijing, Xian, Chongqing, and Wuhan. Radiance targets first-time homebuyers and upgraders.

Exhibit 1: Radiance's Shareholding Structure

Shareholder	Percentage
Kam Fei Investment (Hong Kong) Limited*	96.0%
Shanghai Huayue Industrial Investment Co., Ltd**	4.0%
Total	100.0%

Note:

*Kam Fei Investment (Hong Kong) Limited is 100% owned by Radiance Holdings (Group) Company Limited. Radiance Holdings (Group) Company Limited is 85% owned by Glowing Shine Limited and 15% owned by public shareholders. Mr. Lam Ting Keung indirectly holds 64.97% shares and Ms. Lam Funq Ying indirectly holds 35.03% shares of Glowing Shine Limited

**The name is directly translated from Chinese Name: 上海华月实业投资有限公司. 上海华月实业投资有限公司 is 25% held by Ms. Chen Yun, 25% by Mr. Lin Wei, 20% by Ms. Lin Fengyu, 15% by Ms. Lin Fenghua, 15% by Ms. Lin Ping.

Source: Radiance

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

Revenue / % of total	FY2018		FY2019		FY2020	
Property Sales	15,105	93.9%	24,841	96.1%	34,268	98.5%
Property Management	449	2.8%	486	1.9%	0	0.0%
Rental Income	282	1.7%	356	1.4%	345	1.0%
Others	253	1.6%	166	0.6%	180	0.5%
Total	16,088	100.0%	25,849	100.0%	34,793	100.0%

Source: Radiance

Key Financial Assumptions

- Contracted sales growth: c. 8% per annum for 2021-2023
- Delivered average selling price: c. 5% growth per annum for 2021-2023
- Total revenue: RMB40-54 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	41.2%	1.9x	61.2%	0.2x

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

Full List of Issuance Ratings

A full list of affirmed issuance ratings is included below. Any rating action on Radiance's rating would result in a similar rating action on its USD notes:

- USD250 million 8.80% senior unsecured notes due 2023 affirmed at 'BB'
- USD250 million 11.75% senior unsecured notes due 2021 affirmed at 'BB'

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