

# CIFI Holdings (Group) Co. Ltd.

## Surveillance Report

### Summary

Issuer Rating	BBB-
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	20 October 2021

### Operating Data:

CIFI Holdings (Group) Co. Ltd.

	31 Dec 2020	30 Jun 2021
Revenue (RMB: in million)	71,799	36,373
Contracted Sales (RMB: in million)	231,000	136,150
Contracted Sales ASP (RMB/square meter)	15,000	17,100
Contracted Sales GFA (million square meters)	15.39	7.97
Land Bank GFA (million square meters)	56.5	58.4

ASP: Average Selling Price

GFA: Gross Floor Area

Source: CIFI's 2020 annual report, CIFI's 2021 interim report and Lianhe Global

### Analysts

Alex Kung

+852 3462 9577

[alex.kung@lhratingsglobal.com](mailto:alex.kung@lhratingsglobal.com)

Ben Yau

+852 3462 9586

[ben.yau@lhratingsglobal.com](mailto:ben.yau@lhratingsglobal.com)

### Applicable Criteria

[General Corporate Rating Criteria \(16 July 2018\)](#)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BBB-' global scale Long-term Issuer and Issuance Credit Rating of CIFI Holdings (Group) Co. Ltd.; Issuer Rating Outlook Stable.

### Summary

The Issuer Rating reflects CIFI Holdings (Group) Co. Ltd. ("CIFI" or "the company")'s established market position and stable contracted sales prospect for 2021 amid a challenging market, sizeable land bank available for business growth of the coming three years, and cash collection capability that helps secure organic funding of capital expenditure. CIFI's rating constraints include high financial leverage and high percentage of contracted sales from joint venture ("JV") contributions which lower its financial transparency.

The Stable Outlook reflects our expectation that CIFI will maintain stable profitability metrics, sustain its operating efficiency, and replenish its land bank in a measured manner while managing its financial leverage.

### Rating Rationale

**Leading Position in the Chinese Property Market:** The Shanghai-headquartered and Hong Kong-listed company has an ambitious goal to grow into a national property developer powerhouse. CIFI reported total contracted sales of RMB136.2 billion in 1H2021, representing a 69% year-on-year growth. Also, 71% of CIFI's total contracted sales were generated from tier 1 and 2 cities in 1H2021. According to CRIC, CIFI was ranked 14<sup>th</sup> in terms of total contracted sales in 1H2021, which placed it among the top 20 leaders in the Chinese property market. Furthermore, CIFI achieved monthly contracted sales of over RMB20 billion in both July and August 2021. CIFI reported total contracted sales of RMB193 billion for the first nine months of 2021, which represented c. 73% of the full-year target of RMB265 billion. In addition, CIFI was also ranked among the top 10 players (mostly) within the company's top 10-city coverage which further solidifies its market leader position.

**High-quality Land Bank and Strong Execution to Support Expansion:** CIFI has expanded its geographic coverage of its land bank and entered new cities of various tiers in four regions of China, namely Yangtze River Delta (YRD), Pan Bohai Rim, Central Western and South China regions. The YRD region continues to be an important part of the company's expansion plan which contributed 44.7% of its total contracted sales in 1H2021. CIFI's diversified and sizable land bank covered 85 cities at end-June 2021, which reduced its exposure to policy risk. At end-June 2021, tier 1 & 2 cities represented 72% of CIFI's land bank in terms of saleable resources.

Land acquisition from open auction channel represented 73% of CIFI's total land acquisitions in terms of saleable resources in 1H2021. CIFI's land banking in terms of land bank GFA over contracted sales GFA moderated downward in 2018-2020, reflecting partly the company's strategy of prudent project selection, fast asset turnover and financial leverage control. Moreover, CIFI demonstrated strong execution capability evident by its high cash collection rate of over 85% in the past five years. CIFI will continue diversifying its

land banking strategy and channels to keep land cost in check to support the expansion and manage financial leverage and profitability. We believe these strong attributes are conducive to support CIFI's expansion.

**Profitability Under Pressure but Likely to Remain Stable:** CIFI's profitability was under pressure as the land cost increased, as its gross margin was in the range of 20.7% to 25.1% between 2018 and 1H2021. Having said that, given CIFI's leading market position, brand recognition, cost control, project execution and management capability, we believe CIFI's profitability will likely remain stable and the company is able to maintain its gross margin in the next 12 to 18 months.

**Financial Leverage Remains Stable:** CIFI's management is mindful of cost control and the use of financial leverage while growing a national franchise and delivering projects by their preset metrics. CIFI's reported total debt increased to RMB110.7 billion at end-June 2021 from RMB104.7 billion at end-2020. Having said that, CIFI's financing capability remained strong and its weighted average cost of funding remained low at 5.1% in 1H2021, compared with 5.4% in 2020. CIFI's financial leverage ratio, measured by debt/capitalization, was at 58.6% at end-2020. At end-June 2021, CIFI passed 2 of the 3-Redline thresholds and the company targets to meet all the 3-Redline thresholds by end-2021.

CIFI's attributable land bank of 32.3 million square meters at end-June 2021 was sufficient to support the company's growth target for the next three years. This allows a flexible headroom of land acquisition targets. Aggressive land-banking through increasing financial leverage is hence unlikely, in our view. CIFI's liquidity position was abundant at end-June 2021, as the company had unrestricted cash of RMB52.3 billion on hand which was sufficient to cover its debts of RMB19.6 billion due within one year. The strengthened cash collection ratio also provides the company a stable source of funding to service its capital expenditure.

**High Percentage of JV Contribution:** During 2015-2020, CIFI mainly expanded its operating scale through JV participation. This approach helped CIFI gain access to new and unfamiliar markets, reduce project concentration risk and control its overall land acquisition cost. However, the decrease in overall stakes in the acquired land bank by increasing the JV participation rate will likely impose execution risks for CIFI and lower its financial transparency. Having said that, most of CIFI's JV partners are reputable developers with strong track records of successful project executions. This largely helps mitigating the execution risk for CIFI. Moreover, CIFI prefers to hold over 50% stakes and have the decision right and managing power for its JV projects to control the overall project execution risk. Going forward, we expect CIFI's JV participation rate will likely remain stable as the company intends to maintain its growth pace in tandem with the overall market.

## Rating Sensitivities

We would consider downgrading CIFI's rating if it were to (1) aggressively replenish its land bank which would result in an increase in its financial leverage as measured by debt/capitalization to over 65% or a decrease in its EBITDA interest coverage to below 3.5x 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 CIFI's rating if it were to (1) considerably increase its operating scale, and/or (2) maintain its financial leverage as measured by a debt/capitalization at below 50%, and an EBITDA interest coverage ratio at above 5.0x, consistently.

## Company Profile

CIFI was founded by Mr. LIN Zhong in Shanghai, China in 2000. It has been listed on the Hong Kong Stock Exchange since 23 November 2012 (stock code: 884.HK). CIFI is a large property developer with businesses coverage extending from property development to property management and investment in China. CIFI is majority (51.7%) owned by LIN's family as of 30 June 2021.

CIFI's property projects disperse widely in China with geographic coverage in YRD, Pan Bohai Rim, Central Western and South China regions. At end-June 2021, CIFI held a total equity of RMB96.5 billion and an attributable land bank of 32.3 million square meters.

### Exhibit 1: CIFI's Shareholding Structure as of 30 June 2021

Shareholder	Percentage
*Rosy Fortune	28.96%
**Ding Chang	14.67%
Ping An Life Insurance Company of China, Ltd.	6.59%
***Eminent Talent Limited	5.49%
Public	44.29%
<b>Total</b>	<b>100.0%</b>

Note:

\*Rosy Fortune is wholly owned by Gentle Beauty, the entire issued share capital of which is in turn held by Standard Chartered Trust as the trustee of the LIN's Family Trust via SCTS Capital. The LIN's Family Trust is a discretionary trust set up jointly by Mr. LIN Zhong, Mr. LIN Wei and Mr. LIN Feng as settlors and Standard Chartered Trust as trustee on 11 May 2012. The beneficiary objects of the LIN's Family Trust include certain family members of Mr. LIN Zhong, Mr. LIN Wei and Mr. LIN Feng.

\*\*Ding Chang is wholly owned by Eternally Success, the entire issued share capital of which is in turn held by Standard Chartered Trust as the trustee of the Sun Success Trust via SCTS Capital. The Sun Success Trust is a discretionary trust set up by Mr. LIN Zhong as settlor and Standard Chartered Trust as trustee on 11 May 2012. The beneficiary objects of the Sun Success Trust include certain family members of Mr. LIN Zhong.

\*\*\*Eminent Talent is wholly owned by LW Asset, the entire issued share capital of which is in turn held by a discretionary trust set up by Mr. LIN Wei as settlor and Credit Suisse Trust as trustee in 2018. The beneficiary objects of the said trust include certain family members of Mr. LIN Wei.

Source: CIFI

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

Revenue / % of total	FY2019		FY2020		1H2021	
Sales of properties	50,644	92.5%	64,320	89.6%	31,939	87.8%
Rental income from property investment	533	1.0%	590	0.8%	391	1.1%
Property management and others	3,589	6.5%	6,888	9.6%	4,043	11.1%
<b>Total</b>	<b>54,766</b>	<b>100.0%</b>	<b>71,799</b>	<b>100.0%</b>	<b>36,373</b>	<b>100.0%</b>

Source: CIFI

## Key Financial Assumptions

- Contracted sales growth: c. 10% to 15% growth per annum for 2021-2023
- Gross margin: c. 20% to 22% for 2021-2023
- Total revenue: RMB88 to 124 billion for 2021-2023

### Key Financial Metrics

2019A-2023F	Debt/Land Bank	*EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	63.6%	3.4x	59.4%	0.4x

*Note: \*Adjusted EBITDA*

*Source: CIFI'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 CIFI's rating would result in a similar rating action on its USD notes:

- USD350 million 5.25% senior unsecured notes due 2026 affirmed at 'BBB-'
- USD350 million 4.45% senior unsecured notes due 2026 affirmed at 'BBB-'
- USD419 million 4.375% senior unsecured notes due 2027 affirmed at 'BBB-'
- USD150 million 4.80% senior unsecured notes due 2028 affirmed at 'BBB-'

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2021.