

**Lianhe Global downgrades E-House (China) Enterprise Holdings Limited's global scale Long-term Issuer and Issuance Credit Rating to 'B' from 'BB-'; Issuer Rating Outlook Revised to Stable**

HONG KONG, 31 December 2021 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has downgraded the global scale Long-term Issuer Credit Rating of E-House (China) Enterprise Holdings Limited (02048.HK) (“E-House” or “the company”) to ‘B’ from ‘BB-’. The Outlook is revised to Stable.

Lianhe Global has also downgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by E-House to ‘B’ from ‘BB-’. A full list of issuance ratings is included in this press release.

The Issuer Rating downgrade to ‘B’ reflects E-House’s weakening credit profile and deteriorating financial metrics with the negative impact from the loss allowance for its trade-related receivables. Additionally, the company has encountered narrowed financing channels, slower-than-expected revenue growth due to the compressed commission rates, amid the challenging property developer industry outlook, and the margin pressure in view of the expansion into low-margin business segments.

The Stable Outlook on E-House’s rating reflects our expectation of E-House’s tight but sufficient liquidity position, as well as subdued mergers and acquisition activities which would likely reduce its capital expenditure needs in the next 12 months.

**Key Rating Rationales**

***Deteriorating Counterparties’ Credit Profiles Lead to Material Receivable Write-Offs:*** E-House’s counterparty risk in its real estate agency service business has heightened given the financial distress experienced by some of its major customers, such as China Evergrande Group (“Evergrande”). As E-House still has existing business relationships with some of these property developers whose credit qualities have worsened, we expect that E-House will continue to have substantial exposure to these property developers for its trade receivables in the next 12 months. E-House recorded net loss allowance on financial assets subjected to an expected credit loss (“ECL”) of RMB1.94 billion in 1H2021. Given the possible nonpayment of receivables by Evergrande and other property developers, we expect that E-House will continue to record material loss allowance for its trade receivables in the next 12 months.

***Gross Transaction Value Growth Under Pressure Given the Challenging Market Condition:*** With the challenges facing the Chinese property developers, contracted sales of the Chinese property market have started to decline since the third quarter of 2021. We expect the declining trend will continue into 2022, which will put pressure on the growth rate of E-House’s gross transaction value (“GTV”) in its primary market real estate agency services. The company also intends to introduce a series of measures to reduce expenses including

layoffs. Therefore, we expect a decline in E-House's GTV and revenue from its real estate agency services in 2022 more than our previous forecasts. Nevertheless, given the significant loss allowance recorded in 1H2021 and the deteriorating credit profiles of some of its counterparties, E-House has become more conservative in project selection by prioritizing the soundness of its counterparties' financial conditions over scale expansion.

**Agency Services' Revenue Growth Dampened by Declining Commission Rates:** E-House has relatively weak bargaining powers with leading property developers in terms of commission rates. Due to the challenges facing the Chinese property developers since the third quarter of 2021, the commission rates of both the agency services and the brokerage network services segments were further compressed across the board. Given the expected decline in E-House's GTV of its agency services, we expect a material decrease in revenue from E-House's real estate agency services in the next 12 months more than our previous forecasts.

**Profit Margin Under Pressure Given Higher Contributions from Low-Margin Segments:** Given the expected decline in revenue from E-House's real estate agency services, we expect both the brokerage network services and the digital marketing services segments to be the major growth drivers of E-House's revenue in the next 12 months. However, both segments command lower profit margins compared to E-House's other businesses, due to the high commission rate paid to the network brokers for its brokerage network services and the high advertising and promotion expenses for Leju and Tmall Haofang's businesses. Therefore, we expect both segments to act as a drag on E-House's margin profile, and its profit margin will likely be under pressure in the next 12 months.

**Tight But Sufficient Liquidity with Pressure on Financial Leverage:** E-House had a cash balance of RMB7.34 billion at end-June 2021, but its liquidity would be tight if we were to exclude the cash consolidated from Leju. However, we expect the company will likely have sufficient liquidity to cover its short-term debt in the next 12 months, and repay its offshore senior notes of USD300 million due April 2022 with its internal resources. As we expect the credit profiles of E-House's major property developer counterparties to deteriorate further in the near term, the potential increase in account receivable days and the expected material loss allowance will likely put pressure on E-House's operating cash flow in the next 12 months. Overall, we expect E-House's operating cash flow to turn negative in 2H2021, as well as for the full year 2021. We also expect E-House to record a negative EBITDA in fiscal 2021 and its financial leverage in terms of debt/EBITDA will remain high in the next 12 months.

### **Rating Sensitivities**

We would consider downgrading E-House's rating if (1) its operating performance were to deteriorate as measured by an EBITDA margin to decrease to below 5% consistently, or (2) its financial leverage as measured by a debt/EBITDA ratio to increase to over 6.5x consistently, or (3) its operating performance and working capital management were to deteriorate such that its revenue experiences a material decline or operating cash flow shows sign of worsening.

We would consider upgrading E-House's rating if (1) its operating efficiency were to exhibit a remarkable improvement such that it could maintain a sustainable positive operating cash flow

and visible loss allowance, or (2) strengthen its profitability as measured by an EBITDA margin to increase to above 15% consistently, or (3) its financial leverage as measured by a debt/EBITDA ratio to decrease to below 4.0x consistently.

Any rating action on E-House's rating would result in a similar rating action on its USD notes.

### **Full List of Issuance Ratings**

- USD300 million 7.625% senior unsecured notes due 2022 downgraded from 'BB-' to 'B'
- USD300 million 7.600% senior unsecured notes due 2023 downgraded from 'BB-' to 'B'

### **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

### **Rating Methodology**

The principal methodology used in this E-House's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018 which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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