Dexin China Holdings Company Limited

Surveillance Report

Summary	
Issuer Rating	BB-
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	3 January 2022

Operating Data:
Dexin China Holdings Company

	31 Dec 2020	30 Jun 2021
Revenue (RMB: in million)	15,669	13,071
Contracted Sales (RMB: in million)	63,530	43,030
Contracted Sales ASP (RMB/square meter)	20,401	21,081
Contracted Sales GFA (million square meters)	3.11	2.04
Land Bank GFA (million square meters)	16.26	19.93

ASP: Average Selling Price
GFA: Gross Floor Area
Source: Dexin China's 2020 annual report and 2021 interim report

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Applicable Criteria
General Corporate Rating Criteria (31 December 2021)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'BB-' global scale Long-term Issuer and Issuance Credit Rating of Dexin China Holdings Company Limited; Issuer Rating Outlook Stable.

Summary

The Issuer Rating reflects our assessment of Dexin China Holdings Company Limited's ("Dexin China" or "the company") established regional market position, quality projects, and land bank, as well as improving operating scale and access to bank borrowings. The rating also considers Dexin China's expansion into other populous regions. The company's contracted sales has been under pressure since 3Q2021 due to property market demand turning weak in China. Sales performance, together with its high exposure to joint ventures and liquidity challenges, would constraint Dexin China's rating.

The Stable Outlook reflects our expectation that Dexin China will maintain its market position in its home base Zhejiang Province with a mindful expansion pace. At the same time, we expect the company to maintain its relatively stable sell-through rate and cash collection rate amid challenging market conditions.

Rating Rationale

Established Regional Market Position in Zhejiang Province and Expanding into Other Populous Regions: Dexin China has established a strong market position in its hub city Hangzhou and several other cities in Zhejiang Province, such as Ningbo and Wenzhou. According to China Index Academy, the company was ranked 3rd in Wenzhou, 5th in Hangzhou, and 8th in Ningbo in terms of contracted sales in 1H2021. In addition, the company was highly ranked in terms of customer satisfaction and customer loyalty surveys in Hangzhou and Wenzhou, demonstrating its solid regional brand recognition.

However, Dexin China's ranking was lower on a national scale. It was ranked 52nd among Chinese property developers in terms of contracted sales in 1H2021 as per China Real Estate Information Corporation. This is due to the relatively small operating scale outside the company's home province.

Dexin China is improving its national presence by entering other populous metropolitan areas, including Shanghai, Jiangsu, Sichuan, Hubei, and Guangdong provinces. Contracted sales derived outside Zhejiang increased to 32% in 1H2021 from 11% in 2020, which could partially mitigate geographic concentration risk.

Contracted Sales under Pressure amid Market Downturn; High-Quality Projects and Land Bank Supporting the Company's Performance: Dexin China experienced a significant drop in contracted sales since 3Q2021 due to the Chinese property market's slowdown. As a result, in the five months ended November 2021, the company's contracted sales recorded a 14.7% period-on-period decrease. However, we expect the company to achieve its full-year target of RMB 73 billion, thanks to the strong growth in the 1H2021.

While the contracted sales are under pressure, Dexin China maintained its ASP at a relatively stable level of c. RMB 20,000/sq.m as most of the company's projects are located in the Yangtze River Delta's higher-tier cities, where the market demand is relatively strong. According to the management, the sell-through rate and cash collection rate of the company's projects in the higher-tier cities remained stable, helping the company to generate liquidity during the current tough financing environment.

In addition, the company had a quality land bank focusing on tier 1 and tier 2 cities at end-June 2021. Therefore, we expect the company to maintain its operating performance in the next 12-18 months.

Improving Access to Bank Borrowings but Liquidity is Moderately Tight: Dexin China has relied less on non-bank borrowings since 2019. At end-June 2021, bank borrowings contributed c. 63% of the company's total debt, up from c. 37% at end-June 2019. According to the company, this is partially due to its projects being mostly located in higher-tier cities with better financial resources. In our view, traditional bank borrowing is a relatively stable financing source compared with other alternatives, given the current weak market sentiment of the offshore debt capital market and tightened regulation over onshore non-bank financial institutions.

However, Dexin China's liquidity is moderately tight. At end-June 2021, Dexin China reported RMB17.83 billion cash (including RMB1.21 billion restricted cash) on a consolidated basis against RMB12.99 billion of short-term debt. The cash to short-term debt ratio was 1.37x, down from 1.44x at end-June 2019.

In addition, the company may have to mobilize its internal resources to settle its USD bond maturities in 2022, including USD200 million (equivalent to c. RMB1.27 billion) due in April and USD350 million (equivalent to c. RMB2.22 billion) due in December 2022. The company has largely reduced land acquisition since 3Q2021 to preserve liquidity at the expense of putting pressure on its land bank life. Therefore, we estimate that Dexin China might have to replenish its land bank in the near future.

High Exposure to Joint Ventures Leading to Lower Financial Transparency: Dexin China is carrying out its strategic expansion through increasing joint ventures (JVs) participation. As a result, c. 70% of Dexin China's total equity and c. 54% of its profit were attributable to the non-controlling interests at end-June 2021, up from 53% and 31%, respectively, at end-December 2019.

The high JVs exposure could obscure Dexin China's financial transparency as transactions with JVs and non-controlling shareholders represent a substantial portion of Dexin's cash flow in investing and financing activities. It also gives rise to cash balance accessibility concern as a large portion of that may be trapped at project companies' level.

Rating Sensitivities

We would consider downgrading Dexin China's rating if it were to aggressively replenish its land bank, which results 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 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 Dexin China's rating if it were to (1) considerably increase its operating scale, and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 4x consistently.

Company Profile

Dexin China was founded by Mr. Yiping Hu in Zhejiang province in 1995. After years of development, the company expanded its business into a series of cities in the Yangtze River Delta region, including Hangzhou, Wenzhou, Huzhou, and Ningbo, etc., and other key hub cities in China such as Wuhan and Chengdu.

Sales of properties is the primary source of the company's revenue, which amounted to RMB12.674 billion in 1H2021, accounting for 97% of the company's total revenue. Other business segments include property construction and project management services, hotel operations and lease of commercial properties, together contributing RMB397 million to the total revenue in the same period.

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

Revenue / % of total	FY2019		FY2020		1H2021	
Sales of properties	9,446.2	99.3%	15,550.4	99.2%	12,673.9	97.0%
Others	66.8	0.7%	118.4	0.8%	397.1	3.0%
Total	**9,513.0**	**100.0%**	**15,668.8**	**100.0%**	**13,071.0**	**100.0%**

Source: Dexin China's 2020 annual report and 2021 interim report

Dexin China has been listed on the Hong Kong Stock Exchange since 26 February 2019 (stock code: 2019.HK). In addition, the company was included in the MSCI China Small Cap Index, Hang Seng Composite Index, and Shenzhen-Hong Kong Stock Connect in May, August and September 2019, respectively.

At end-June 2021, Mr. Yiping Hu and his family owned c. 70% of Dexin China's outstanding shares through Tak Shin International Co., Limited ("Tak Shin", 德欣国际有限公司) and Tak Yuan International Co., Limited (德源国际有限公司).

Exhibit 2: Dexin China's Shareholding Structure (at end-June 2020)

Shareholder	Percentage
Tak Shin International Co., Ltd. (德欣国际有限公司)	67.2%
Tak Yuan International Co., Ltd. (德源国际有限公司)	2.8%
Public	30.0%
Total	**100%**

Source: Dexin China

Key Financial Assumptions

- Contracted sales growth: c. 2% to 12% per annum for 2021-2023
- Gross margin: c. 20% to 22% for 2021-2023
- Total revenue: RMB23 to 32 billion for 2021-2023

Key Financial Metrics

2019A-2023F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	53.3%	2.02x	64.1%	0.25x

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

Full List of Issuance Rating

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

- USD350 million 9.95% senior unsecured notes due 2022 affirmed at 'BB-'

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