Huijing Holdings Company Limited
Surveillance Report

Summary	
Issuer Rating	B+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	13 May 2022

Operating Data:

Huijing Holdings Company Limited

	2020	2021
Revenue (RMB: in million)	5,153	5,309
Contracted Sales (RMB: in million)	7,706	8,005
Contracted Sales GFA (million square meters)	0.76	0.98
Land Bank GFA (million square meters)	3.28	3.15

GFA: Gross Floor Area
Source: Huijing

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Applicable Criteria
Chinese Property Developer Rating Criteria (31 December 2021)

Lianhe Ratings Global Limited ("Lianhe Global") has affirmed 'B+' global scale Long-term Issuer and Issuance Credit Ratings of Huijing Holdings Company Limited; Issuer Rating Outlook Revised to Stable

Summary

The Issuer Rating reflects Huijing Holdings Company Limited's (9968.HK) ("Huijing" or "the company") track record of above-average profitability, as well as the gradual geographical diversification of its land bank. However, Huijing's rating is constrained by its small operating scale, limited number of projects, increasing financial leverage and tight liquidity. In addition, Huijing may face challenges to its contracted sales, liquidity and access to refinancing channels amid the challenging market conditions.

The Stable Outlook reflects our expectation that Huijing will carry out its planned urban renewal projects (URPs) and diversify its land bank in a measured manner, as well as maintain its above-average profitability.

Rating Rationale

Gradual Geographic Diversification with its Land Bank: Huijing has begun its journey of nationwide expansion since 2016. By end-2021, the company had 21 projects and 4 parcels of land located in 11 different cities of Guangdong, Hunan, Anhui, Sichuan, Jiangsu and Zhejiang provinces. The company plans to further expand to Guangxi, Guizhou, Jiangxi, Hubei and Henan provinces under the strategy of "maintaining foothold in the Greater Bay Area, penetrating into Dongguan, and sustaining coverage of high-value-added cities in the Southern, Central and Eastern China areas". However, we expect that the pace of Huijing's expansion will slow down in the next 12 months under the current challenging market conditions.

Huijing had a land bank with total GFA of 3.15 million square meters (sq.m.) land bank at end-2021, which was sufficient to support its contracted sales for the next 2 to 3 years. However, Huijing's land bank quality is moderately weak as the city tier for most of its land bank is relatively low, which would limit its average selling price in the next 12 months.

Slowing Down on Contracted Sales Growth, Declining but Above-average Gross Margin: Huijing experienced rapid growth in contracted sales along with its geographic expansion from 2018 to 2020 with an annual rate growth rate at 97.7%, 71.4% and 75.5%, respectively. However, the contracted sales growth slowed to 3.9% in 2021 due to the challenging Chinese property market since the second half of 2021. In addition, Huijing's reported gross margin exhibited a decreasing trend in the past four years, which was reduced to 31.4% at end-2021 from 53.3% at end-2018, but it was still above the industry average level.

This was because Huijing relied more on mergers and acquisitions and traditional methods (i.e., public tender, auction and listing) to acquire land parcels in new cities instead of utilizing low-cost land from the URPs in Dongguan. We expect the company's reported gross margin to decrease further but remain higher than the industry average level in the next 12 months.

Focusing on URPs in Dongguan City: Huijing has extensive experience in URPs in Guangdong's Dongguan city. The company considers the urban renewal development as an opportunity to acquire valuable land parcels in the city's prime location at a relatively low cost.

Huijing completed the land supply procedures of Dongguan city's Shantian Renzhou Area URPs in 2021. The project is being constructed and expected to provide a total GFA of 0.27 million sq.m.'s M3 industrial land. The company also expects to obtain another new land use right of GFA of 0.37 million sq.m. in the Zhangmutou Baoshan Area through URPs in the second quarter of 2022. We expect the Zhangmutou Baoshan project will help to replenish Huijing's land bank and saleable resources in 2022-2023.

Huijing had entered into nine URPs in Dongguan as the preparatory services provider with a total site area of 2.23 million sq.m. at end-2021. The company is also working on obtaining the qualification of preparatory services provider for nine other URPs with a total site area of c. 1.89 million sq.m. at end-2021. We expect URPs to provide more low-cost lands for Huijing in Dongguan city, helping the company maintain its gross margin at an above-average level in the medium term.

Increasing Financial Leverage with Tight Liquidity: Huijing reported interest-bearing debt of RMB4,512 million at end-2021, up from RMB2,767 million at end-2020. As a result, its reported net gearing ratio increased to 42.6% at end-2021 from 18.0% at end-2020. We expect the company's expansion to turn cautious amid the challenging operating and financing conditions in the next 12 months and maintain the "green" category in the "3 Red Lines" rules. However, we expect that Huijing is not likely to deleverage as the company relies on borrowings to replenish its land bank and carry out the URPs, which usually take longer to deliver.

In addition, Huijing's liquidity is tight. At end-2021, the company reported RMB2,702 million cash (including pledged deposit of RMB800 million, guarantee deposits of RMB165 million and, cash of RMB254 million that can only be used for the payment of property development costs and the repayment of relevant loans) against RMB2,368 million of short-term debt. The company has USD138 million USD notes that are coming due in July 2022. As a secondary source of liquidity, the company reported RMB3,306 million's undrawn bank facilities at end-2021. We believe Huijing's liquidity will remain tight in the next 12 months, and successful access to its bank facilities is critical for Huijing to maintain its liquidity.

Rating Sensitivities

We would consider downgrading Huijing's rating if (1) it were to aggressively expand and replenish its land bank, which would 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 successfully diversify into other regions, (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 a property developer based in Dongguan city of Guangdong province, focusing on residential properties development. The company also develops integrated property projects that combine residential properties with commercial properties (e.g., hotels, offices). In addition, Huijing develops properties promoting specific industries encouraged by local government authorities, including "tourism-healthy living" projects and innovative technologies industry property projects.

Huijing was established by Mr. Lun Ruixiang, the current chairman of Huijing, in Dongguan, Guangdong province in 2004. It has been listed on the Stock Exchange of Hong Kong since January 2020. (Stock code: 9968.HK)

Wui Ying Holdings Limited directly held the company with approximately 84.15% of the outstanding shares at end-2021. Wui Ying Holdings Limited is wholly owned by Mr. Lun Ruixiang. Ms. Chan Hau Wan, the spouse of Mr. Lun Ruixiang owns c.0.90% of Huijing's shares and is the second-largest shareholder.

Exhibit 1: Huijing's Shareholding Structure at end-2021

Shareholder	Percentage
Wui Ying Holdings Limited (100% owned by Mr. Lun Ruixiang)	84.15%
Ms. Chan Hau Wa (Spouse of Mr. Lun Ruixiang)	0.90%
Mr. Lun Zhao Ming (A relative of Mr. Lun Ruixiang)	0.11%
Others	14.84%
Total	**100.0%**

Source: Huijing

Key Assumptions

- Contracted sales growth: -10% to 5% for 2022-2024
- Contracted average selling price growth: -5% to 5% for 2022-2024
- Total land acquisition expenditures: RMB800 to 1,800 million for 2022-2024
- Total revenue: RMB5.1 to 5.5 billion for 2022-2024

Key Financial Metrics

2020A-2024F	Debt/EBITDA	EBITDA/Interest	Debt/Capitalization	Quick Ratio
Weighted Average	4.8x	2.7x	54.6%	0.7x

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

Full List of Issuance Ratings

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

- USD138 million 12.5% senior unsecured notes due 2022 affirmed at 'B+'

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