聯合評級國際
Lianhe Ratings Global

Press Release
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Lianhe Global has assigned 'BBB' global scale Long-term Issuer and Issuance Credit Ratings to Ping An Real Estate Company Ltd. and its USD notes; the Issuer Rating Outlook is stable

HONG KONG, 22 January 2024 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned 'BBB' global scale Long-term Issuer Credit Rating to Ping An Real Estate Company Ltd. ("PARE" or "the company"). The Outlook is Stable.

At the same time, Lianhe global has assigned 'BBB' global scale Long-term Issuance Credit Ratings to senior unsecured USD Notes ("the USD notes") issued by PARE's wholly-owned subsidiaries, Pingan Real Estate Capital Limited and Fuqing Investment Management Limited. PARE shows its strong willingness to support its subsidiaries in meeting their debt obligations by offering the keepwell deed and liquidity support undertaking. A full list of assigned issuance ratings is included in this press release.

The Issuer Rating reflects the likely strong support PARE would receive from its parent Ping An Insurance (Group) Company of China, Ltd. ("PAI Group") to ensure its viability, considering PARE's strategic role as the group's key asset management arm, high integration and linkage. PARE's rating is constrained by its pressured investment return and liquidity as well as high asset concentration and potential impairment amid the property market downturn.

The Stable Outlook reflects our expectation that PARE would maintain its strategic importance in PAI Group, while PAI Group will continue to support PARE's stable operation.

Key Rating Rationales

A Key Asset Management Platform under PAI Group: PARE primarily provides property related asset investment and management services, mainly to members of PAI Group and some external clients. It plays a significant role in facilitating PAI Group's real estate investments which are suitable for the long-term nature of insurance funds. PARE mainly invests in commercial properties such as office buildings and commercial complexes. It usually participates in these projects at their early stages and subsequently sells them to members of PAI Group.

PAI Group's Controlling Ownership and High Integration: PAI group indirectly owns 99.62% of PARE through its subsidiaries. PARE is highly integrated with PAI Group as the group is deeply involved in PARE's business strategies, and coordinates and manages its capital resources at the group level. A high proportion of counter parties of PARE's businesses and investment portfolios are PAI group and its subsidiaries. PAI Group regularly evaluates liquid assets and maturing debts, and uses tools including stress testing of cash flows to identify risks in advance.

Ongoing Financial Support: In addition to strategic alignment, PAI Group has provided capital to support PARE's business operations. PARE received capital injection of RMB2.5 billion in September 2022. Given the potential impact on its reputation and overall effectiveness, we believe PAI Group will continue to support PARE in various ways to ensure its stable operation.

Strong Insurance Franchise Underpins PAI Group's Supporting Capability: PAI Group is a leading integrated financial services group in China with total assets reaching RMB11.5 trillion at end-September 2023. PAI Group owns a strong market position in China's life and non-life sectors and has diversified into banking, asset management and other financial services.

PAI Group reported net profit of RMB108,111 million in 9M2023 on a consolidated basis. Life and health insurance segment was the largest earnings contributor, representing 57% of Ping An Group's 9M2023 net profit, followed by 36.7% from the banking business, and 9.3% from property and casualty insurance. At the parent company level, Ping An Group held free cash of RMB61,463 million as of end-1H2023, which were mainly contributed by dividend income from its subsidiaries.

High Concentration in Property-related Investments: PARE focuses on investments in the real estate sector, mainly through debt and equity investments with a high concentration, which together accounted for 96.8% of its investment portfolio at end-September 2023. Yet the underlying projects have better diversification, as they contained a large number of real estate projects across different types, such as office and commercial buildings, hotels, wellness projects, and rental housing, and locations (mainly in high tier cities of China). The long-lasting downturn of China's property market undermined PARE's investment performance. The annualized rates of return for its debt and equity investments dropped significantly in the past three years.

Prolonged Investment Cycle Pressures Debt Servicing Capability and Liquidity: PARE's total debt to the asset value of the investment portfolio ("LTV ratio") stayed at a moderate level of 46.2% at end-September 2023. However, the LTV ratio could be vulnerable to the potential impairment in invested real estate projects. In addition, owing to weakened investment returns, the company's interest and expense coverage ratios lowered to 1.1x in 9M2023 from 2.7x in 2020. In addition, PARE's debt and equity investments would be hard to monetize in a short period of time without incurring significant value reductions given China's current weak property market.

The company had unrestricted cash on hand of RMB8,123 million at end-September 2023, compared with its short-term debt of RMB25,233 million. However, the company still has a considerable unused credit line and financing channels, such as bond issuance, to support its debt repayment and business operations. Additionally, PARE can obtain financial support from PAI Group, and monetize its investment portfolio through selling to PAI Group or other third parties when necessary.

Rating Sensitivities

We would consider downgrading PARE's rating if (1) its LTV ratio rises to consistently above 60%, or (2) its debt servicing capability and liquidity significantly deteriorates, or (3) there is perceived weakening in support from PAI Group, particularly due to its reduced strategic importance in PAI Group and significant reduction of PAI Group's ownership of PARE, or (4) there is a downgrade in our internal credit assessment on PAI Group.

We would consider upgrading PARE's rating if (1) its LTV ratio is consistently at below 40% and interest and expense coverage at above 4.0x, and/or (2) there is a significant improvement in liquidity and diversification of its investment portfolio, and/or (3) there is strengthened support from PAI Group, and/or (4) there is an upgrade in our internal credit assessment on PAI Group.

Any rating action on PARE's rating would result in a similar rating action the USD notes.

Full List of Issuance Rating

-USD300 million 2.75% senior unsecured notes due 2024 assigned at 'BBB'
-USD500 million 3.25% senior unsecured notes due 2025 assigned at 'BBB'
-USD300 million 3.45% senior unsecured notes due 2026 assigned at 'BBB'

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, 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 methodologies used in this PARE's rating are *Lianhe Global's Investment Holdings and Conglomerates Rating Criteria* published on 30 November 2023, which can be found at the website 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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