Ping An Real Estate Company Ltd.

Initial Issuer Report

Summary	
Issuer Rating	BBB
Outlook	Stable
Location	China
Industry	Investment Holdings
Date	7 June 2024

Lianhe Ratings Global Limited ("Lianhe Global") has assigned 'BBB' global scale Long-term Issuer Credit Rating to Ping An Real Estate Company Ltd. ("PARE"). The Outlook is Stable.

Summary

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.

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 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.

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Applicable Criteria

Investment Holdings and Conglomerates Rating Criteria (30 November 2023)

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.

PAI Group reported net profit of RMB108,111 million with an annualized ROA of about 1.3% 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, including bonds, bank deposits and cash equivalents, which were mainly contributed by dividend income from its subsidiaries.

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

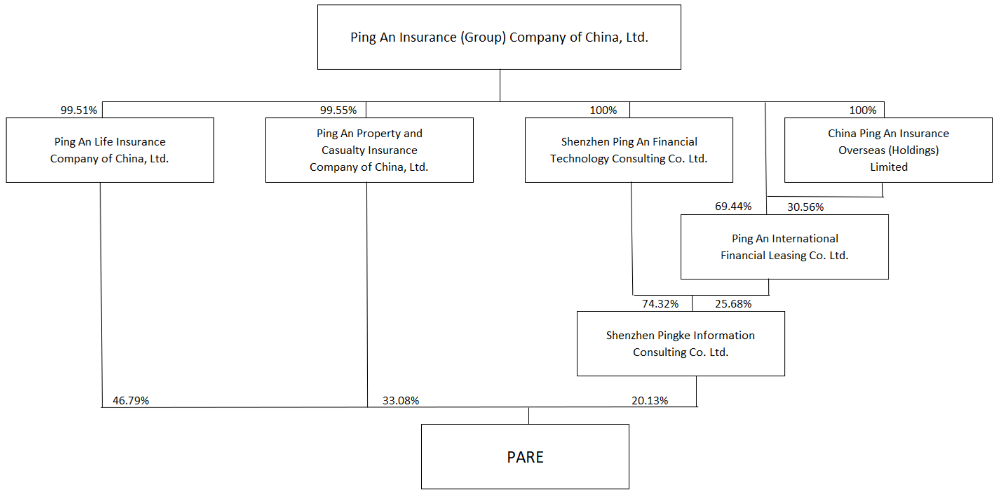
We would consider downgrading PARE's rating if (1) its LTV ratio rises to consistently above 60%, or (2) its debt servicing capability and liquidity significantly deteriorates, or (3) there is perceived weakening in support from PAI Group, particularly due to its reduced strategic importance in PAI Group 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.

Company Profile

Ownership

PARE, formerly known as Shenzhen Ping An Property Investment Management Co., Ltd., was established in 1995 with an initial registered capital of RMB200 million. By the end of end-June 2023, the company's paid-in capital had increased to RMB21.16 billion, and the equity structure is as shown in the table below, with PAI Group remaining the ultimate controlling shareholder.



Source: The company and Lianhe Global

Governance and Management

PARE receives substantial support and growth by leveraging PAI Group's financial capabilities and esteemed brand name. PAI Group wields decision-making authority and oversight over PARE, playing a pivotal role in critical aspects like management appointments, strategic development decisions, investment plans, and the supervision of major funding choices.

Following PAI Group's directive, PARE has actively implemented standard corporate governance structures and enhanced its risk management, internal control, compliance, and internal audit frameworks, including the establishment of the risk management system and internal control mechanisms, incorporating key components such as a board of directors, management team, and a dedicated risk control department. This comprehensive approach enables PARE to implement and enforce risk management policies, conducting assessments to identify, evaluate, and effectively manage risks across its business operations, spanning pre-investment, investment, and post-investment phases. In addition, PARE ensures a thorough evaluation of potential projects. Once a project is underway, it maintains a proactive stance by closely monitoring the construction status and capital investment progress, thereby exercising vigilant oversight throughout the project lifecycle.

Operating at the Group level, PAI Group takes charge of coordinating and managing liquidity and capital resources, including cash settlement, cash flow, funding, and overall capital management. PARE's operational, investing, and financing activities align with PAI Group's liquidity and capital management requirements, with centralized fund allocation and day-to-day cash flow monitoring. Capital distribution by PAI Group ensures that PARE's key financial ratios complies with related requirements, supports core businesses, and fosters the incubation of new profit drivers, innovative ventures, ultimately contributing to the sustainable growth of both entities. Furthermore, a portion of PAI Group's undistributed profit is earmarked to fund PARE if needed, sustaining its business development, ensuring stable shareholder returns, and maintaining a reasonable solvency margin.

Business and Investment Profiles

PARE is a key asset management platform under PAI Group, a leading integrated financial services group in China. PARE plays a significant role in facilitating and allocating PAI Group's investments in real estate sector.

PARE provides property related asset investment and management services, including real estate management and operation, project investment consultant, project construction management etc., mainly to members of PAI Group and some external clients. The company is responsible for the management and operation of an array of landmark buildings owned by members of PAI Group, such as Shenzhen Ping An Financial Centre in Shenzhen. In addition, PARE invests in commercial properties such as office buildings and commercial complexes for operational and rental incomes. It usually participates in these projects at their early stages and subsequently sells them to members of PAI Group.

Despite some decline amid China's property market downturn, we believe PAI group will maintain a certain level of real estate investments (2022: c. RMB204.6 billion, accounting for 4.7% of investment portfolio of insurance funds), especially in commercial and office properties generating sustained rental incomes, which are suitable for long-term nature of insurance funds. Therefore, we expect the strong linkage and business alignment with PAI Group to provide PARE a visible source of revenues, and ensure PARE's strategic importance in PAI Group.

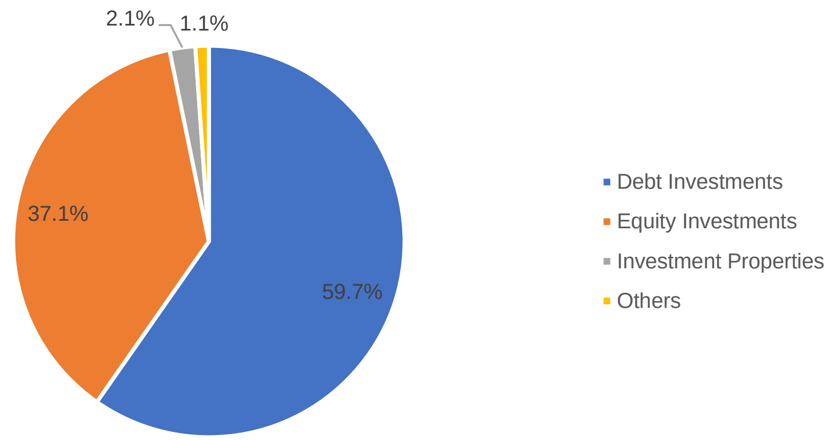
PARE's Revenue Breakdown by Segment

(RMB million)	2018		2019		2020	
Segment	Revenue	%	Revenue	%	Revenue	%
Asset Management	**1,439**	**77.1%**	**1,932**	**87.9%**	**3,052**	**91.2%**
-Project Investment Consultant	975	52.2%	1,253	57.0%	1,918	57.3%
-Property Management and Opertaion	176	9.4%	195	8.9%	192	5.7%
Real Estate Investment	**428**	**22.9%**	**266**	**12.1%**	**296**	**8.8%**
Total	**1,867**	**100.0%**	**2,198**	**100.0%**	**3,348**	**100.0%**
Gross Margin		85.9%		90.1%		92.8%
(RMB million)	**2021**		**2022**		**9M2023**	
Segment	**Revenue**	**%**	**Revenue**	**%**	**Revenue**	**%**
Asset Management	**3,491**	**89.9%**	**1,657**	**76.9%**	**540**	**75.3%**
-Project Investment Consultant	1,832	47.2%	513	23.8%	168	23.4%
-Property Management and Opertaion	123	3.2%	249	11.6%	121	16.9%
Real Estate Investment	**394**	**10.1%**	**498**	**23.1%**	**177**	**24.7%**
Total	**3,885**	**100.0%**	**2,155**	**100.0%**	**717**	**100.0%**
Gross Margin		91.8%		80.1%		74.2%

Source: PARE and Lianhe Global's Calculation

PARE's revenue has showed a decreasing trend since 2021, owing to China's challenging property market conditions. In the past three years, as the property investment and development activities contracted significantly in China, PARE's revenue from project investment consultant services, which included project screening, planning, researching, and seeking for government approval, etc., dropped substantially to RMB513 million in 2022 from RMB1,832 million in 2021. It further shrank to RMB168 million in the first nine months of 2023. In contrast, PARE's property management and operation service generated a higher revenue in 2022 due to the increase in the number of projects under management. We expect this business to generate a relatively stable revenue for PARE in the coming years. In addition, although it was decreasing, PARE's gross margin, remained at a relatively high level of 74.2% in the first nine months of 2023, and a high percentage of revenue was come from members of PAI Group.

PARE's Investment Portfolio Breakdown
(Total Investment:c. RMB91.0 billion at end-September 2023)



Source: PARE and Lianhe Global's Calculation

PARE focuses on investments in real estate sector, mainly through debt and equity investments, which amount to RMB54.3 billion and 33.7 billion at end-September 2023, respectively. They together accounted for 96.8% of PARE's investment portfolio. Yet the underlying projects have a 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 the PARE's investment performance. The rate of return for its debt and equity investments dropped significantly in the past three years. China's the property market remained weak in the first nine months of 2023, demonstrated by the decreasing profit margin for most property developers, which could extend PARE's investment payback period. We expect the downward trend of PARE's investment returns to continue in the next 12-18 months.

PARE's Long-term Equity and Debt Investments' Performance

(RMB million)		2018	2019	2020	2021	2022	9M2023
Equity Investments	Book Value	10,342	20,147	25,109	36,232	35,117	33,721
	Share of Profit for Using Equity Method	3,153	5,814	3,444	952	439	4

	Gains on Disposal	534	440	59	1,839	823	-99
	Rate of Return	35.6%	41.0%	15.5%	9.1%	3.5%	-0.4%*
Debt Investments	Book Value	37,422	34,978	38,560	32,956	48,927	54,310
	Interest Income	1,525	1,941	2,575	2,848	1,748	1,851
	Rate of Return	4.1%	5.4%	7.0%	8.0%	4.3%	4.8%*

Source: PARE and Lianhe Global's calculations
**Annualized rate of return*

Financial Structure and Flexibility

PARE's Key Financial Metrics

RMB million	2018	2019	2020	2021	2022	2023.9
Total Asset	77,514	86,461	105,430	110,735	109,651	107,509
-Liquidity Assets	15,825	9,570	17,927	21,727	12,308	6,046
Total Debt	43,743	41,291	53,482	52,708	48,765	46,524
-Short Term Debts	24,066	11,821	15,474	17,609	17,524	25,233
Value of the Investment Portfolio	60,861	62,836	69,073	72,935	87,703	90,969
Operational and Investment Incomes	7,216	10,475	9,338	9,345	4,762	2,407
Interest and Expenses	3,266	3,694	3,470	3,210	3,131	2,104
Net Profit	3,398	6,825	5,645	4,592	897	160
LTV Ratio (%)	66.2	56.7	69.4	59.9	48.1	46.2
Interest and Expense Coverage (x)	2.2	2.8	2.7	2.9	1.5	1.1
Debt coverage (x)	6.1	3.9	5.7	5.6	10.2	14.5
Net profit to average equity (%)	13.8	22.8	15.5	12.2	2.0	0.5
Short-term debt / total debt (%)	55.0	28.6	28.9	33.4	35.9	54.2
Liquid assets to short-term debt (and other payables) (%)	51.7	42.7	66.2	69.7	38.2	14.9

Source: PARE and Lianhe Global's calculations

PARE's total debt (including perpetual bonds) reached the peak at end-2020 and started to reduce, while PARE continued to expand its investment portfolio. As a result, the company LTV ratio (total debt over value of investment portfolio) was lowered to 46.2% at end-September 2023 from 69.4% at end-2020. However, PARE's exposure in real estate sector may have significant impairment loss should their underlying projects face difficulties. The LTV ratio could be substantially higher in stressed scenarios.

In addition, owing to the significant drop in operational and investment incomes during the prolonged property market downturn in China, the company debt servicing capability, as measured by total debt over incomes, surged to 14.5x (annualized) in the first nine-months of 2023 from 5.7x in 2020. Its interest and expense coverage ratios also lowered to 1.1x (annualized) from 2.7x over the same period.

PARE's liquidity is tight. The company had unrestricted cash on hand of RMB5.5 billion at end-September 2023 (down from RMB20.2 billion at end-2021), compared with its short-term debt of RMB25.2 billion. In addition, we believe that PARE's debt and equity investments are largely illiquid, which may be hard to monetize in a short period of time without incurring a significant decline in value given current challenging property market in China.

PARE has access to various financing channels, including bank borrowings, onshore and offshore bond issuances, to support its debt repayments and business operations. At end-March 2023, the company had unused credit lines amounting to RMB85.3 billion. Moreover, PARE had invested in RMB12.3 billion in commercial properties, which are planned to transfer to members of PAI Group later, at end-June 2023. PARE could sell these projects to members of PAI Group ahead of schedule when necessary.

External Support

Strong External Support from PAI Group

PARE would likely receive strong support from its PAI Group to ensure its viability, considering PARE's strategic role as the group's major asset management arm focusing on property investment, strong integration and linkage, the potential impact on PAI Group's reputation and overall effectiveness.

PAI Group's Ownership and Governance

PAI group holds vast majority shares of PARE through its core members Ping An Life (46.79%) and Ping An P&C (33.08%), and Ping Ke. PAI Group wields decision-making authority and oversight over PARE, playing a pivotal role in critical aspects like management appointments, strategic development decisions, investment plans, and the supervision of major funding choices.

PAI Group's Ability to Provide Support

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.

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'

Appendix I: PARE's Rating Factors

Rating Factors	Weight	Initial Rating
I. Investment Strategy and Risk Appetite	15.0%	bb
II. Governance and Management	5.0%	bbb
III. Portfolio Quality and Diversity[1]	40.0%	bb
IV. Financial Structure and Flexibility[2]	40.0%	bb-
Stand-Alone Creditworthiness		bb
External Support		Strong
Issuer Credit Rating		BBB

Source: Lianhe Global

Notes:
1. Contains sub-factors of Asset Concentration, Geographic Diversity, Business Diversity, Asset Quality and Valuation
2. Contains sub-factors of Financial Policy, Debt Servicing Capability, Liquidity and Funding

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