

Chinese Property Developers Under the Spotlight of New Financing Policies

China Lianhe's Viewpoint on the Chinese Property Developer Industry

- **Chinese Property Developers Face a Wall of Maturing Debt in 2018-2020**
Chinese property developers have been relying on short-term debt to finance their operating activities, we expect this trend to continue for the rest of 2018 and 2019. At the same time, we witness an increased activity in the puttable bond redemption which increase pressure on the issuers' financing.
- **Debt Coverage Ratio Remains Low**
Industrywide leverage ratio remains elevated and continues to grow leaving little headroom for further business expansion of the industry development. Debt coverage ratio has been hovering at the low-end of the credit spectrum since June 2017.
- **Cash Collection from Contracted Sales Grow Important as Financing Channel Tightens**
Under the spectre of tightened regulations to combat shadow banking and excessive leveraging, financing channels are narrowing which force many Chinese property developers to rely on cash collection from contracted sales to finance their operating activities. Since July 2018, we have witnessed a gradual improvement in financing channels but we do not expect any policy stance change on a large scale.
- **Aggregate Sales to Topple Last Year, City Tier Polarization Becomes More Pronounced**
As the pace of urban renewal decelerates, housing demand in tier 3 & 4 cities may also follow suit. We expect the aggregate growth rate for housing to remains stable in the short-term but decelerate in the medium-term. We also expect polarization among city tiers to grow further and become more pronounced.
- **Industry Outlook**
Chinese property developers are not only facing a wall of maturing debt, but also a tightened financing environment. We expect their 2018 ratios of fiscal year-end cash balance over short-term debt to drop substantially while their other key financial coverages to worsen. The key determinant would likely rest on their cash collections from contracted sales.

For more details, please refer to the Chinese report:

《融资新政下的房地产债务专题研究》

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