

Lianhe Global has assigned ‘BB+’ global scale Long-term Issuer and Issuance Credit Rating to E-House (China) Enterprise Holdings Limited and its proposed USD notes; the Issuer Rating’s Outlook is Stable

HONG KONG, 8 October 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB+’ global scale Long-term Issuer Credit Rating to E-House (China) Enterprise Holdings Limited (“E-House”). The Outlook is Stable.

At the same time, Lianhe Global has assigned ‘BB+’ global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD notes (“the USD notes”) to be issued by E-House.

E-House intends to use the net proceeds from this offering for refinancing its existing indebtedness and for general corporate purposes.

Key Rating Rationales

The USD notes are rated at the same level as E-House’s global scale Long-term Issuer Credit Rating of ‘BB+’ as they constitute E-House’s senior and unsecured obligations. E-House’s obligations for the USD notes will rank at least pari passu with all its other present and future unsecured and unsubordinated obligations.

The Issuer Rating reflects E-House’s strong property pipelines of its real estate agency services, close alliance with leading Chinese property developers as its strategic shareholders, and its relatively low financial leverage. The Issuer Rating is constrained by its limited market share in a fragmented real estate agency market and a long cash conversion cycle.

The Stable Outlook of E-House’s rating reflects our expectation that E-House would maintain a sustainable real estate agency revenue growth while revenue from its brokerage network services would enjoy a rapid growth upon the gradual establishment of this platform and intake of new channel companies to strengthen this segment. We also expect that E-House’s currently low financial leverage would increase while still at a low level as the expansion of its business is likely to incur more debt in the following 12 to 24 months.

Partnerships with Leading Chinese Property Developers Lead to Strong Pipelines:

E-House has established partnerships with many leading Chinese property developers to provide real estate agency services in the primary market. E-House’s city coverage expanded to 204 and the area of signed and unsold reserve projects reached 282.8 million square meters which placed it among the top industry players at end-June 2019.

Strong Potential Growth from Real Estate Brokerage Network Services: E-House has launched its real estate brokerage network services under the “Fangyou” brand to integrate small and medium-sized real estate brokerage firms in China since 2016. E-House utilizes its

network to source buyers and provides affiliated brokerage firms with information to help them to facilitate real estate transactions. E-House reported a revenue of RMB1,310 million (or 30.3% of total revenue) from this segment for the first six months of 2019 which represented an increase of 681% from the same period last year.

Low but Increasing Financial Leverage: As an asset-light company, E-House did not have any large capital expenditure prior to 2019. It mainly borrowed short-term debt to support its working capital needs. As a result, its financial leverage was low as measured by a debt/EBITDA ratio at below 1.0x from 2016 to 2018. However, we expect that E-House's financial leverage will increase in the next 12 to 24 months as it expands its brokerage network services and real estate agency services, which will require more capital investments and incur new borrowings.

Long Cash Conversion Cycle Puts Pressure on Liquidity: E-House has a long cash conversion cycle which results from long account receivables but short account payables days. E-House usually offers property developers 2 to 3 months of grace period on commission payments. Meanwhile, E-House usually pays its affiliated brokerage firms' share of commissions in advance (before it receives the commissions in full from property developers). The relatively long days of account receivables and the short days of account payables erode E-House's operating cash flow. Moreover, according to the agreements with some property developers, E-House has to place earnest deposits with them in exchange for conducting real estate agency services, in some cases. These deposits are refundable once E-House has discharged its duties under the agreements. These deposits accounted for RMB1,722 million of cash outflow for E-House, which put pressure on its short-term operating cash flow for 2018. As E-House's real estate brokerage network services business grows, we expect E-House's operating cash flow will continue to be under pressure in the following 12-24 months.

Rating Sensitivities

Any rating action on E-House's rating would result in a similar rating action on the USD notes.

We would consider downgrading E-House's rating if (1) its operating performance were to deteriorate as measured by an EBITDA margin to decrease to 15% or (2) its leverage were to increase as measured by a debt/EBITDA ratio to increase to over 4.0x.

We would consider upgrading E-House's rating if (1) its operating efficiency were to exhibit a remarkable improvement such that it could maintain a sustainable positive operating cash flow and (2) it is able to gain market shares to strengthen its profitability as measured by an EBITDA margin to increase to over 35%.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local government financing vehicles, 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 methodology used in this E-House 's rating is Lianhe Global's General Corporate Criteria published on 16 July 2018, 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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