

**Lianhe Global has assigned ‘BB-’ global scale Long-term Issuer and Issuance Credit Rating to Radiance Group Co., Ltd. and its proposed USD notes; the Issuer Rating’s Outlook is Positive**

HONG KONG, 21 October 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB-’ global scale Long-term Issuer Credit Rating to Radiance Group Co., Ltd. (“Radiance”). The Outlook is Positive.

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 Radiance Capital Investments Limited and guaranteed by Radiance.

Radiance intends to use the net proceeds from this offering for refinancing its existing indebtedness.

**Key Rating Rationales**

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

The Issuer Rating reflects Radiance’s recognized market position in China’s property market, higher-than-peer profitability which is secured by its competitive land acquisition cost and well-managed operating expenses on its property projects. However, its rating is constrained by its elevated financial leverage arising from its accelerated land acquisition paces in pursuit of expanding operating scale in the previous years.

The Positive Outlook reflects our expectation that Radiance would 1) maintain a no-lower-than 30% gross margin, 2) gradually decrease its financial leverage by disciplined controlling of its land acquisition expenditure and accelerating its revenue delivery pace, and 3) maintain a sustainable contracted sales growth in the next 12 to 24 months.

***Low Land Costs Underpin High-than-peer Profitability:*** The prudent control of land costs and better utilization of acquisition channels underpin Radiance’s high-than-peer profitability, which was manifested by its over 30% gross margin in 2017 and 2018. Radiance owns a competitive advantage over its peers on acquiring low-cost land. The low land acquisition costs are due to Radiance’s prudent control of its overall land costs before acquisition. Moreover, Radiance’s competitive land costs are attributed to its foresight in planning its land bank layout in some strategic cities with huge property price growth potential, such as Xi’an, Chongqing, and Wuhan.

**Expanding and Diversified Land Bank Portfolio:** Radiance's land bank is diversified. Its projects are distributed in 30 cities over 6 regions of China, which include Pan Bohai Rim, the Yangtze River Delta, Eastern, North Western, Southern and South Western Region. Radiance has been expanding its land bank portfolio since 2017. Radiance's saleable land bank value reached RMB284.7 billion at end-May 2019, which was sufficient to support its contracted sales for the next 2.5 to 3.5 years.

**Stable Operating Performance and Prudent Cost Management:** Radiance has applied a standardized operating model for its property development projects that helps Radiance control the quality and the overall operating costs. In addition to the standardized approach, Radiance also adopts a quick turnover strategy to maintain a relatively high operating efficiency. The short cash conversion cycle and high cash collection rate enable Radiance to bring in more cash to support its expansion and operating needs.

**High Financial Leverage Constrains Credit Profile:** Radiance has been expanding its operating scale through debt-funded acquisitions since 2017. Its debt level correspondingly increased with its asset growth. Moreover, as Radiance normally took 1.5 to 2.5 years to deliver its property projects and the relatively longer tenor has made its revenue recognition pace lag behind the debt increase. As a result, its financial leverage as measured by debt/capitalization surged to 74.6% in 2018 from 63.7% in 2016.

### **Rating Sensitivities**

Any rating action on Radiance's rating would result in a similar rating action on the USD Notes.

We would consider downgrading Radiance's rating if it were to aggressively replenish its land bank which would result in an increase of its financial leverage as measured by an EBITDA interest coverage ratio to decrease to 1.5x or its operating performance were to deteriorate as measured by a gross margin to decrease to below 28% consistently.

We would consider upgrading Radiance's rating if it were to lower its financial leverage as measured by a debt/capitalization ratio to below 70% and improve profitability as measured by a gross margin at over 33% consistently.

### **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 Radiance's rating is Lianhe Global's General Corporate Rating Criteria published on 16 July 2018 which can be found at the website [www.lhratingsglobal.com](http://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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