

Lianhe Global has assigned ‘BB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Fujian Yango Group Co., Ltd.

HONG KONG, 24 June 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB-’ global scale Long-term Issuer Credit Rating to Fujian Yango Group Co., Ltd. (“Fujian Yango”). The Outlook is Stable.

The Issuer Rating reflects Fujian Yango’s leading market position and brand recognition in the Chinese property market operated by its main subsidiary Yango Group Company Limited (“Yango”, ‘BB-/Stable), high financial leverage and moderately weak profitability. The rating also considers Fujian Yango’s standalone moderate liquidity with significant indebtedness.

The Issuer Rating’s Stable Outlook reflects our expectation that Fujian Yango would continue maintaining a controlling stake in Yango, which would acquire new land in a measured manner, and would be prudent in non-property acquisitions. This will help moderately improve its financial leverage and EBITDA interest coverage in the following 12 to 24 months.

Key Rating Rationales

Yango the Main Earnings Contributor: Fujian Yango was engaged in property development as the largest shareholder of Yango with 34.3% ownership at end-1Q19 or 44.5% including the shares held by Fujian Kangtian Industry Group Co., Ltd. acting in concert with Fujian Yango. Yango contributed over 50% revenue and 70% net profit to Fujian Yango between 2015 and 2018, and constituted over 80% of Fujian Yango’s total assets at end-2018. Fujian Yango has consolidated Yango into its financial statements and appointed 5 directors (including Mr. Lin Tengjiao) out of a total of 11 seats (including 4 independent directors) on Yango’s Board of Directors.

Sizable and Diversified Land Bank Supports Future Growth: Yango builds its land bank portfolio by focusing on Greater Fujian, the Yangtze River Delta, Beijing, Tianjin and Hebei Region, and the Pearl River Delta, while selectively entering into the other provincial and satellite cities in central and western China. Yango expanded its land bank by almost fourfold to 44.18 million square meters (across 59 cities in China) at end-2018 from 13.07 million square meters at end-2015. The sizable and diversified land bank helped boost its contracted sales growth from 2016 to 2018 with an annual growth rate of more than 60% and will be sufficient to support its contracted sales for the next 3.5 years. Yango’s total contracted sales were RMB162.9 billion in 2018, placing it among the top 15 property developers in China.

High Leverage Key Constraint: Fujian Yango’s consolidated financial leverage (gross debt to capitalisation) was still high at 74.4% at end-2018 mainly due to Yango’s aggressive debt-funded land acquisition and other business expansions. Its end-2018 reported debt of RMB133.1 billion included RMB57.6 billion short-term debt and RMB75.5 billion long-term debt. The large debt burden has resulted in a low EBITDA interest coverage of 0.9x in 2018.

Yango has decelerated its expansion and reined in its debt-funded land acquisition since 2018. Meanwhile, Yango has enhanced its operating efficiency to shorten the cash collection cycle of property development projects. We expect this to moderately improve Fujian Yango's overall financial leverage and interest coverage.

Other Businesses Add Diversity but Small Contribution: Fujian Yango has ventured into the other businesses to expand its business scope and diversity. The commodity trading segment accounted for around 20%-30% of Fujian Yango's total revenue between 2015 and 2018, with very low gross margin of below 1%. Fujian Yango acquired shares of Fujian Longking Co., Ltd. ("Longking") to enter into the environmental protection industry in 2017, and had 25.04% shares of Longking as of end-2018. Longking has a leading position in manufacturing air pollution protection equipment and contributed about 10% of Fujian Yango's total revenue in 2018, while Fujian Yango's education segment accounted for less than 1%. Fujian Yango has also invested in some financial institutions, including a 1.08% stake in Industrial Bank Co., Ltd. and a 3.64% stake in Jiangxi Bank Co., Ltd. at end-2018.

Standalone Moderate Liquidity: Fujian Yango has significantly relied on debt financing to support its equity investment and operation and has moderate liquidity, with the cash balance of RM3.1 billion versus the short-term debt of RMB3.9 billion (including current portion of long-term debt) as of end-1Q 2019. Fujian Yango has been able to refinance by using its credit facilities, including bank loans and onshore and offshore bonds. While Fujian Yango has pledged most of its Yango shares, its non-pledged equity portfolio can provide itself flexibility in managing its liquidity.

Rating Sensitivities

We would consider downgrading Fujian Yango's rating if it were to pursue aggressive business expansions (such as aggressive replenishment of Yango's land bank) which results in an increase in its financial leverage as measured by its EBITDA interest coverage consistently below 0.8x or a gross debt to capitalisation ratio at above 80%, or its operating performance were to deteriorate such that either its property contracted sales or cash flow from operating activities experience a material decline.

We would consider upgrading Fujian Yango's rating if it were to lower its financial leverage as measured by a debt to capitalisation ratio at below 60% and improve profitability as measured by gross margin at over 25% consistently.

In addition, we would consider reassessing Fujian Yango's credit profile should Fujian Yango significantly reduce its shareholdings in Yango or have material expansion into the other businesses.

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 Fujian Yango'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.

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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