Lianhe Global has affirmed 'B+' global scale Long-term Issuer and Issuance Credit Rating to Jingrui Holdings Limited; Issuer Rating Outlook Stable

HONG KONG, 29 May 2020 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has affirmed 'B+' global scale Long-term Issuer Credit Rating to Jingrui Holdings Limited (01862.HK) ("Jingrui" or "the company"). The Outlook is Stable.

Lianhe Global has also affirmed 'B+' global scale Long-term Issuance Credit Rating to the senior unsecured USD notes issued by Jingrui at the same time. A full list of affirmed issuance ratings is included in this press release.

The Issuer Rating reflects Jingrui's operating track record and continuous expansion in tier 1 and 2 cities, especially in the Yangtze River Delta ("YRD"). However, Jingrui's rating is constrained by its small operating scale, weak competitiveness on land acquisition, moderately high financial leverage and lower-than-peer gross margin.

The Stable Outlook reflects our expectation that Jingrui will replenish its land bank portfolio and expand its operating scale in tier 1 and 2 cities while managing its debt growth cautiously and improving its gross margin and credit profiles commensurate with the 'B' credit rating category.

Key Rating Rationales

Small Operating Scale with a Refocus on Tier 1 and 2 Cities: Jingrui's operating scale is small and its total land bank by gross floor area ("GFA") and contracted sales were only 4.7 million square meters and RMB25.2 billion respectively, at end-2019 which remained at a similar level to that of 2018. In 2019, Jingrui was ranked 84th in terms of contracted sales among the Chinese property developers according to CRIC Information Centre's statistics.

Jingrui has changed its operating strategy to refocus on tier 1 and 2 cities since 2016. It massively destocked its projects in tier 3 cities by lowering its contracted selling prices and accelerating its project execution pace. These measures effectively resulted in a low exposure in tier 3 cities at 5.2% at end-2019.

Jingrui has saleable resources of around RMB35.5 billion scheduled to be launched in 2020. We expect the company to maintain sustainable contracted sales in the next 12-24 months, given the major saleable resources in higher tier cities with strong economic growth potential.

Volatile but Improving Operating Performance: Jingrui's operating performance was volatile with its gross margin fluctuating significantly during 2015 to 2017 when the company executed turnaround plan by cutting its selling prices and destocking its inventory in tier 3 cities. The volatile operating margin was mainly attributed to Jingrui's price reduction strategy during

2015 to 2017.

In 2019, the company recorded a gross margin of 20.2%, a slight decrease compared with that of 2018, largely due to the increase in land and construction costs. We expect the company to maintain a stable gross margin of c. 21-23% in the next 12-24 months as the unrecognized contracted sales carry a similar gross margin mix. We also expect Jingrui to have a moderate contracted sales amount similar to that of 2019, while its revenue will likely increase due to more expected project deliveries in 2020.

Long Operating Track Record in the Yangtze River Delta but Relatively Weak Competitiveness in the Market: Based in Shanghai, Jingrui owned a long operating track record in the YRD, especially in Shanghai. Since its establishment in the early 1990s, Jingrui has been operating its property development business in 19 cities across China, including 15 core cities in the YRD. However, due to its small market share, Jingrui's competitiveness in acquiring low-cost land, especially in tier 1 and 2 cities, is relatively weak. Its ability in acquiring low-cost land had gradually improved as witnessed by its relatively lower land price per square meter in 2019 (2019: RMB 6,602/square meter verse 2018: RMB 9,130/square meter). Jingrui has been strengthening its competitiveness by cooperating with the other developers in acquiring quality new land. The percentage of its attributable land bank GFA was approximately 45.8% at end-2019. We believe that the fierce competition in the YRD, which is Jingrui's core market, will likely exert pressures on Jingrui's land acquisition cost and profitability.

Moderately High Financial Leverage to Improve: Jingrui's financial leverage was moderately high as measured by its debt/capitalization ratio of around 67% at end-2019. The company slowed down its land acquisitions and only acquired ten pieces of land with total investment of RMB8.58 billion in 2019. The investment amount of new land acquisition was RMB15.1 billion in 2018. Jingrui has been reporting a cash collection rate above 90% since 2015, and it plans to use c. 40% of the net proceeds from the contracted sales to fund its land acquisition in the next 12-24 months. We expect Jingrui's financial leverage to improve slightly in the next 12-24 months to c. 65% level as the company slows down its debt-funded land replenishment pace.

Meanwhile, Jingrui's liquidity is adequate as its cash to short term debt ratio stayed at c.1.5x at end-2019.

Rating Sensitivities

We would consider downgrading Jingrui's rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 70% or a decrease in its EBITDA interest coverage to below 1.0x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Jingrui's rating if it were to (1) expand its operating scale, and/or (2) maintain its financial leverage as measured by debt/capitalization at below 60% and EBITDA interest coverage at above 2.0x consistently.

Any rating action on Jingrui's rating would result in a similar rating action on the USD notes.

Full List of Issuance Ratings

- USD200 million 10.875% senior unsecured notes due 2021 affirmed at 'B+'
- USD260 million 12% senior unsecured notes due 2022 affirmed at 'B+'

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 Jingrui'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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