

Lianhe Global has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Logan Property Holdings Company Limited to ‘BBB-’ from ‘BB+’; Issuer Rating Outlook Stable

HONG KONG, 15 April 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has upgraded the global scale Long-term Issuer Credit Rating of Logan Property Holdings Company Limited (03380.HK) (“Logan” or “the company”) to ‘BBB-’ from ‘BB+’. The Outlook is Stable.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Logan to ‘BBB-’ from ‘BB+’ at the same time. A full list of upgraded issuance ratings is included in this press release.

The Issuer Rating upgrade to ‘BBB-’ reflects Logan’s established market position, track record of prudent operating performance, and above-average profitability in the past years. The rating also considers our assessment of Logan’s position in the credit polarization in the Chinese property development industry exacerbated by the recent COVID-19 outbreak.

The Stable Outlook reflects our expectation that Logan will continue expanding its franchise with a multi-pronged growth strategy, diversifying revenue source, and replicating the success in the Greater Bay Area (“GBA”) to a nationwide footprint by leveraging its experienced management team and systematic approach to property development.

Rating Rationale

Regional Homebuilder to Expand Nationwide: The Shenzhen-headquartered and Hong Kong-listed company has an ambitious medium-term plan to grow its regional operation into a national property developer powerhouse. Logan has expanded its land bank into populous metropolitan areas in the Southwest Region and the Yangtze River Delta from the GBA. Urban renewal projects will be an integral part of the company’s multi-pronged growth strategy, scheduled to start contributing about 20% of core earnings in the next three years.

At end-2019, urban renewal projects, with over 90% located in the GBA, represented about 36.8% of Logan’s total land bank by area. We expect the inclusion of urban renewal projects as a major profit growth engine as well as the company’s sizeable saleable resources to further enhance Logan’s financial resilience under headwinds.

Diversification Contains Performance Metrics Susceptibility: Logan will continue diversifying into various business segments. Non-property development businesses, including property leasing, primary land development, and construction and decoration contracts, contributed a sizeable portion of the company’s reportable segment profit in 2019, which helps mitigate industry-specific uncertainties such as the price-curbing regulatory measures imposed in higher-tier cities where Logan is most exposed to.

Financial Leverage Remains Stable: Logan's management is mindful of cost control and use of leverage while growing a national franchise and delivering the projects by the pre-set targets. In fact, Logan's financial leverage ratio, measured by the reported gross debt over capitalization, maintained at about 60% to 62% from 2017 to 2019. Its land bank of 58 million square meters at end-2019, including the urban renewal projects, was sufficient to support the company's growth target for the next three years. This allows a flexible headroom of land acquisition target. Aggressive land-banking through increasing leverage is hence unlikely, in our view.

At end-2019, the company had unrestricted cash of RMB 34.8 billion on hand which was sufficient to cover its debts of RMB 29.6 billion due within one year. The strengthened cash collection also helps provide the company with a stable source of funding to service its capital expenditure.

Pressured Profitability to Stay Above Average: We believe Logan's profitability may come under pressure as the operating costs and land-banking expenses increase along with its footprint expansion into new cities across China. The company posted a higher-than-peer profitability in the past years, exhibiting robust gross margins (excluding depreciation and amortization) in the range of 32% to 37% from 2017 to 2019. This was mainly attributed to the sizeable profit contribution from projects located in the GBA where the company secured quality low-cost land years ago. We believe the company would continue maintaining an above-peer gross margin and profitability in the next 12 to 24 months.

Rating Sensitivities

We would consider downgrading Logan's rating if it were to (1) aggressively replenish its land bank which would result 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 4.0x 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 Logan's rating if it were to (1) considerably increase its operating scale, and/or (2) maintain its financial leverage as measured by a debt/capitalization at below 50%, and an EBITDA interest coverage ratio at above 6.0x, consistently.

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

Full List of Issuance Ratings

- USD300 million 7.50% senior unsecured notes due 2022 upgraded to 'BBB-' from 'BB+'
- USD400 million 6.50% senior unsecured notes due 2023 upgraded to 'BBB-' from 'BB+'
- USD300 million 5.75% senior unsecured notes due 2025 upgraded to 'BBB-' from 'BB+'

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 Logan'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 Issuance Credit Rating is solicited at the request of the rated entity or a related third party.

Contact Information

Primary Analyst
Alex Kung
Senior Director
(852) 3462 9577
alex.kung@lhratingsglobal.com

Secondary Analyst
James Lee
Associate Director
(852) 3462 9587
james.lee@lhratingsglobal.com

Committee Chairperson
Stan Ho
Chief Executive Officer
(852) 3462 9568
stan.ho@lhratingsglobal.com

Business Development Contact
Joyce Chi
Managing Director
(852) 3462 9569
joyce.chi@lhratingsglobal.com

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