

Lianhe Global has affirmed ‘BB-’ global scale Long-term Issuer and Issuance Credit Rating to Redsun Properties Group Limited; Issuer Rating Outlook Stable

HONG KONG, 22 May 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BB-’ global scale Long-term Issuer Credit Rating to Redsun Properties Group Limited (01996.HK) (“Redsun” or “the company”). The Outlook is Stable.

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

The Issuer Rating reflects Redsun’s operating track record and continuous expansion in tier 2 & 3 cities, especially in the Yangtze River Delta (“YRD”). However, Redsun’s rating is constrained by its small operating scale and land bank, moderately high financial leverage, and lower-than-peer interest coverage.

The Stable Outlook reflects our expectation that Redsun will replenish its land bank portfolio and expand its operating scale in tier 2 and 3 cities while managing its debt growth in tandem with its contracted sales growth, cautiously.

Key Rating Rationales

Operating Efficiency Supports Regional Expansion: Redsun has a proven track record in Jiangsu Province, especially in Nanjing City. In addition, it has diversified its land bank portfolio and expanded its footprint to nearly 40 cities across China since 2017. Redsun had about 75% of land bank located in Jiangsu Province and the YRD, at end-2019. About 60% of Redsun’s projects are located in tier 2 cities, such as Nanjing, Wuxi, and Nantong whereby housing demand and industry dynamics remain sound. Redsun’s projects are largely located in economically strong areas that help reduce execution risks and secure a high asset turnover rate. Redsun achieved a comprehensive sell-through rate of 70%, cash collection rate of over 90%, and shortened its project average launch time to less than 7 months in 2019. Furthermore, Redsun applies product and management standardization processes to reduce its project costs and delivery time to increase its cash flow and profitability. Lianhe Global believes Redsun is likely able to build on the success and experience it has achieved and accumulated in Jiangsu Province and replicate them elsewhere in new cities.

Competitive Edges with a Focus on Commercial Real Estate and Valued-added Services: Redsun’s quick asset turnover strategy and strong execution capability support the company’s fast expansion in land bank and strong sales in the recent years. Given the fierce competition in the YRD, Redsun strives to distinguish itself from its competitors by focusing on (1) a quick asset turnover strategy, (2) offering value-added services such as hi-tech services and fully decorated units for homebuyers, as well as (3) commercial real estates to boost its revenue.

In addition, Redsun has opened four Hong Yang Plazas so far, which have been providing stable recurring revenue for the company. Its newly opened plaza in Yantai, Shandong Province, and Nanjing enjoyed high occupancy rates of above 95% in 2019. Redsun plans to open another three new plazas in 2020 and six in 2021 and thereafter.

Financial Leverage Remains Stable: Redsun's management is mindful of cost control and use of leverage while growing a national franchise and delivering projects by the pre-set targets. In fact, Redsun's financial leverage ratio, measured by debt over capitalization, maintained at about 60% to 65% from 2017 to 2019. The company has set a gross contracted sales target of RMB75 billion for 2020 and plans to utilize approximately 50% of the attributable contracted sales proceeds for its land acquisition. Its gross land bank of 16.93 million square meters at end-2019 together with the anticipated new land acquisitions in 2020 will be sufficient to support the company's growth target for the next three years. This allows a flexible headroom of land acquisition targets. Aggressive land-banking through increasing leverage is hence unlikely, in our view.

At end-2019, the company had unrestricted cash of RMB 8.7 billion on hand and an available undrawn credit line of RMB 13.97 billion which were sufficient to cover its debts of RMB 12.4 billion due within one year. The strengthened cash collection from its contracted sales also provides the company a stable source of funding to service its capital expenditure.

Rising Land Costs Put Pressure on Gross Profit Margins: We forecast Redsun will sustain a gross profit margin in the range of 25% to 24% in 2020 and 2021, considering the management's mindful cost control, strategic land-banking selection, and competitive product standardization, all of which could help alleviate its profitability compression as the company has expanded into new second-tier cities from its home base in Jiangsu Province since 2017. The company enjoyed the windfalls of strong economic growth in the early years and posted above-peer gross profit margin on the solid basis of its low-cost land bank in Jiangsu Province. The average land acquisition cost was 5,607RMB/sqm in 2019, which was higher than that in 2018 and 2017. Redsun primarily targets first-time homebuyer and upgrader markets whereby there are strong latent demands which largely reduce the pressure on its gross margins.

High Reliance on Partnerships Could Obscure Transparency: Redsun cooperates with the other peers through joint ventures (JVs) and associates to expand its footprint. Redsun's attributable land bank and contracted sales accounted for approximately 55% of their respective gross figures in 2019. As Redsun continues to expand, we expect its exposure to JVs and associates to remain high which gives rise to financial transparency concerns.

Rating Sensitivities

We would consider downgrading Redsun's rating if it were to (1) aggressively replenish its land bank which results in an increase of 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 Redsun's rating if it were to (1) consistently 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 3x consistently.

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

Full List of Issuance Ratings

- USD450 million 9.95% senior unsecured notes due 2022 affirmed at 'BB-'
- USD250 million 10.5% senior unsecured notes due 2022 affirmed at 'BB-'
- USD300 million 9.7% senior unsecured notes due 2023 affirmed at '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 Redsun'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.

Contact Information

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

Secondary Analyst
Jessie Liu
(852) 3462 9585
Analyst
jessie.liu@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

Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the Company’s website: www.lhratingsglobal.com

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the Company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of Lianhe Credit Information Service Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the Company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2020.