

Lianhe Global has assigned ‘B+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Yincheng International Holding Co., Ltd.

HONG KONG, 28 May 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘B+’ global scale Long-term Issuer Credit Rating to Yincheng International Holding Co., Ltd. (“Yincheng”). The Outlook is Stable.

The Issuer Rating reflects Yincheng’s established market position and branding in its home market Nanjing, and a healthy and stable pipeline of development projects on hand. However, Yincheng’s rating is constrained by its small operating scale and geographical concentration as compared with its peers.

The Stable Outlook reflects our expectation that Yincheng would continue delivering its planned projects and maintain its competitive position in core markets such as Nanjing, while expanding its operating scale and diversifying its land bank in a prudent manner.

Key Rating Rationales

Regional Focus in a Few Tier 2 and Tier 3 Cities with Reliance in Nanjing: Yincheng commenced its operations in Nanjing in 2002 and has expanded its footprint to a few other cities in the Yangtze River Delta Region. The majority of Yincheng’s revenue and contracted sales were derived from projects in Nanjing, with the rest primarily from Wuxi and Suzhou. Yincheng’s operating scale is relatively small as compared with the other larger regional players. Its total attributable land bank by GFA at end-2019 and contracted sales in 2019 were 4.3 million sq.m. and RMB19.8 billion respectively.

The sale and delivery of projects outside of the core cities are expected to commence in the next 12 to 24 months, which will reduce the market concentration risk of Yincheng. Although we expect Yincheng to continue its healthy performance in Nanjing, market concentration risk remains, and its execution capabilities remain to be seen for its operations outside of the core cities. Yincheng’s operating scale and market concentration will be a constraint to its credit profile in the next 12 to 24 months.

Quality Land Bank with Pre-sale Supported Land Purchase to Fuel Development: Yincheng’s attributable landbank as at end- 2019 amounted to 4.3 million sq.m.. Over 70% of the landbank was located in Nanjing, Wuxi, Ma’anshan and Zhenjiang, with Nanjing accounting for 43%, as at end-2019, which still presents sound fundamentals to support resilience in property market in the Yangtze River Delta Region.

Yincheng employs the strategy of “regional focus with in-depth market penetration in metropolitan cities”. In the next two years, Yincheng targets achieving land bank saleable resources of over RMB50 bn, with expansion into selected peripheral tier 2 and tier 3 cities in the Yangtze River Delta Region. With a history of proven experience and branding in Nanjing,

Yincheng has been able to purchase high quality land parcels for its development. The majority of the Yincheng's projects are currently under development, which are expected to book pre-sales and revenue in the next 12 to 24 months. We expect Yincheng to continue to acquire land parcels with support from pre-sale proceeds from projects on hand, in order to fuel its development phase.

Diversified Product Portfolio with Efficient Development-to-Sale Cycle: Yincheng offers a wide range of residential properties. Yincheng is also collaborating with Tencent to develop a smart home system that targets the youth community, and it is developing a retirement community for the aged population.

Yincheng typically targets to commence pre-sale within eight months from land acquisition. This efficient development-to-sale cycle allows Yincheng to monetize its projects and collect cash to fund its operation and land purchases in a timely manner. Historically Yincheng has been able to achieve a cash collection rate of above 80%. This model also allows Yincheng to replicate its operation when penetrating into the other cities in the region.

Growing Sales and Operation Scale Allowing for Deleveraging: Yincheng recorded strong contracted sales y-o-y growth of 65.7% and over 100% in 2018 and 2019, respectively. We expect Yincheng to continue its growth momentum as and when its existing projects start to monetize, and when new land parcels are acquired with construction commencing in 2020 and 2021. Gross margins for its projects increased from 17% in 2017 to 29% in 2018. We expect gross margins in the next 12 to 24 months to maintain at the low 20's % level.

As Yincheng is in the stage of project monetization, the growth in contracted sales is expected to generate decent cash flow to support its land cost payment and debt repayment in the next 12 to 24 months. We expect its financial leverage as measured by debt/capitalization to gradually decrease to c.70-73% from a peak of 80.1% in 2018.

Rating Sensitivities

We would consider downgrading Yincheng's rating if it were to aggressively replenish its land bank which result in an increase in its financial leverage as measured by debt/capitalization to over 80% or a decrease in its EBITDA interest coverage to below 1.0x consistently, and/or its operating performance were to deteriorate such that its property development business market position or sales experience a material decline.

We would consider upgrading Yincheng's rating if it were to (1) expand its operating scale and demonstrate successful diversification into the other regions and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 3.0x 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 Yincheng'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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