

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

HONG KONG, 12 November 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has affirmed ‘BB’ global scale Long-term Issuer Credit Rating to Yuzhou Properties Company Limited (01628.HK) (“Yuzhou”). 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 Yuzhou. A full list of affirmed issuance ratings is included in this press release.

The Issuer Rating reflects Yuzhou’s established market position in the Chinese property market, which is evident by its strong contracted sales growth, high-quality land bank primarily located in tier 1 and 2 cities in China, and healthy margins. However, Yuzhou’s rating is constrained by its elevated financial leverage as compared with its peers.

The Stable Outlook reflects our expectation that Yuzhou would continuously expand its operating scale through active yet measured land acquisitions to sustain its contracted sales growth while reasonably managing its debt growth.

**Key Rating Rationales**

**Diversified and Quality Land Bank:** Yuzhou had a total land bank of 19.18 million square meters at end-June 2019, primarily in the Yangtze River Delta Region, Bohai Rim Region and West Strait Economic Zone, focusing on tier 1 and tier 2 cities including Shanghai, Beijing, Tianjin, Nanjing, Xiamen, Hangzhou, Suzhou, Wuhan, Hefei, and Shenyang. It has also been expanding its geographic coverage beyond its home base by including some satellite cities in coastal regions as well as provincial capital cities in Central China and the Greater Bay Area. Yuzhou’s land bank was diversified with 138 projects in 30 cities across 6 metropolitan areas at end-June 2019.

We expect the inclusion of more regions will help Yuzhou increase its annual revenue base to RMB35-45 billion and support its contracted sales growth year-on-year in the range of 25%-35% in the next 12-24 months.

As Yuzhou delivered a robust contracted sales growth in the past few years, it increased its land replenishment pace in the first six months of 2019 and acquired 14 pieces of land totaled 2.12 million square meters. Yuzhou’s land bank is sufficient for development for 3-4 years, and we expect Yuzhou to continue to replenish its land bank in a measured manner to keep up with its sales and growth plan.

**Expanding Sales Scale with Stable Margins:** Yuzhou reported contracted sales of RMB28.5 billion for 1H 2019 and RMB58.1 billion for the ten months ended October 2019, representing a 42.5% and 86.7% of the full year target of RMB67 billion, respectively. Contracted sales in 1H 2019 and for the ten months ended October 2019 represented an increase of 32.5% and 44.6%, respectively, on a year-over-year basis.

At end-June 2019, Yuzhou had RMB80 billion of saleable resources scheduled for 2H 2019, with 55% located in Yangtze River Delta Region and 20% located in West Strait Economic Zone. We believe Yuzhou is on track to meet its full year target of RMB67 billion.

Yuzhou also had c. RMB68 billion worth of unrecognized contracted sales at end-June 2019, whereby c. 40% is expected to be booked in 2H 2019 and majority of the rest in the next one to two years. We expect the company to maintain a stable gross margin of c. 27-28% in the next 12-24 months as the unrecognized contracted sales carry a similar gross margin mix and as the company strategically replenishes its land bank with margins target in mind.

**Elevated Leverage:** Yuzhou's financial leverage was relatively high as measured by its debt/capitalization ratio of 71.7% at end-2018. As Yuzhou replenished more land at a higher cost in 1H 2019, which was partially funded by debt, its reported debt level increased to RMB55.5 billion at end-June 2019 from RMB43.6 billion at end-2018 and its debt/capitalization ratio increased to 75.3% at end-June 2019. However, Yuzhou's liquidity is adequate as it had RMB38.9 billion (RMB35.7 billion unrestricted) cash on hand and more than RMB15 billion undrawn credit facility from various channels at end-June 2019 to cover its RMB13.6 billion of debt maturing within 12 months.

### **Rating Sensitivities**

We would consider downgrading Yuzhou's rating if it were to aggressively replenish its land bank which results 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 3.0x consistently, and/or its operating performance were to experience a material deterioration.

We would consider upgrading Yuzhou's rating if it were to (1) sustain growth both in scale and diversity, and (2) maintain its financial leverage as measured by debt/capitalization at below 60% and EBITDA interest coverage at above 5.0x consistently.

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

### **Full List of Issuance Ratings**

- USD500 million 8.625% senior unsecured notes due 2022 affirmed at 'BB'
- USD500 million 8.5% senior unsecured notes due 2023 affirmed at 'BB'
- USD500 million 8.5% senior unsecured notes due 2024 affirmed at 'BB'
- USD500 million 8.375% senior unsecured notes due 2024 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 Yuzhou'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](http://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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