

Lianhe Global has assigned ‘B+’ global scale Long-term Issuer and Issuance Credit Ratings to Golden Wheel Tiandi Holdings Company Limited and its proposed USD notes; Issuer Rating Outlook is Stable

HONG KONG, 06 January 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘B+’ global scale Long-term Issuer Credit Rating to Golden Wheel Tiandi Holdings Company Limited (1232.HK) (“Golden Wheel” or “the company”). The Outlook is Stable.

At the same time, Lianhe Global has assigned ‘B+’ global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD notes (“the USD notes”) to be issued by Golden Wheel.

Golden Wheel intends to use the net proceeds from the USD notes for refinancing its existing indebtedness.

Key Rating Rationales

The USD notes are rated at the same level as Golden Wheel’s global scale Long-term Issuer Credit Rating of ‘B+’ as they constitute Golden Wheel’s senior and unsecured obligations. Golden Wheel’s obligations for the USD notes shall rank pari passu with all its other present and future unsubordinated and unsecured obligations.

The Issuer Rating reflects Golden Wheel’s established market position with quality property development projects with link or proximity to metro stations, and stable property investments and metro-leasing business which provide recurring income and healthy margins. However, Golden Wheel’s rating is constrained by its small operating scale and elevated financial leverage from land acquisitions as compared with its peers.

The Stable Outlook reflects our expectation that Golden Wheel would expand its operating scale in a prudent manner especially regarding land acquisitions, while continue to maintain stable recurring income stream, healthy margins and deleveraging effort.

Small Operating Scale with Regional Focus in Metro-linked Projects: Positioned as a small regional property developer and operator with a relatively narrow geographical distribution of its business, Golden Wheel’s residential and commercial property development business is concentrated in Nanjing, Yangzhou, Wuxi, Changzhou in Jiangsu, Changsha and Zhuzhou in Hunan, and Hong Kong. Golden Wheel’s operating scale is relatively small as its total land bank by GFA at end-2018 and contracted sales in 2018 were only 1.68 million square meters and RMB3.13 billion respectively.

However, Golden Wheel's core strategy is developing small scale commercial and residential projects which are of close proximity or can directly connect to metro stations and transportation hubs. As a result, its projects could usually command a higher average selling price than the other projects with less convenient location. This unique business model provides Golden Wheel with a niche positioning among the other property developers who focus primarily on traditional property developments.

Growing Property Investments and Metro-leasing Business: Golden Wheel had completed investment properties with a total GFA of 209,303 sq.m. at end-June 2019. Approximately 82% of the completed investment properties was shopping malls while the rest was retail shops. The company also had 2 shopping malls under development with 78,863 sq.m. at end-June 2019 under its investment properties portfolio. Golden Wheel's investment properties portfolio has an average occupancy rate of over 90%, which provides recurring rental income as a cushion to the volatility of its property development segment. The carrying value of its investment properties portfolio was at c. RMB6.2 billion at end-June 2019.

Golden Wheel also operates a metro-leasing business in prime locations, which includes leasing and operational management contracts with 15 metro stations shopping malls in Nanjing, Suzhou, Wuxi and Changsha at end-June 2019. At end-June 2019, 10 metro station shopping malls were under operation with an overall occupancy rate of over 90%.

Golden Wheel enjoyed stable rental revenue growth from RMB129 million in 2015 to RMB204 million in 2018, and RMB109 million in 1H 2019. Net rental income amounted to RMB152 million in 2018, representing c. 0.4x of its gross interest expenses. We expect its rental income to continue to enjoy stable growth as and when new shopping malls and retail shops projects are being added to the portfolio. We expect the net rental income to gross interest expenses coverage to maintain at above 0.4x in the next 12 to 24 months.

Healthy Margins: Golden Wheel reported higher than industry average gross margins of 39%, 53% and 50% in 2017, 2018 and 1H 2019, respectively, primarily because the company has a strategy of maintaining a decent mix of property development, property investment and leasing income of residential and commercial projects (which are of higher margins in general), and its development projects are generally in prime locations. The company expects to deliver a higher proportion of residential projects in the next 12-24 months, which would reduce its overall gross margin to c. 27-33% as residential projects carry a lower margin than commercial projects. We expect gross margins for the company's property investments (including metro-leasing) and hotel operation segments to maintain at c.70% and c. 40% level, respectively, in the next 12 to 24 months.

Increasing Leverage Relative to its Scale: Golden Wheel experienced an accelerated land acquisition phase in the previous few years which substantially increased in its financial leverage. Since early 2019, the company has slowed down on land acquisitions and only acquired one piece of land parcel in Nanjing. Golden Wheel's leverage as measured by debt/capitalization ratio increased from 44.2% at end-2017 to 55.4% at end-June 2019. We

expect Golden Wheel's leverage to improve in the next 12 to 24 months to c. 53-55% level as the company starts the pre-sales of new projects and slows down its land replenishment pace.

Tight Liquidity Profile: Golden Wheel held c. RMB943 million cash on hand (c. RMB686 million restricted deposits for bank loans) at end-Nov 2019. It also had c. RMB557 million restricted deposits held from pre-sale proceeds accordingly to relevant laws and regulations, such as 《南京市商品房预售款监管办法》, and c. RMB14 million restricted deposits for metro rental. The deposits held from pre-sale proceeds are project-specific and can only be applied towards construction cost payments for the projects. These deposits will be released when and as completion certificates are obtained and provided. The company also had c. RMB624 million undrawn facilities at end-Nov 2019.

Golden Wheel's liquidity is tight as it had c. RMB3.5 billion debt due within one year at end-Nov 2019. The company has access to various financing channels in both the onshore and offshore markets and also has USD200 million offshore bond issuance quota available. We expect the company to continue its effort in deleveraging and improving its liquidity via refinancing of its existing indebtedness and monetization of its property projects in the next 12 to 24 months.

Rating Sensitivities

We would consider downgrading Golden Wheel'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 65% or a decrease in its EBITDA interest coverage to below 1.0x consistently, and/or its operating performance were to deteriorate such that its sales or rental income experience a material decline or liquidity profile is worsened.

We would consider upgrading Golden Wheel's rating if it were to (1) considerably increase its operating scale and recurring income stream, (2) maintain its financial leverage as measured by debt/capitalization at below 50% or EBITDA interest coverage at above 2.5x consistently, and (3) notably improve its liquidity profile.

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

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 Golden Wheel'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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