Lianhe Global has assigned 'B+' global scale Long-term Issuer and Issuance Credit Rating to Jingrui Holdings Limited and its proposed USD bonds; the Issuer Rating's Outlook is Stable

HONG KONG, 01 April 2019 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned a 'B+' global scale Long-term Issuer Credit Rating to Jingrui Holdings Limited ("Jingrui"). 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 bonds ("the USD bonds") to be issued by Jingrui Holdings Limited.

Jingrui intends to use the net proceeds from the USD bonds primarily for refinancing its existing indebtedness and for general corporate purposes.

Key Rating Rationales

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

The Issuer Rating reflects Jingrui's operating track record and continuous expansion in tier 1 and 2 cities, especially in the Yangtze River Delta. However, Jingrui's rating is constrained by its small operating scale, weak competitiveness on land acquisition, moderately high financial leverage and lower-than-peer gross margin.

The Issuer Rating's Stable Outlook reflects our expectation that Jingrui will replenish its land bank portfolio and expand its operating scale in tier 1 and 2 cities while managing its debt growth cautiously and improving its gross margin and credit profiles commensurate with the 'B+' credit rating category.

Small Operating Scale with a Refocus on Tier 1 and 2 Cities: Jingrui's operating scale is small that its total land bank by gross floor area (“GFA”) and contracted sales at end-2018 were only 4.8 million square meters and RMB25.2 billion respectively. Jingrui was ranked 91st in terms of contracted sales among the Chinese property developers according to CRIC Information Centre's statistics. In view of its below-market-average growth of contracted sales in the previous years, Jingrui has changed its operating strategy to refocus on tier 1 and 2 cities since 2014. It massively destocked its projects in tier 3 cities by lowering contracted selling prices and accelerating project execution pace. These measures were effective which resulted in lowering its exposure in tier 3 cities to 5.1% at end-2018 from 50.4% at end-2013.

Volatile but Improving Operating Performance: Jingrui's operating performance was volatile that its gross margin fluctuated in the range of 3.2% to 16.1% during 2015 to 2017 when executing turnaround plan by cutting prices and destocking its inventory in tier 3 cities. The volatile operating margin was mainly attributed to Jingrui's weak loss-absorbing capacity, which was constrained by its relatively small operating scale, under the price reduction strategy. However, as Jingrui continually increased its operating exposure in tier 1 and 2 cities, its gross margin rebounded to 23% in 2018 from 3.2% in 2015. We expect that Jingrui's gross margin is likely to be stable and stay in the range of 24% to 25% in the next 12 to 24 months in view that its destocking plan in tier 3 cities was almost completed at end-June 2018.

Long Operating Track Record in the Yangtze River Delta but Relatively Weak Competitiveness in the Market: Based in Shanghai, Jingrui owned a long operating track record in the Yangtze River Delta, especially in Shanghai. Since its establishment in the early 1990s, Jingrui has been operating its property development business in 18 cities across China, of which around 14 cities are among the core cities in the Yangtze River Delta Region. However, due to its small market share, Jingrui's competitiveness in acquiring low-cost land, especially in tier 1 and 2 cities, is relatively weak. The average acquisition cost of its land bank was higher than the peers that operated in the Yangtze River Delta (2017: RMB 7,135/square meter; 2018: RMB 9,130/square meter). Jingrui has been strengthening its competitiveness by cooperating with other developers in acquiring quality new land. The percentage of acquisition GFA by mergers and acquisitions and Joint Venture projects increased to 47% in 2018 from 22% in 2016. We believe that the fierce competition in the Yangtze River Delta Region, which is Jingrui's core market, is likely to exert pressures on Jingrui's land acquisition expenditure and profitability.

Moderately High Leverage: As Jingrui's turnaround plan has been effective, its financial leverage decreased as EBITDA margin enjoyed an improvement in 2017. However, as Jingrui was continually deepening its coverage in the Yangtze River Delta and selectively entered into several provincial cities in middle and western area in China, its financial leverage experienced an increase in 2018. When compared with the peers with similar scale in the market, Jingrui's leverage as measured by a debt/capitalization ratio (around 70% in 2017 and 2018) was moderately high. Taking Jingrui's market position and financing capacity into consideration, we anticipate Jingrui's leverage would experience an increase in the next 12 to 24 months as it gradually expands its operating scale.

Rating Sensitivities

Any rating action on Jingrui's rating would result in a similar rating action on the USD bonds.

We would consider downgrading Jingrui's rating if it were to aggressively replenish its land bank which results in an increase of its financial leverage as measured by an EBITDA interest coverage ratio to decrease to 1.0x or a debt/capitalization ratio to increase to 80%, or its operating performance experiences a deterioration that its contracted sales has a material decrease or gross margin drops to below 15%.

We would consider upgrading Jingrui's rating if it were to expand its operating scale comparable to our rated peers in the BB category while decreasing its financial leverage as measured by a debt/capitalization ratio at below 60% and improving its gross margin at over 30% 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 Jingrui's ratings are 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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