

Lianhe Global has assigned a ‘BB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Logan Property Holdings Company Limited

HONG KONG, 18 February 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned a ‘BB+’ global scale Long-term Issuer Credit Rating to Logan Property Holdings Company Limited (“Logan”). The Outlook is Stable.

The Issuer Rating reflects Logan’s established brand recognition and leading market position in Guangdong Province, especially Shenzhen, and its higher-than-peer profitability which is supported by its low-cost land bank portfolio. However, Logan’s rating is constrained by its high financial leverage and over-reliance on the profit contribution from Shenzhen projects as its land bank’s geographic coverage mainly concentrates in Guangdong Province.

The Stable Outlook reflects our expectation that Logan’s renowned presence in the Guangdong-Hong Kong-Macau Greater Bay Area (“the Greater Bay Area”) and well-managed land acquisition expenditures will continue to underpin its higher-than-peer profitability. The Stable Outlook also reflects our expectation that Logan will expand its operating scale cautiously and manage its debt growth in a prudent manner.

Key Rating Rationales

High-quality Land Bank and Competitive Land Costs Underpin Higher-than-Peer Profitability: Logan has exhibited a higher-than-peer profitability in the past years. Its gross margin (excluding depreciation and amortization) steadily improved year-over-year and stayed in the range of 34% to 37% during 2017 to 1H2018. The outstanding performance was attributed to the profit contribution from the projects located in the Greater Bay Area, mainly Shenzhen, and its relatively competitive land acquisition costs due to its better utilization of acquisition channels. We believe that the competitive costs will be able to provide a buffer for Logan’s gross margin when the property market is under pressure.

Land Bank Less Diversified but Reduced Concentration: Logan’s sales performance in the past years was mainly supported by the sales contribution from its projects in the Greater Bay Area, mainly from Shenzhen. The projects in the Greater Bay Area have provided around half of Logan’s contracted sales from 2015 to 1H2018. However, Logan has been diversifying its land portfolio by gradually stepping into the other cities outside of Guangdong Province in recent years. It cautiously expands its geographic coverage to Guangxi Province, the Yangtze River Delta, Hong Kong and Singapore. At end-June 2018, Logan’s exposure outside of Guangdong Province totalled 9.6 million square meters, which accounted for 27% of its total land bank gross floor area.

Track Record of Prudent Operating Performance and Cautious Expansion: Though Logan’s contracted sales growth was robust, it did not replenish its land bank in an aggressive

way or hinge on adding leverage to expand its operating scale in the past years. It prudently budgets the equivalent amount of half of its annual contracted sales for its annual land acquisition expenditures and utilizes various channels, such as merger and acquisition and urban renewal projects, to control its overall land acquisition costs which are maintained at a lower level than its peers. Furthermore, Logan's sustainable higher-than-peer gross margin is secured by adopting differentiated operating strategies to manage the projects in different locations. It pursues an operating strategy of maintaining a high project turnover rate for the projects located in the lower tier cities. For the projects in the Greater Bay Area, especially Shenzhen, Logan maintains a relatively slower project turnover rate to control its construction costs and leverages on the elevated property prices to secure a higher gross margin.

High but Improving Leverage: Logan's financial leverage elevated in 2017, which was evident by a debt/capitalisation¹ ratio to 74.9% from 54.8% in 2016. Logan usually allocates the equivalent amount of half of the contracted sales to budget for its annual land acquisition expenditures. And Logan's land acquisition activities are supported by external financing channels. As its contracted sales increased in 2017, the land acquisition expenditures increased and the debt level correspondingly elevated. However, Logan's elevated leverage was mitigated by its improving profitability in the first six months ended in 2018. Its gross margin (excluding depreciation and amortization) improved to 37.2% in 1H2018 from 34.8% in 2017. We anticipate that Logan will replenish its land bank in a prudent manner in 2019 and 2020 even though it has had a robust contracted sale growth from 2017 to 2018. We also expect Logan's leverage as measured by a debt/capitalisation ratio to improve and stay in the range of 71% to 73% in the next 12 to 24 months.

Rating Sensitivities

We would consider downgrading Logan's rating if it were to replenish its land bank in an aggressive way which would result in an elevated leverage or it were to under deliver expected contracted sales which would lead to a material deterioration of its profitability as measured by 1) an EBITDA interest coverage ratio at below 3.0x, or 2) a gross margin at below 30%, continuously.

We would consider upgrading Logan's rating if it were to steadily improve its leverage while maintaining a higher-than-peer profitability as measured by 1) an EBITDA interest coverage ratio at above 5.0x, and 2) a debt/land bank ratio at below 70%, persistently.

About Lianhe Global

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¹ Adjusted capitalisation subtracts third-party guarantees. If no adjustments were made for third-party guarantees, the debt/capitalisation ratios for 2016 and 2017 would have been 54.8% and 66.1% respectively.

Rating Methodology

The principal methodology used in this Logan'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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