

## **Lianhe Global has assigned ‘BB-’ to Redsun Properties Group Limited’s Proposed USD Notes**

HONG KONG, 08 April 2019 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB-’ global scale Long-term Issuance Credit Rating to the proposed senior unsecured USD notes (“the USD notes”) to be issued by Redsun Properties Group Limited (“Redsun”; ‘BB-’/Stable).

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

### **Key Rating Rationales**

The USD notes are rated at the same level as Redsun’s global scale Long-term Issuer Credit Rating of ‘BB-’ as they constitute Redsun’s unsubordinated and unsecured obligations. Redsun’s obligations for the USD notes shall at all times rank pari passu with all its other unsecured, unsubordinated obligations.

The Issuer Rating reflects Redsun’s operating track record and continuous expansion into tier 2 and 3 cities, especially in the Yangtze River Delta. However, Redsun’s rating is constrained by its small operating scale, weak competitiveness in land acquisition, moderately high financial leverage and lower-than-peer interest coverage.

The Stable Outlook reflects our expectation that Redsun would replenish its land bank portfolio and expand its operating scale in tier 2 and 3 cities while managing its debt growth cautiously commensurate with ‘BB-’ credit profiles.

**Small Operating Scale with a Refocus on Tier 2 and 3 Cities:** Redsun’s operating scale was small as its total land bank by gross floor area (“GFA”) and contracted sales at end-2018 were only 13 million square meters (attributable at 7.2 million square meters) and RMB47 billion (attributable at RMB24 billion) respectively. Redsun was ranked 60th in terms of reported contracted sales among the Chinese property developers at end-2018 according to CRIC Information Centre’s statistics. Redsun has a leading position in Nanjing Jiangsu, and the Yangtze River Delta by targeting key cities across the region. Redsun pursues an above-market-average contracted sales growth rate of 30%.

**Operating Track Record in the Yangtze River Delta but Relatively Weak Competitiveness in the Market:** Redsun has a proven operating track record in the Yangtze River Delta, especially in Nanjing. Since its establishment in 1996, Redsun has been operating in the Yangtze River Delta Region. As of 2018, Redsun operated property development business in 28 core cities. However, due to its small market share, Redsun employs joint-

venture (“JV”) and mergers and acquisitions (“M&A”) strategies to gain access to land and expand its footprint in tier 2 & 3 cities. The average acquisition cost of its land bank was lower than the peers that operated in the Yangtze River Delta (2017: RMB 4,170/square meter; 2018: RMB 4,614/square meter). In general, Redsun would cooperate with large and well-established local property developers with a quick inventory turnover strategy. However, we believe that the fierce competition in the Yangtze River Delta Region, which is Redsun’s core market, is likely to impose pressure on Redsun’s land acquisition expenditure and profitability.

**Strong Execution and Focus on Commercial Real Estate and Value-added Services to**

**Boost Revenue:** Given the fierce competition in the Yangtze River Delta Region, Redsun strives to distinguish itself from its competitors by focusing on (1) a quick inventory turnaround strategy, (2) offering value-added services such as hi-tech services and fully decorated apartments for homebuyers, as well as (3) steady rental incomes from commercial real estates to boost revenue.

**Strong profitability with Moderately High Leverage:** Redsun demonstrated strong profitability as measured by higher-than-average gross margin and operating margin in 2018. Redsun continues to expand its footprint in the Yangtze River Delta and has selectively entered into several key tier 3 cities (which usually have lower land prices) since 2018. In order to achieve its 2019 sales target of RMB60 billion, Redsun has to actively replenish its land bank. Therefore, we project its debt would increase moderately in 2019.

**Rating Sensitivities**

Any rating action on Redsun’s rating would result in a similar rating action on the USD notes.

We would consider downgrading Redsun’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 over land bank ratio to increase to above 70% or a gross margin to fall below 25%.

We would consider upgrading Redsun’s rating if it were to expand its operating scale while decreasing its financial leverage as measured by a debt/capitalization ratio at below 60% and improving its debt over land bank ratio at below 50% and increasing its EBITDA interest coverage ratio at above 3x 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 Redsun'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](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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