Lianhe Global has assigned a 'BB-' global scale Long-term Issuer Credit Rating with Stable Outlook to Yango Group Co., Ltd

HONG KONG, 26 April 2019 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, has assigned a 'BB-' global scale Long-term Issuer Credit Rating to Yango Group Company Limited ("Yango"). The Outlook is Stable.

The Issuer Rating reflects Yango's leading market position and brand recognition in the Chinese property market. However, Yango's rating is constrained by its high financial leverage and lower-than-peer profitability.

The Stable Outlook reflects our expectation that Yango would acquire new land in a measured manner, lower its financial leverage and continue to improve its operating efficiency gradually to ease its liquidity position in the following 12 to 24 months.

Key Rating Rationales

Sizable and Diversified Land Bank Supports Contracted Sales Growth: Yango had a sizable and diversified land bank portfolio with a total GFA at 44.18 million square meters across 59 cities in China at end-2018. Its total land bank was sufficient to support Yango's contracted sales for the next 3.5 years. Yango builds its land bank portfolio by adopting a "3+1+X" strategy, which is to set Greater Fujian, the Yangtze River Delta, Beijing, Tianjin and Hebei Region and the Pearl River Delta as its major focus while selectively entering into other provincial and satellite cities in central and western China. Yango expanded its land bank by almost fourfold to 44.18 million square meters in 2018 from 13.07 million square meters in 2015. Yango's sizable and diversified land bank helped to boost its contracted sales growth from 2016 to 2018 (2016: 63.31%; 2017: 87.95%; 2018: 77.93%). Yango achieved total contracted sales of RMB162.9 billion (RMB118.3 billion in attributable amount) in 2018, which placed it among the top 15 property developers in China.

Higher Operating Efficiency and Improving Cash Collection Capacity Ease Liquidity Position: Yango applies a set of benchmarks such as net margin, IRR (internal rate of return), and cash collection rate when assessing potential land acquisition projects to ensure every project in lower-tier cities would achieve a positive cash flow in at least 12 months or 16 months for higher-tier cities. For all projects under construction, Yango has accelerated project execution pace and enhanced construction process by introducing a speciality-intersecting construction method to shorten the overall construction cycle. The shortened construction cycle has brought cash flow from contracted sales sooner than expected which partially eased its liquidity position. Yango's cash collection capacity demonstrated an improvement in 2018. Its average cash collection rate improved to 80% from 74% in 2017. Yango's cash received from sales increased to RMB79.4 billion from RMB57.4 billion in 2017 and had a net operating cash flow of RMB21.8 billion in 2018. Yango's enhanced construction and cash management

processes resulted in an improvement in cash flow from operating activities which eased its liquidity position in 2018.

High Leverage Constrains Credit Profile: Yango has adopted an aggressive expansion model since 2015. It used debt to finance land acquisition and expanded its asset base. Its financial leverage increased rapidly in tandem with its asset base as measured by a debt over capitalisation ratio to 83.4% in 2017 from 72.9% in 2015. Its reported debt of RMB112.6 billion (short-term debt: RMB48.2 billion; long-term debt: RMB64.4 billion) was twice the amount of its revenue of RMB56.5 billion at end-2018. The large debt burden has imposed pressure on Yango's liquidity position. The higher-than-peer financial leverage has constrained Yango's credit profile. However, Yango has managed to lower its financial leverage since 2018. It has decelerated its expansion pace to rein financial leverage. Yango lowered its capital expenditure on land acquisition and enhanced its operating process to shorten the cash collection cycle to boost liquidity position. Yango spent RMB38.5 billion and RMB17.5 billion on new land acquisition in both the open market and acquisition channel respectively, which were only half of the total amount in 2017. As such, its financial leverage as measured by a debt over capitalisation ratio remained at the level as in 2017. We expect that Yango would replenish its land bank in a measured manner and its financial leverage would gradually decrease in the next 12 to 24 months.

Access to Various Financing Channels Partially Eases Liquidity: Yango's liquidity is under pressure given that it has to repay RMB46.9 billion debt due within one year (in 2019) while it only had RMB37.8 cash on hand at end-2018. However, as a listed company in China, Yango has wide access to various financing channels in both the onshore and offshore markets, such as bank facilities, bond issuance, trust loans, and asset-based securities issuance etc. We believe that Yango would be able to fill its liquidity gap primarily by utilizing its approved but unused credit lines and USD bond issuance quota which totalled RMB48.2 billion.

Rating Sensitivities

We would consider downgrading Yango'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 1.2x or a debt/capitalization ratio to increase to 86%, or its operating performance were to deteriorate such that either its contracted sales or cash flow from operating activities experience a material decline.

We would consider upgrading Yango's rating if it were to lower its financial leverage as measured by a debt/capitalization ratio to below 70% and improve profitability as measured by a 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 this Yango'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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