

Lianhe Global has upgraded the global scale Long-term Issuer and Issuance Credit Rating of Yango Group Co., Ltd to ‘BB’ from ‘BB-’; Issuer Rating Outlook Stable

HONG KONG, 19 May 2020 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has upgraded the global scale Long-term Issuer Credit Rating of Yango Group Company Limited (“Yango”) to ‘BB’ from ‘BB-’. The Outlook is Stable.

Lianhe Global has also upgraded the global scale Long-term Issuance Credit Rating of the senior unsecured USD notes issued by Yango Justice International Limited (“Yango Justice”), a wholly-owned subsidiary of Yango, and guaranteed by Yango, to ‘BB’ from ‘BB-’ at the same time. A full list of upgraded issuance ratings is included in this press release.

The Issuer Rating upgrade to “BB” reflects Yango’s overall improvement in both financial and operating profiles on top of its good track record of strategy execution. The rating also considers the management’s disciplined use of leverage, steady project delivery, and our assessment on Yango’s position in the credit polarization of the Chinese property development industry exacerbated by the recent COVID-19 outbreak.

The Stable Outlook reflects our expectation that Yango will maintain its business scale and stable margins in the next 12 to 24 months as and when it converts its sizeable landbank into sales and revenues as planned while acquiring new lands in a prudent manner and maintaining a decent control on leverage.

Key Rating Rationales***Sizable and Diversified Land Bank Supports Consistent Contracted Sales Growth:***

Yango had a sizable and diversified land bank portfolio with a total GFA at 41.01 million square meters at end-2019, sufficient to support Yango’s contracted sales for the next three years. Yango adjusted its strategic focus, concentrating on its financial profile improvement, value-added services, and developing process modularization as attempts to sustain its business margin against market headwinds. At the same time, Yango’s sizable and diversified land bank helped to maintain its contracted sales growth, achieving total contracted sales of RMB211.0 billion (RMB135.1 billion in attributable amount) in 2019, which placed it among the top 15 property developers in China.

Operating Efficiency Provides Buffer to Liquidity: 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. Management’s focus on cash and liquidity has shown notable improvements in Yango’s financial profile. Yango posted a cash collection rate of 80.2% for 2019, marking a second consecutive year of a collection rate above 80%. This not only helps complement Yango’s enlarging operating cash pool for project development and land

acquisition, but also allows it to manage its liquidity and control its financial leverage. Yango's cash received from sales increased to RMB83.3 billion in 2019 from RMB79.4 billion in 2018, and Yango had a net operating cash flow of RMB15.4 billion in 2019.

Improving Leverage Provides Support to 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. Yango has however started to reduce total expenditure on land acquisitions in the recent years. It spent c. RMB30.6 billion and c. RMB49.2 billion on new land acquisitions in 2018 and 2019, respectively, which were approximately 40-60% of the amount spent in 2017 on an attributable basis. The management adopted a demand-driven land acquisition strategy, whereby it would spend 35-55% of Yango's cash collected from contracted sales on its land acquisitions, depending on market demand. Its total reported debt level thus remained stable at RMB112.3 billion at end-2019 and RMB112.6 billion at end-2018, versus RMB113.5 billion at end-2017, while its equity base continued to grow. As such, its financial leverage as measured by a debt/capitalization ratio decreased from 77.8% at end-2018 to 73.1% at end-2019. We expect that Yango would replenish its land bank in a measured manner and its financial leverage would continue to gradually decrease in the next 12 to 24 months.

Access to Broadening Array of Financing Channels with Better Debt Profile: Yango's liquidity continued to improve from end-2018. Cash to short-term debt ratio increased from 0.79x at end-2018 to 1.25x at end-2019. It had RMB42.0 billion cash on hand and RMB47.5 billion approved but unutilized bank credit at end-2019, which were more than sufficient to cover its RMB33.5 billion debt due within one year. Short-term debt accounted for c. 30% of its reported debt portfolio, down from c. 43% at end-2018. At the same time, Yango reduced its exposure to non-traditional banking products, which typically carry higher funding costs, from 52.5% of total debt portfolio at end-2018 to 24.9% at end-2019. It also diversified its funding channels in 2019 with different products such as CMBS, ABN, and REITs. We expect Yango to continue to maintain a balanced debt profile in the next 12 to 24 months.

Rating Sensitivities

We would consider downgrading Yango's rating if it were to (1) aggressively replenish its land bank which results in an increase in its financial leverage as measured by debt/capitalization to over 80% or a decrease in its EBITDA interest coverage to below 2.0x consistently, and/or (2) its operating performance were to deteriorate such that its contracted sales and/or revenue experience a material decline or liquidity profile is worsened.

We would consider upgrading Yango's rating if it were to (1) considerably increase its operating scale, and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 4.0x consistently.

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

Full List of Issuance Ratings

- USD300 million 9.25% senior unsecured notes due 2023 upgraded to 'BB' from 'BB-'
- USD300 million 10.25% senior unsecured notes due 2022 upgraded to 'BB' from 'BB-'

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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