

Lianhe Global has assigned ‘BB’ to Yuzhou Properties Company Limited’s proposed USD bonds

HONG KONG, 18 February 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 bonds (“the USD bonds”) to be issued by Yuzhou Properties Company Limited (“Yuzhou”; ‘BB’/Stable).

Yuzhou intends to use the net proceeds from the USD bonds primarily for refinancing its existing indebtedness.

Key Rating Rationales

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

Yuzhou’s rating reflects Yuzhou’s established market position in the Chinese property market, which is evident by its strong contracted sales growth, a higher-than-peer gross margin, and high-quality land bank primarily located in tier 1 and 2 cities in China. However, Yuzhou’s rating is constrained by its elevated financial leverage as compared with its peers.

The Stable Outlook on Yuzhou’s rating reflects our expectation that Yuzhou would continuously maintain a gross margin above 30% and expand its operating scale through active land acquisitions to sustain its contracted sales growth while managing its debt growth at a moderate level.

Rating Sensitivities

Any rating action on Yuzhou’s rating would result in a similar rating action on the USD bonds.

We would consider downgrading Yuzhou’s rating if it were to (1) report a below industry average gross margin, or (2) increase its financial leverage as measured by an EBITDA interest coverage ratio at below 3.0x as a result of its expansion plan.

We would consider upgrading Yuzhou’s rating if it were to (1) report a sustained growth both in scale and diversity while maintaining its leverage as measured by a debt over land bank ratio at below 70% and (2) maintain an EBITDA interest coverage ratio at above 5.0x persistently.

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 Yuzhou'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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