

# CIFI Holdings (Group) Co. Ltd.

## Initial Issuer Report

### Summary

Issuer Rating	BB+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	30 January 2019

### Operating Data:

CIFI Holdings (Group) Co. Ltd.

	31 Dec 2017	30 June 2018
Revenue (RMB: in million)	31,824	18,421
Contracted Sales (RMB: in million)	104,000	66,032
Contracted Average Selling Price (RMB/square meter)	16,530	15,314
Contracted Sales GFA (million square meters)	6.3	4.3
Attributable Land Bank GFA (million square meters)	16.0	21.1

GFA: Gross Floor Area

Source: CIFI's 2017-2018 annual and interim report

**Lianhe Ratings Global Limited ("Lianhe Global") has assigned a 'BB+' global scale Long-term Issuer Credit Rating to CIFI Holdings (Group) Co. Ltd. ("CIFI"). The Outlook is Stable.**

### Summary

The Issuer Rating reflects CIFI's established market position, a robust contracted sales growth, an improving operating scale with a diversified property portfolio and a consistent track record of strong sales execution capability. However, CIFI's rating is constrained by its increasing financial leverage and a high percentage of contracted sales contributed by joint ventures ("JV") projects which are likely to lower its financial transparency.

The Stable Outlook incorporates our expectation that CIFI will continuously maintain a strong revenue growth and a stable profit margin while prudently managing leverage level and controlling acquisition cost.

### Rating Rationale

**Robust Contracted Sales Growth:** CIFI recorded RMB104 billion contracted sales in 2017, which more than tripled the amount in 2015. The increase was mainly from sales in tier 2 and 3 cities. In the first six months of 2018, CIFI's half-year contracted sales reached RMB66 billion, a 40% increase compared with the same period in 2017. The robust sales growth fuelled CIFI's proactive land acquisitions. It spent RMB29 billion and RMB45 billion attributable amount on land acquisitions in 1H2018 and 2017, respectively. We expect CIFI will continue to deliver 27%-30% contracted sales growths by the end of 2019 and 2020 given its abundant land bank on hand, which is sufficient to support its contracted sales in the next 4 to 5 years.

**Diversified Property Portfolio:** CIFI's property portfolio is well diversified across China. In 1H2018, CIFI accelerated its land acquisition pace and replenished its inventory with the new land in attributable gross floor area ("GFA") of 5 million square meters. It further expanded its geographic coverage and ventured into 14 new cities of different tiers. At end-June 2018, it extended its coverage to more than 50 cities in four regions of China: the Yangtze River Delta, Pan Bohai Rim, Central Western and South China Region. The expanded portfolio will help CIFI diversify its revenue source and reduce business risk.

**Elevated Financial Leverage:** Most of CIFI's land acquisition activities were supported by financing from external channels, which included new bond issuance, bank borrowings increment and debt-like equity instruments issuance. As a result of CIFI's massive land replenishment to support a robust contracted sales growth, its financial leverage increased in 2017 as evidenced by debt/EBITDA to 6.1x from 5.6x in 2016. However, we expect CIFI will moderately increase its financial leverage and acquire the new land in a prudent way in the following 12-24 months.

**High Percentage of JV Contributions:** In 2016-2017, CIFI mainly expanded its operating scale through JV projects. This approach enabled CIFI to gain access to new and unfamiliar markets and to control its overall land acquisition costs. However, the decrease of overall interests in its acquired land bank resulting from an elevated JV participation rate is likely to impose project execution risks for CIFI and to lower its financial transparency. But most of CIFI's JV partners are

### Analysts

Alex Kung

+852 3462 9577

[alex.kung@lhratingsglobal.com](mailto:alex.kung@lhratingsglobal.com)

Iris Jiang

+852 3462 9583

[iris.jiang@lhratingsglobal.com](mailto:iris.jiang@lhratingsglobal.com)

### Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

reputable developers and have track records of successful project executions. This partially mitigates the project execution risks.

### Rating Sensitivities

We would consider downgrading CIFI's rating if it were to increase its financial leverage as measured by (1) debt over capitalization ratio at above 60%, or (2) EBITDA interest coverage ratio at below 3.0x.

We would consider upgrading CIFI's rating if it were to decrease its financial leverage as measured by (1) debt over land bank ratio at below 50%, and (2) EBITDA interest coverage ratio at above 5.0x, in a sustainable way.

### Company Profile

CIFI Holdings (Group) Co. Ltd. ("CIFI" or "the company") was founded by Mr. LIN Zhong in Shanghai, China in 2000 (EXHIBIT 1). It has been listed on the Hong Kong Stock Exchange (884.HK) since 23 November 2012.

CIFI is a large property developer with business coverage extending from property development to property investment in China. At end-June 2018, CIFI held a total equity of RMB43.7 billion and an attributable land bank of 21.1 million square meters.

Sales from property development were the major revenue contributor to CIFI in 2015-2017, which accounted for over 90% of its revenue (EXHIBIT 2). At end-June 2018, CIFI had over 160 projects which were either under or held for future development and reported RMB66 billion contracted sales. CIFI's property projects disperse widely in China and its geographic coverage includes the Yangtze River Delta, Pan Bohai Rim, Central Western and South China Region.

Income from CIFI's property investment and management is minimal when compared with its sales from the property development segment. However, these two segments provide a relatively stable income source for the company, 4%-7% of its revenue during 2015-1H2018. At end-June 2018, CIFI owned 16 investment projects with an attributable land bank of 0.44 million square meters, of which 9 had commenced leasing. Income from these segments was mainly generated from the rental income of its investment properties in Shanghai and Chongqing.

#### Exhibit 1: CIFI's Shareholder Structure as of End-June 2018

Shareholder	Percentage
LIN's Family#	53.33%
Ping An Life Insurance Company of China, Ltd.	9.64%
Public	37.03%
<b>Total</b>	<b>100.00%</b>

Note:

#LIN's family refers to indirectly holding or holding through LIN's family trusts by certain family members of Mr. LIN Zhong, Mr. LIN Wei, and Mr. LIN Feng brothers.

Source: CIFI's 2018 interim report

**Exhibit 2: CIFI's Revenue Breakdown by Business Segment (RMB: in million)**

Revenue / % of total	FY2015		FY2016		FY2017		1H2018	
Sales of properties	17,047	93.5%	20,713	93.2%	30,295	95.2%	17,395	94.4%
Rental income from investment properties	41	0.2%	62	0.3%	94	0.3%	57	0.3%
Property management & others	1,143	6.3%	1,449	6.5%	1,435	4.5%	969	5.3%
<b>Total</b>	<b>18,231</b>	<b>100.0%</b>	<b>22,224</b>	<b>100.0%</b>	<b>31,824</b>	<b>100.0%</b>	<b>18,421</b>	<b>100.0%</b>

Source: CIFI's 2015-2018 annual and interim reports

## Business Profile

### Market Position

As per statistics from China Real Estate Information Corporation ("CRIC"), CIFI was ranked among the top 30 among the Chinese property developers in terms of contracted sales and total land bank GFA during 2016-2017, which were comparable to Logan Property Holdings Company Limited (龙光地产) in attributable contract sales and Greentown China Holdings Limited (绿城中国) in attributable land bank value (EXHIBIT 3). CIFI reported contracted sales amount of RMB66 billion and contracted sales GFA of 4.33 million square meters for the first six months ended in 2018. And its total and attributable land bank reached 31 million and 16 million square meters, respectively.

Backed by CIFI's strong contracted sales growth in 2015-2017, its revenue tripled to RMB104 billion in 2017 from RMB31 billion in 2015. CIFI expands its operating scale through active land acquisitions. The new land acquisition GFA in 2017 totaled 13.2 million square meters, which were more than double of its 2017 contracted sales GFA. The company was ranked 14<sup>th</sup> in terms of new land acquisition GFA among its peers in 2017 (EXHIBIT 4).

**Exhibit 3: CIFI's Rankings by Contracted Sales Among the Chinese Property Developers**

Amount / Ranking	FY2015		FY2016		FY2017		YTD 30Sep2018	Ranking Changes (2018 vs 2015)	
Contracted sales amount *	31	25 <sup>th</sup>	65	18 <sup>th</sup>	104	15 <sup>th</sup>	108	15 <sup>th</sup>	+10
Contracted sales by GFA #	2.23	35 <sup>th</sup>	3.69	24 <sup>th</sup>	6.22	24 <sup>th</sup>	6.89	20 <sup>th</sup>	+15

Note:

\*The contracted sales amount is based on statistics from CRIC. Differences may exist between the company's reported amount as a different calculation method was applied. The amount is in RMB billion.

# The contracted sales GFA is based on statistics from CRIC. Differences may exist between the company's reported amount as a different calculation method was applied. The amount is in million square meters.

Source: CRIC Information Centre

**Exhibit 4: CIFI's Rankings by Land Bank and New Land Acquisition Among Chinese Property Developers**

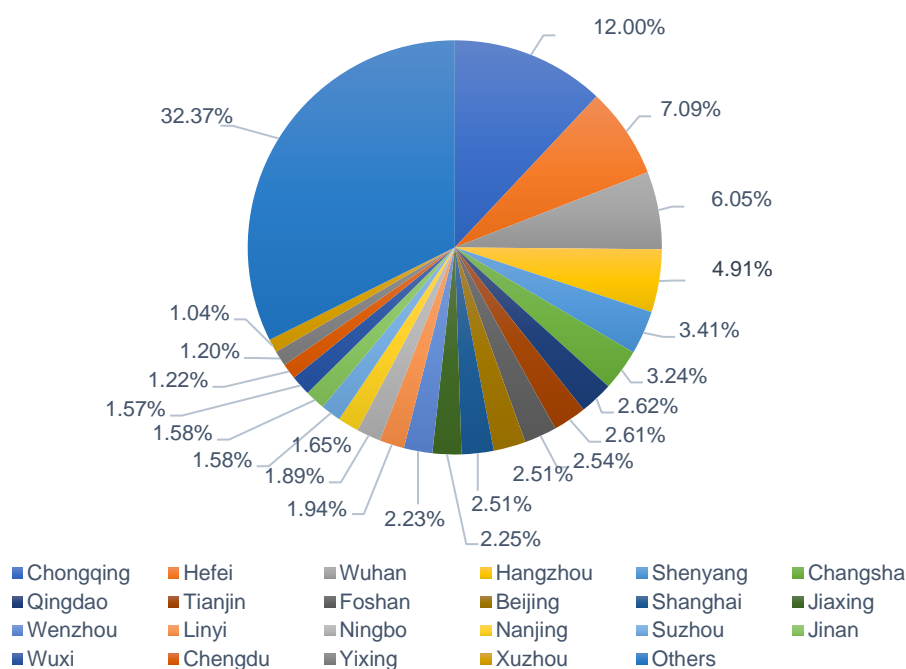
Amount / Ranking	FY2017		YTD 30Nov2018	
Attributable land bank by value	RMB230.8 bn	37 <sup>th</sup>	N/A	N/A
Land bank by GFA	26.53m sqm	27 <sup>th</sup>	N/A	N/A
New acquisition land bank by value	RMB235.2 bn	11 <sup>th</sup>	RMB223.5 bn	11 <sup>th</sup>
New land acquisition by GFA	13.2m sqm	14 <sup>th</sup>	13.7m sqm	13 <sup>th</sup>

*Note: The amount is based on statistics from CRIC. Differences may exist between company's reported amount as a different calculation method was applied.*

*Source: CRIC Information Centre*

**Diversified and Sizable Land Bank Portfolio**

CIFI's land bank portfolio is well diversified across China. At end-June 2018, 54.28% of CIFI's saleable land bank was located in tier 2 cities, followed by 15.97% in tier 3 cities and 7.97% in tier 1 cities (the remaining 21.72% was car parks and 0.06% was in Hong Kong). The company's saleable land bank was evenly distributed among cities with the top 3 largest exposures accounting for no more than 12% at end-June 2018 (EXHIBIT 5).

**Exhibit 5: CIFI's Land Bank was Evenly Distributed by GFA**


*Note: Others including car parks and total GFA in one single city was less than 1%.*

*Source: CIFI's 2018 interim report and Lianhe Global*

Driven by a robust contracted sales growth in 2017, CIFI accelerated its new land acquisition pace in 1H2018 and replenished its inventory with the new land in attributable gross floor area of 5 million square meters. It further expanded its geographic coverage and ventured into 14 new cities of various tiers. Its coverage was extended to more than 50 cities in four regions of China: the Yangtze River Delta, Pan Bohai Rim and Central Western and South China Region by end-

June 2018. CIFI's land bank on hand is sufficient to support its contracted sales in the next 4-5 years.

As per the portfolio composition, tier 2 cities are still CIFI's major focuses as over half of its land bank GFA was in tier 2 cities at end-June 2018. CIFI aims to expand its operating scale to cover more cities in central and southern China in the future. The land acquisition cost in the first six months of 2018 reached a high at RMB53 billion.

We believe that CIFI's expanded land portfolio will help it diversify revenue sources and reduce business risk especially when the property market is under pressure.

### **Stable Operating Performance with Strong Cash Collection, Sales Execution and Cost Control Capacity**

CIFI has been operating its property sales business by maintaining a high inventory turnover rate. It usually commences the presale of a property project in eight months after it obtains the land and it internally sets a target of turning its cash flow into positive in 12 months. As such, CIFI is able to deliver a property project in 2 to 2.5 years after the acquisition of a piece of land.

Applying such a quick inventory turnover sales strategy sets a high standard for CIFI to manage its overall operating performance as this strategy requires the project execution teams to ensure a prompt project delivery timeline and the sales teams to execute sales efficiently.

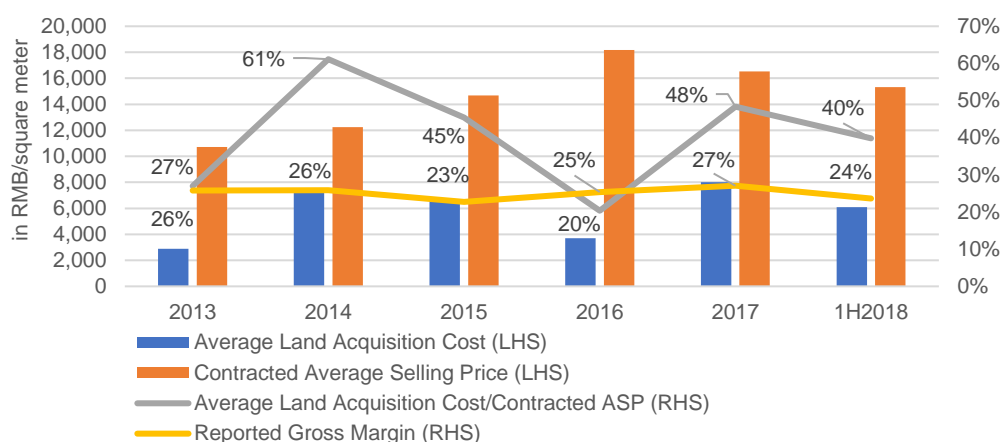
CIFI has shown a stable operating performance even though it applies a high inventory turnover sales strategy. CIFI's strategy of partnering with reputable property companies in local markets to develop its business equips itself with a strong sales execution capability. In addition, CIFI sets an internal Key Performance Index ("KPI") for its sales team to ensure an at least over 70% cash collection rate within one year after the presale of the properties. Under this KPI, CIFI has maintained a higher-than-peer cash collection rate (over 85%) and a cash conversion cycle of less than 600 days since 2015 (EXHIBIT 6). The relatively short cash conversion cycle (2016: 567 days; 2017: 514 days) enables CIFI to bring in more cash to support its business development and expansion plans.

#### **Exhibit 6: CIFI Maintained High Cash Collection Rates**

<b>As reported</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>	<b>1H2018</b>
Cash collection rate	About 90%	>95%	About 85%	>80%

*Source: CIFI's 2015-2018 annual and interim reports*

CIFI has also exhibited a good cost control capability. In the years when the land prices are high, it will decrease its land acquisition budget. Moreover, it has adopted a ceiling price guidance that the average land acquisition cost should not exceed 50% of the projected contracted average selling price. As such, CIFI's overall gross margins were maintained at 22%-27% in 2015-2017 (EXHIBIT 7). As per the acquisition channel, CIFI has applied M&A and JV methods to control its overall land cost (EXHIBIT 8).

**Exhibit 7: CIFI's Land Costs Fluctuated in the Past Years while It Maintained Stable Gross Margins**


Source: CIFI's 2013-2018 annual and interim reports

**Exhibit 8: CIFI's Utilisation of Land Acquisition Channels by Acquisition Value**

Channels	FY2017	1H2018
M&A/JV	42%	11%
Public Channels	58%	89%
Total	100%	100%

Source: CIFI's 2017-2018 annual and interim company result presentations

## Financial Profile

### Active Land Acquisitions Resulted in Elevated Leverage in 1H2018

CIFI's land acquisitions are mainly supported by utilising borrowing funds from external channels, which include bank borrowings, perpetual capital instruments and bond issuance. As such, its reported debt increased by 49.4% to RMB70.6 billion at end-June 2018.

CIFI's expanded asset base, which was mainly enlarged by adding leverage in the past, is likely to squeeze its profit margin. But thanks to CIFI's strong financing capability, it maintained an overall lower cost of funding than its peers in the past (i.e. 2016: 5.5%; 2017: 5.2% and 1H2018: 5.3%). And the increasing leverage is also mitigated by CIFI's acceptable liquidity position in view that it had RMB35.8 billion cash on hand versus RMB15.0 billion debt due within one year at end-June 2018.

### High JV Participations Cause Likely Project Execution Risks and Lower Financial Transparency

Applying JV participation operating model in new property projects enables CIFI to gain access to more markets and to reduce the concentration risk. However, this operating model also causes likely project execution risks when CIFI gradually decreases its overall stakes in the under-development projects (EXHIBIT 9).

**Exhibit 9: CIFI's Stake Holdings in Land Bank**

Land bank GFA (in million square meters)	FY2015	FY2016	FY2017	1H2018
Total	12.5	17.5	31.0	40.4
Attributable	8.5	10.5	16.0	21.1
% of Total	68.0%	60.0%	51.6%	52.2%

Source: CIFI's 2015-2018 annual and interim reports

A high exposure to JV projects will also likely lower CIFI's financial transparency and distort its actual credit profile. However, such risk is partially mitigated by CIFI's partnership with strong and reputable property players who have large presences in local markets.

**Key Assumptions**

- Contracted sales amount: RMB180-232 billion for 2019-2020
- Average contracted selling price: 5% decrease for 2019-2020
- Land bank GFA/contracted sales GFA: 5.5x-5.8x for 2019-2020
- Percentage of pre-sold GFA delivered from total land bank: 5% for 2019-2020
- Cash dividend payout ratio: 35% for 2019-2020

**Key Financial Metrics**

2016A-2020F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalisation	Quick Ratio
Weighted Average	70.00%	3.05x	58.94%	0.37x

Source: CIFI's 2016-2018 annual and interim reports and Lianhe Global's adjustments and forecasts

**Liquidity**

CIFI's liquidity position is satisfactory as it had RMB35.8 billion cash on hand at end-June 2018, which was sufficient to cover its RMB15 billion debt due in the next 12 months and a RMB9.8 billion committed land premium payable in the next 12 months.

CIFI has a good track record on managing its debt structure (EXHIBIT 10). Its debt profile is healthy as it maintained a reported short-term debt at only 21% of a total reported debt at end-June 2018.

Moreover, CIFI has exhibited a strong capability in accessing to different financing channels and obtaining a lower cost of funding from both onshore and offshore markets when compared with its peers. It maintained an overall average cost of funding at below 6% in the past 2 years.

**Exhibit 10: Debt Maturity Profile as of 30 June 2018**

(RMB: in million)	Amount	Percentage
3Q2018-4Q2018	4,655	6.25%
1Q2019-2Q2019	10,311	13.85%
3Q2019-4Q2019	3,029	4.07%
Thereafter	56,464	75.83%
<b>Total</b>	<b>74,459</b>	<b>100.00%</b>

Source: CIFI

**Peer Comparisons**

Future Land Development Holdings Ltd ("Future Land") is slightly larger than CIFI in terms of contracted sales and revenue base. It reported over 30% gross margins in 2017 and 1H2018, which were higher than those of CIFI (2017: 27.09%; 1H2018: 24.14%) (EXHIBIT 11&12).



However, Future Land's credit profile has been improving only since 2017 as evidenced by widened margins and rapidly growing contracted sales. It reported lower than 30% gross margins in 2015-2016 and a lower revenue of RMB28.2 million in 2016, which was only half of the total amount in 2017.

Furthermore, over half of CIFI's land bank as measured by GFA was located in tier 2 cities while over half of Future Land's was in tier 3 and 4 cities at end-June 2018. Due to Future Land's more aggressive land replenishment, its financial leverage elevated quickly as measured by debt/capital, reaching 70.7% at end-June 2018, which was higher than CIFI (61.74%).

Greenland Hong Kong Holdings Ltd's ("Greenland HK") financial leverage and gross margin are comparable to CIFI. But CIFI is much larger than Greenland HK in terms of land bank scale and contracted sales (EXHIBIT 11&12). CIFI's larger scale can help it diversify the business risk when the market is under pressure. As Greenland HK is majority owned (59%) by Greenland, which is one of China's top 10 property groups, it enjoys competitive advantages over CIFI on accessing to various financing channels and acquiring lower cost of land.

**Exhibit 11: Key Financial Metrics**

RMB: in million Listing code Period	CIFI 884.HK		Greenland Hong Kong Holdings Ltd 337.HK		Future Land Development Holdings Ltd 1030.HK	
	FY 2017	LTM June 2018	FY 2017	LTM June 2018	FY 2017	LTM June 2018
	Revenue	31,824	39,009	14,619	15,166	40,820
Gross Margin (%)	27.09	24.14	24.57	25.36	33.27	34.61
Operating Margin (%)	24.21	24.97	15.79	16.83	27.27	29.14
EBITDA Margin (%)	24.27	25.03	16.46	17.52	28.10	30.00
Net Debt/EBITDA (x)	2.19	3.50	5.04	6.51	2.51	3.26
EBITDA/Interest (x)	3.34	2.56	2.37	1.14	4.59	1.47
Total Debts to Total Capital (%)	57.96	61.74	60.29	61.80	66.72	70.71
Debt/EBITDA (x)	6.12	7.23	7.31	7.48	4.30	5.00
Quick Ratio (x)	0.39	0.31	0.13	0.04	0.16	0.14
Inventory Days	565	767	567	685	777	1,020

Source: Bloomberg

**Exhibit 12: Key Operating Metrics**

in million square meters Listing code Period	CIFI 884.HK		Greenland Hong Kong Holdings Ltd 337.HK		Future Land Development Holdings Ltd 1030.HK	
	FY 2017	1H 2018	FY 2017	1H 2018	FY 2017	1H 2018
	Contracted sales (RMB million)	104,000	66,032	30,111	15,315	126,472
Contracted sales GFA	6.29	4.33	2.27	1.27	9.28	7.75
Total land bank GFA	31.00	40.40	19.00	20.00	67.40	86.44
Attributable land Bank GFA	16.0	21.10	N/A	N/A	35.03	43.65

Source: Company's 2017-2018 annual and interim reports





**Appendix I: CIFI's Rating Factors**

Rating Factors	Weight	Initial Rating
<b>I. Market Demand Analysis</b>	<b>15.0%</b>	<b>a-</b>
<b>II. Business Analysis<sup>1</sup></b>	<b>45.0%</b>	<b>bbb</b>
<b>III. Financial Analysis<sup>2</sup></b>	<b>40.0%</b>	<b>b+</b>
<b>IV. Base Score</b>	<b>100.0%</b>	<b>bb+</b>
<b>V. Industry Risk</b>		<b>bbb</b>
<b>VI. Qualifiers</b>		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
<b>Stand-Alone Creditworthiness (SAC)</b>		<b>bb+</b>
<b>VII. External Support</b>		
Corporate Entity Support		Not Applicable
<b>Issuer Credit Rating</b>		<b>BB+</b>

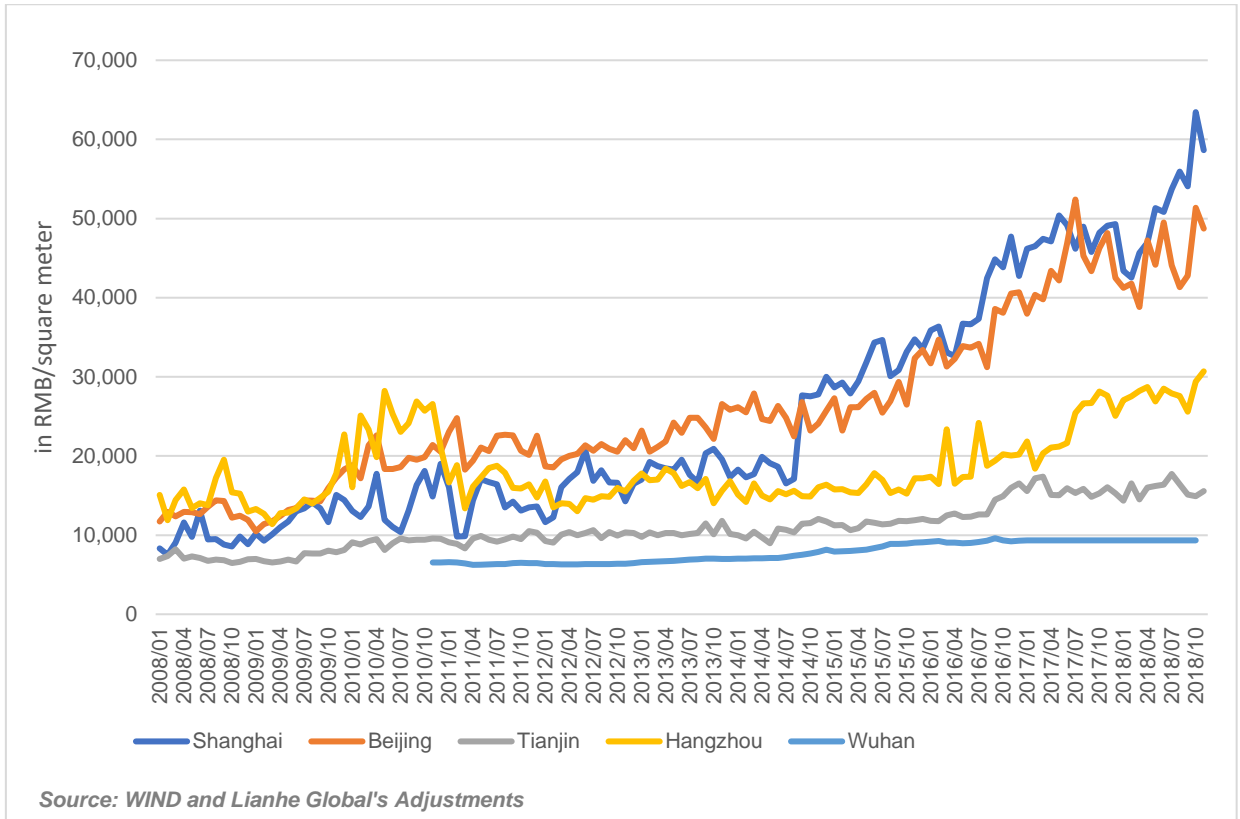
*Source: Lianhe Global*

<sup>1</sup> Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

<sup>2</sup> Financial Analysis contains sub-factors of debt/land bank, EBITDA interest coverage, debt/capitalization and quick ratio.



Appendix II: Major Chinese Cities' Monthly Contracted Average Selling Price



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