

# Jingrui Holdings Limited

## Initial Issuer Report

### Summary

Issuer Rating	B+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	21 May 2019

### Operating Data:

Jingrui Holdings Limited

	2017	2018
Revenue (RMB: in million)	15,668	11,268
Contracted Sales (RMB: in million)	18,373	25,236
Contracted Average Selling Price (RMB/square meter)	18,177	21,727
Contracted Sales GFA (million square meters)	1.01	1.16
Land Bank GFA (million square meters)	4.41	4.80

GFA: Gross Floor Area

Source: Jingrui

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

### Summary

The Issuer Rating reflects Jingrui Holdings Limited ("Jingrui" or "the company")'s operating track record and increasing exposure in tier 1 and 2 cities, especially in the Yangtze River Delta. However, Jingrui's rating is constrained by its small operating scale, weak competitiveness on land acquisition, moderately high financial leverage and lower-than-peer gross margin.

The Stable Outlook reflects our expectation that Jingrui would replenish its land bank portfolio and expand its operating scale in tier 1 and 2 cities while managing its debt growth cautiously and improving its gross margin commensurate with 'B' rating category credit profile.

### Rating Rationale

**Small Operating Scale with a focus on Tier 1 and 2 Cities:** Jingrui's operating scale is small as measured by its total land bank gross floor area ("GFA") and contracted sales of 4.8 million square meters and RMB25.2 billion, respectively, at end-2018. Jingrui was ranked 91st in terms of contracted sales among the Chinese property developers according to CRIC Information Centre's statistics. In view of its below-market-average growth of contracted sales in the previous years, Jingrui has changed its operating strategy to focus on tier 1 and 2 cities since 2014. It massively de-stocked its projects in tier 3 cities by lowering contracted selling prices and accelerating its project execution paces. These measures were effective such that its exposure in tier 3 cities decreased to 5.1% at end-2018 from 50.4% at end-2013.

**Volatile but Improving Operating Metrics:** Jingrui's operating metrics was volatile as evidenced by the fluctuation of its gross margin in the range of 3.2% to 16.1% from 2015 to 2017 when it was executing the turnaround plan by price reductions and destocking its inventory in tier 3 cities. The price reduction strategy and small operating scale exacerbated Jingrui's volatile operating performance. However, as Jingrui expanded its operating exposure in tier 1 and 2 cities with higher contracted selling prices, its gross margin rebounded to 23% in 2018 from 3.2% in 2015. We expect that Jingrui's gross margin would be stable and stay in the range of 24% to 25% in the next 12 to 24 months in view of its completed destocking strategy at end-June 2018.

**Proven Operating Track Record in the Yangtze River Delta but Relatively Weak Competitiveness:** Since its establishment in 1993, Jingrui, based in Shanghai, has exhibited a proven operating track record in the Yangtze River Delta, especially in Shanghai. Jingrui has operated its property development business in 18 cities across China, of which 14 cities are among the core cities in the Yangtze River Delta Region. However, due to its small market share, Jingrui's competitiveness in acquiring low-cost land, especially in tier 1 and 2 cities, is relatively weak. The average acquisition cost of its land was higher than the peers that operated in the Yangtze River Delta (2017: RMB 7,135/square meter; 2018: RMB 9,130/square meter). Jingrui has been strengthening its competitiveness in terms of land acquisition by cooperating with other developers in recent years. The percentage of land acquisition GFA from Joint Venture ("JV") projects increased to 47% in 2018 from 22% in 2016. We expect Jingrui's capacity of acquiring low-cost land in tier 1 and 2 cities to further improve its profitability and replenishment of land

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### Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

bank to support its contracted sales growth would be under pressure in the following 12 to 24 months due to the ever-fierce competition in tier 2 cities, which is also Jingrui's core market focus.

**Moderately High Leverage:** As Jingrui's turnaround plan has been effective, its financial leverage decreased as EBITDA margin improved in 2017. However, as Jingrui was continually deepening its coverage in the Yangtze River Delta and selectively entered into several provincial cities in the central and western area of China, its financial leverage experienced an increase in 2018. When compared with the peers with a similar scale in the market, Jingrui's leverage as measured by a debt/capitalization ratio (around 70% in 2017 and 2018) was moderately high. Considering Jingrui's market position and financing capacity, we anticipate Jingrui's leverage would increase in the next 12 to 24 months as it gradually expands its operating scale.

### Rating Sensitivities

We would consider downgrading Jingrui'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/capitalisation ratio to increase to 80%, or if its contracted sales have a material decrease or gross margin drops to below 15%.

We would consider upgrading Jingrui's rating if it were to expand its operating scale comparable to our rated peers in the BB category while decreasing its financial leverage as measured by a debt/capitalization ratio at below 60% and improving its gross margin at over 30% consistently.

### Company Profile

Established in 1993, Jingrui Holdings Limited is a regional Chinese property developer with its major business coverage in the Yangtze River Delta in China. Jingrui is majority owned by Mr. Mr. Yan Hao (37.97%) and Chen Xin Ge (29.32%) (EXHIBIT 1). Jingrui has been listed on the Hong Kong Stock Exchange (1862.HK) since 2013.

Jingrui's property development segment contributed over 90% of the revenue to the company in the past 3 years (EXHIBIT 2). Since 2014, Jingrui has been actively destocking its exposure in tier 3 cities and targeting tier 2 cities in the Yangtze River Delta as its major market focus. Therefore, Jingrui's exposure in tier 3 cities decreased year-over-year to 0.25 million square meters at end-2018 from 2.42 million square meters in 2014. Correspondingly, its land bank GFA in tier 2 cities doubled to 4.22 million square meters at end-2018. Due to Jingrui's changed land bank composition, its property development revenue generated from tier 2 cities exceeded that of tier 3 cities and accounted for Jingrui's major revenue source at end-2018.

In addition to property development, the company also conducts property investment and management activities in China. Revenue contributions from these two segments were limited and accounted for less than 8% in aggregate in the past 4 years. However, the rental and investment business has provided Jingrui with stable income streams which had doubled in terms of revenue in 2018 compared to 2017. Jingrui is now planning to expand its business in these two segments. It has already established several platforms to raise funding from capital markets to invest in office and apartment buildings in tier 1 cities, mainly in Shanghai and Beijing.

**Exhibit 1: Jingrui's Shareholder Structure as of 31 Dec 2018**

Shareholder	Percentage
Mr. Yan Hao #	37.97%
Mr. Chen Xin Ge *	29.32%
Public	32.71%
<b>Total</b>	<b>100.00%</b>

Note:

#Mr. Yan Hao held 37.95% of Jingrui through Beyond Wisdom Limited. Mr. Yan Hao is Co-chairman and Chief Executive Officer of Jingrui.

\*Mr. Chen Xin Ge held 28.88% of Jingrui through New Decent King Investment Limited and Sunny King International Limited. Mr. Chen Xin Ge is Co-chairman of Jingrui.

Source: Jingrui

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

Revenue / % of total	FY2015		FY2016		FY2017		FY2018	
Property development	5,608	97.38%	14,737	97.91%	15,255	97.36%	10,440	92.65%
Property Investment and Management	105	1.82%	176	1.17%	330	2.11%	520	4.62%
Property Construction and Others	46	0.80%	138	0.92%	83	0.53%	308	2.73%
<b>Total</b>	<b>5,759</b>	<b>100.00%</b>	<b>15,051</b>	<b>100.00%</b>	<b>15,668</b>	<b>100.00%</b>	<b>11,268</b>	<b>100.00%</b>

Source: Jingrui

## Business Profile

### Market Position

Jingrui's operating scale is small as measured by both contracted sales and land bank scale when compared with other Chinese property developers. It was ranked 91st in terms of contracted sales and over 100th in terms of contracted sales GFA at end-2018 (EXHIBIT 3 & 4).

Jingrui has been massively destocking its inventory in tier 3 cities since 2014 by cutting contracted selling price and accelerating its project execution paces. These measures were effective which reduced its land bank GFA in tier 3 cities to 0.25 million square meters at end-2018. As such, Jingrui's contracted sales ranking ascended to 81st in 2016 from over 100th in 2015 through destocking. As the destocking task was near completion, Jingrui's contracted sales growth rate decelerated and its ranking descended to 91<sup>st</sup> in 2018.

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

Amount / Ranking	FY2016		FY2017		FY2018		Ranking Changes (2018 vs 2016)
Contracted sales amount *	20.27	81 <sup>st</sup>	17.12	98 <sup>th</sup>	23.63	91 <sup>st</sup>	-10
Contracted sales by GFA #	1.96	62 <sup>nd</sup>	0.89	119 <sup>th</sup>	1.00	129 <sup>th</sup>	-67

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: Jingrui's Rankings by Land Bank and New Land Acquisition Among Chinese Property Developers**

Amount / Ranking	FY2017		FY2018	
New acquisition land bank by value	RMB33.2 bn	67 <sup>th</sup>	RMB22.6 bn	80 <sup>th</sup>
New land acquisition by GFA	1.63m sqm	75 <sup>th</sup>	N/A	>100 <sup>th</sup>

Note:

sqm: square meters

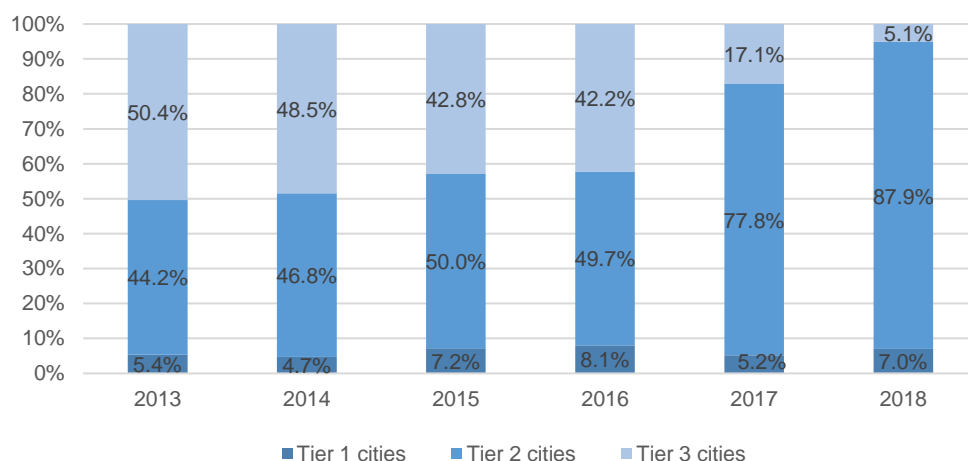
The amount is based on statistics from CRIC. Differences may exist between company's reported amount as a different calculation method was applied.

Source: CRIC Information Centre

**Small Operating Scale while a Focus on Tier 1 and 2 Cities**

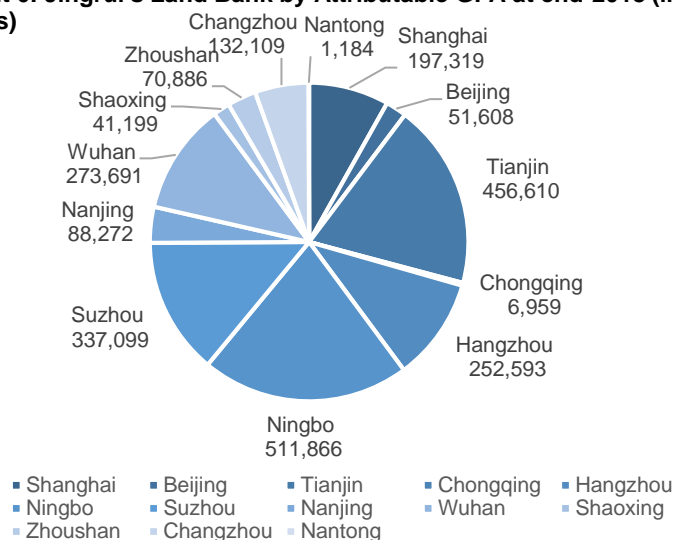
Jingrui's operating scale was small in terms of total land bank GFA and contracted sales at 4.8 million square meters and RMB25 billion, respectively, at end-2018. Given the company's below-market-average growth of contracted sales in the previous years, Jingrui has changed its operating strategy to focus on the property development business in tier 1 and 2 cities since 2014. It massively de-stocked its projects in tier 3 cities by lowering contracted selling prices and accelerating project execution paces. These measures were effective which reduced its land bank GFA in tier 3 cities to 5.1% at end-2018 from 50.4% at end-2013 (EXHIBIT 5). At the same time, Jingrui reported lower gross margins due to the implementation of the destocking strategy from 2013 to 2018.

We project that Jingrui's increasing exposure in tier 1 and 2 cities, such as Nanjing, Suzhou, and Hangzhou, and destocking of inventory in tier 3 cities, such as Shaoxing, Nantong, Yangzhou and Taizhou, will help it secure an over 20% gross margin and maintain a sustained contracted sales growth in the next 12 to 24 months (EXHIBIT 6 & 7).

**Exhibit 5: Jingrui's Land Bank Composition during 2013-2018**


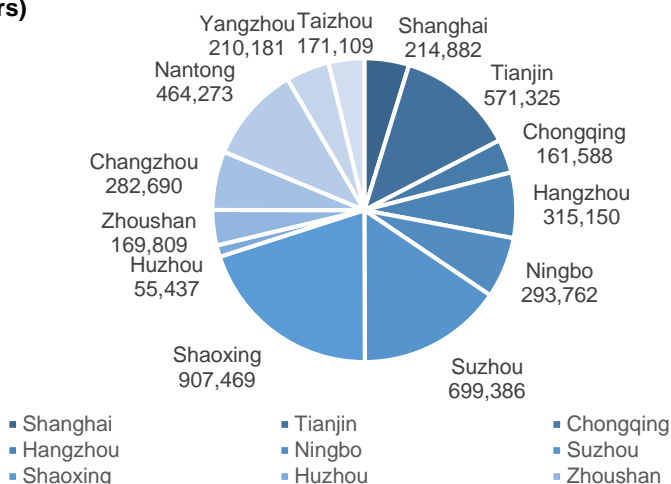
Source: Jingrui and Lianhe Global

**Exhibit 6: Jingrui's Land Bank by Attributable GFA at end-2018 (in square meters)**



Source: Jingrui and Lianhe Global

**Exhibit 7: Jingrui's Land Bank by Attributable GFA at end-2013 (in square meters)**



Source: Jingrui and Lianhe Global

### Proven Operating Track Record in the Yangtze River Delta but Relatively Weak Competitiveness

Since its establishment in 1993, based in Shanghai, Jingrui has exhibited a proven operating track record in the Yangtze River Delta, especially in Shanghai. Jingrui has operated its property development business in 18 cities across China, of which 14 cities are among the core cities in the Yangtze River Delta Region. However, due to its small market share, Jingrui's competitiveness in acquiring low-cost land, especially in tier 1 and 2 cities, is relatively weak. Jingrui's average land acquisition cost was higher than the peers that operate in the Yangtze River Delta (2017: RMB 7,135/square meter; 2018: RMB 9,130/square meter). Jingrui has been strengthening its competitiveness by cooperating with other developers in acquiring new land. The percentage of acquisition GFA from JV projects increased to 47% in 2018 from 22% in 2016. We expect Jingrui's capacity of acquiring low-cost land in tier 1 and 2 cities to further improve its profitability and replenishment of land bank to support contracted sales growth would be under

pressure in the following 12 to 24 months due to the ever-fierce competition in tier 2 cities, which is also Jingrui's core market focus.

## Financial Profile

### Volatile but Improving Operating Metrics

Jingrui's operating metrics was volatile as evidenced by the fluctuation of its gross margin in the range of 3.2% to 16.1% from 2015 to 2017 when it was executing the turnaround plan by price reductions and destocking its inventory in tier 3 cities. The price reduction strategy and small operating scale exacerbated Jingrui's volatile operating performance. As 42.8% of Jingrui's land bank by GFA was located in tier 3 cities, the selling price reduction on its properties in these cities had imposed a negative impact on its profitability, which dragged down its gross margin to 3.2% and 4.1% in 2015 and 2016. Moreover, Jingrui's brand recognition and market position in local markets were low. Therefore, the only feasible method to quickly destock its inventory in tier 3 cities was to sacrifice its profit margin by large price reduction to compete with the other local property developers. As Jingrui focused on developing its property business in tier 1 and 2 cities and was involved in more JV projects to expand its operating scale, its gross margin rebounded to 23% in 2018. During 2015 to 2018, Jingrui actively replenished its land bank by increasing its exposure in tier 1 and 2 cities, such as Beijing, Hangzhou, Ningbo and Nanjing, etc. The total expenditure Jingrui spent on land acquisition doubled in 2018 to around RMB15 billion. As such, the contracted sales contribution from tier 1 and 2 cities increased and drove up Jingrui's overall gross margin.

We expect that Jingrui's gross margin will stay in the range of 24% to 25% in the next 12 to 24 months in view of its destocking task was completed at end-June 2018.

### Moderately High Leverage

As Jingrui's turnaround plan has been effective, its financial leverage decreased as EBITDA margin improved in 2018. However, as Jingrui was continually deepening its coverage in the Yangtze River Delta and had selectively entered into several provincial cities in the central and western area in China, its financial leverage increased in 2018. When compared with other peers with a similar scale in the market, Jingrui's leverage as measured by a debt/capitalization ratio (around 70% for 2017 and 2018) is moderately high. Considering Jingrui's market position and financing capacity, we anticipate that Jingrui's leverage will increase in the next 12 to 24 months as it gradually expands its operating scale.

### Key Assumptions

- Contracted sales: RMB28-33 billion for 2019-2020
- Sell-through Rate: 70% for 2019 and 2020
- Land acquisition expenditures: 65% of the cash collected from annual contracted sales for 2019 and 2020
- Cash collection rate: 90% for 2019 and 2020

### Key Financial Metrics

2016A-2020F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalisation	Quick Ratio
Weighted Average	88.64%	1.96x	74.60%	0.32x

Source: Jingrui and Lianhe Global's adjustments and forecasts



## Liquidity

Jingrui's liquidity position is satisfactory given that it had cash on hand at end-2018 which was adequate to cover its debt due within one year (RMB11.6 billion cash against RMB6.5 billion short-term debt). Jingrui's debt profile is evenly distributed in which its short-term debt accounted for 34.7% of the total debt at end-2018. As a Hong Kong-listed entity, Jingrui is able to utilize various financing channels in both onshore and offshore markets to support its financing needs.

## Peer Comparisons

We choose Modern Land (China) Co., Limited ("Modern Land") and Huayuan Property Co., Ltd. ("Huayuan") as Jingrui's peers for comparison (EXHIBIT 8 & 9).

Modern Land and Huayuan are both middle-sized Chinese property developers and their revenue scales are smaller than Jingrui. Modern Land's operating strategy is more aggressive than the other two peers. As a small player in the market, Modern Land accelerated its land acquisition pace in 2017 and 2018 which resulted in elevated financial leverage. Modern Land and Huayuan are both regional property developers that focus on the market in higher-tier cities in China. Their average land acquisition costs are relatively lower than Jingrui.

Huayuan, as a major subsidiary of Huayuan Group which is wholly owned by Beijing Xicheng District State-owned Assets Supervision and Administration Commission ("SASAC"), has competitive advantages on acquiring high-quality land at competitive prices and obtaining low-cost financing funds through its parent group's support when compared with Jingrui and Modern Land. However, as a subsidiary of State-Owned Enterprise ("SOE"), Huayuan also takes on the development and resettlement housing projects for local governments, which is likely to drag down its profit margin.

Jingrui's operating efficiency is better than Modern Land and Huayuan given its higher cash collection rate and quicker project turnover rates.

### Exhibit 8: Key Financial Metrics

RMB: in million						
Listing code	Jingrui		Modern Land (China) Co., Limited		Huayuan Property Co., Ltd.	
	1862.HK		1107.HK		600743.SS	
Period	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Revenue	15,668	11,268	8,506	9,338	9,205	6,458
Gross Margin (%)	16.07	22.61	21.05	23.25	22.56	24.00
Operating Margin (%)	12.48	18.97	17.20	17.11	17.75	15.25
EBITDA Margin (%)	12.55	19.10	17.54	17.39	18.07	N/A
Net Debt/EBITDA (x)	2.98	2.57	5.83	5.66	5.47	N/A
EBITDA/Interest (x)	1.76	1.40	1.25	1.22	14.09*	N/A
Total Debts to Total Capital (%)	69.71	67.97	69.83	67.75	67.86	72.30
Debt/EBITDA (x)	7.18	8.69	10.88	9.81	9.83	N/A
Quick Ratio (x)	0.37	0.52	0.27	0.19	0.55	0.37
Inventory Days	424	655	956	1,241	1,012	1,975

Note:

\* The interest amount from Bloomberg does not include capitalized interests.

Source: Bloomberg and Lianhe Global



**Exhibit 9: Key Operating Metrics**

in million square  
meters

Listing code

**Jingrui**

1862.HK

**Modern Land (China)  
Co., Limited**

1107.HK

**Huayuan Property Co., Ltd.**

600743.SS

**Period**

**FY 2017**

**FY 2018**

**FY 2017**

**FY 2018**

**FY 2017**

**FY 2018**

Contracted sales  
(RMB million)

18,373

25,236

22,186

32,157

7,720

12,045

Contracted sales  
GFA

1.01

1.16

1.79

3.04

0.67

0.95

Total land bank GFA

4.41

4.80

6.49

8.77

5.26

8.97

Attributable land  
bank GFA

2.52

2.42

4.10

5.24

N/A

N/A

*Source: Company's 2017-2018 annual reports and Lianhe Global*



## Appendix I: Jingrui's Rating Factors

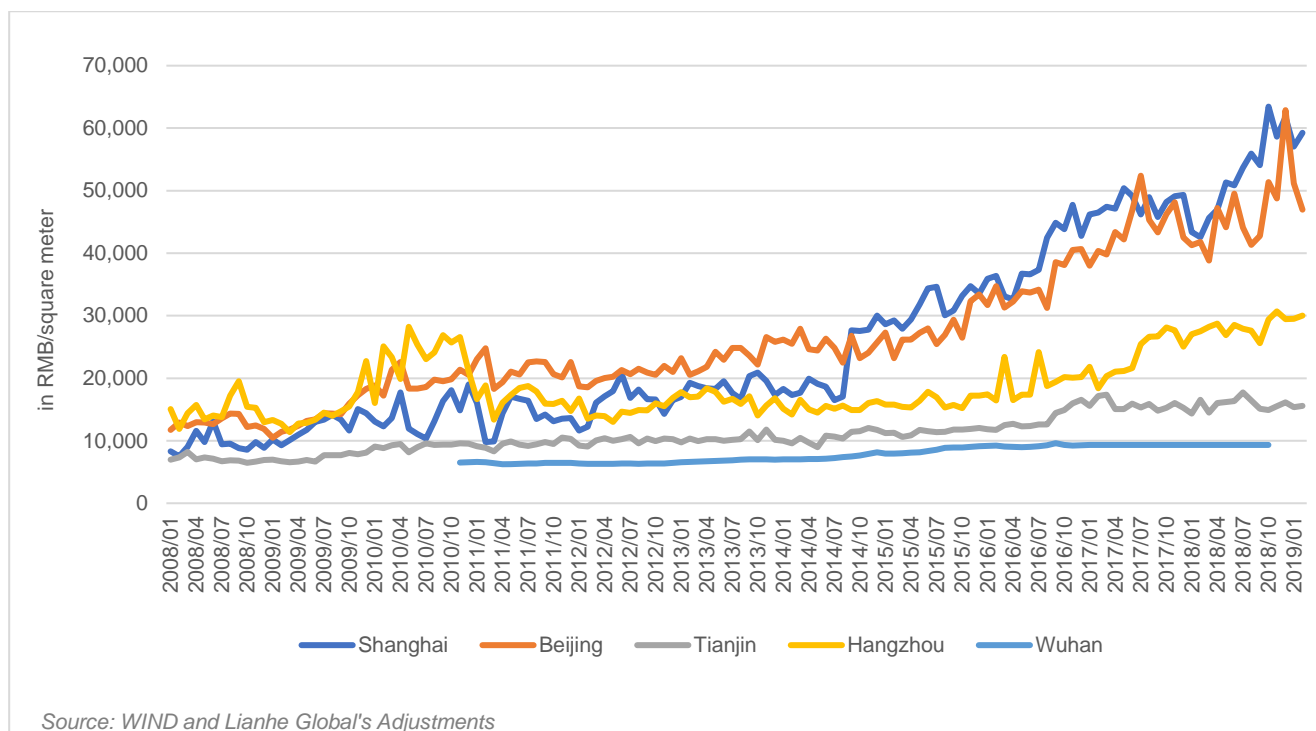
Rating Factors	Weight	Initial Rating
<b>I. Market Demand Analysis</b>	<b>15.0%</b>	<b>a-</b>
<b>II. Business Analysis<sup>1</sup></b>	<b>45.0%</b>	<b>b+</b>
<b>III. Financial Analysis<sup>2</sup></b>	<b>40.0%</b>	<b>ccc</b>
<b>IV. Base Score</b>	<b>100.0%</b>	<b>b+</b>
<b>V. Industry Risk</b>		<b>bbb</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>b+</b>
<b>VII. External Support</b>		
Corporate Entity Support		Not Applicable
<b>Issuer Credit Rating</b>		<b>B+</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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