

# Radiance Group Co., Ltd

## Initial Issuer Report

### Summary

Issuer Rating	BB-
Outlook	Positive
Location	China
Industry	Homebuilder and Real Estate
Date	16 January 2020

### Operating Data:

Radiance Group Co., Ltd

	31 Dec 2018	30 June 2019
Revenue (RMB: in million)	16,087	10,241
Contracted Sales (RMB: in million)	74,682	42,000
Contracted Average Selling Price (RMB/square meter)	13,906	13,900
Contracted Sales GFA (million square meters)	5.37	2.99
Land Bank GFA (million square meters)	19.79	22.43

GFA: Gross Floor Area  
Source: Radiance and Lianhe Global

**Lianhe Ratings Global Limited (“Lianhe Global”) has assigned a ‘BB-’ global scale Long-term Issuer Credit Rating to Radiance Group Co., Ltd. The Outlook is Positive.**

### Summary

The Issuer Rating reflects Radiance Group Co., Ltd.’s (“Radiance”) recognized market position in China’s property market, higher-than-peer profitability which is secured by its competitive land acquisition cost and well-managed operating expenses on its projects. However, its rating is constrained by its elevated leverage as a result of its accelerated land acquisition paces in pursuit of expanding its operating scale in the previous 2 years.

The Positive Outlook reflects our expectation that Radiance would 1) maintain a no-lower-than 30% gross margin, 2) gradually decrease its financial leverage by disciplined controlling its land acquisition expenditure and accelerating its revenue delivery pace, and 3) maintain a sustainable contracted sales growth in the next 12 to 24 months.

### Rating Rationale

**Low Land Costs Underpin High-than-peer Profitability:** The prudent control of land costs and better utilization of acquisition channels underpin Radiance’s high-than-peer profitability, which was manifested by its over 30% gross margin in 2017 and 2018. Radiance has a competitive advantage over its peers on acquiring low-cost land. The low land acquisition costs are due to Radiance’s prudent control of its overall land costs before the acquisitions. Moreover, Radiance’s competitive land costs are attributed to its foresight in planning its land bank layout in some strategic cities with huge property price growth potential, such as Xi’an, Chongqing, and Wuhan.

**Expanding and Diversified Land Bank Portfolio:** Radiance’s land bank is diversified. Its projects are distributed in 30 cities over 6 regions of China, which include Pan Bohai Rim, the Yangtze River Delta, Eastern, North-Western, Southern and South Western Region. Radiance has been expanding its land bank portfolio since 2017. Radiance’s unsold saleable land bank value reached RMB284.7 billion at end-May 2019, which was sufficient to support its 2.5 to 3.5 years’ contracted sales.

**Stable Operating Performance and Prudent Cost Management:** Radiance has applied a standardized operating model for its property development projects that helps Radiance control the quality and the overall operating costs. In addition to the standardized approach, Radiance also adopts a quick turnover strategy to maintain a relatively high operating efficiency. The short cash conversion cycle and high cash collection rate enable Radiance to bring in more cash to support its expansion and operating needs.

**High Leverage Constrains Credit Profile:** Radiance has been expanding its operating scale through debt-funded acquisitions since 2017. Its debt level correspondingly increased with its asset growth. It takes Radiance normally 1.5 to 2.5 years to deliver its property projects as such its revenue recognition pace lags behind the debt increases. As a result, its financial leverage as measured by debt/capitalization surged to 74.6% in 2018 from 63.7% in 2016.

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### Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

## Rating Sensitivities

We would consider downgrading Radiance's rating if it were to aggressively replenish its land bank which would result in an increase of its financial leverage as measured by an EBITDA interest coverage ratio to decrease to 1.5x or its operating performance were to deteriorate as measured by a gross margin to decrease to below 28%.

We would consider upgrading Radiance'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 to increase to over 33% consistently.

## Company Profile

Radiance Group Co., Ltd is a privately-owned Chinese real estate group with its business coverage extending from mass residential property development and investment to property management. It was established by Mr. Lin Dingqiang and his wife in Fuzhou in 1996 and is now headquartered in Beijing. Radiance is majority-owned and controlled by Mr. Lin Dingqiang and his wife (96%).

The property development segment served as Radiance's major revenue contributor from 2016 to 2018, which accounted for over 93% of the group's revenue. Radiance's development projects are widely distributed in 30 cities across China, which includes the major municipal and provincial cities such as Shanghai, Beijing, Xi'an, Chongqing, and Wuhan. Radiance targets first-time homebuyers and upgraders.

Revenue from property management enjoyed a year-on-year rapid increase to RMB449mn in 2018 from RMB276mn in 2016. The size of the projects managed by Radiance is over 21 million square meters and all the managed residential projects are from Radiance's own development projects.

### Exhibit 1: Radiance's Shareholder Structure

Shareholder	Percentage
Radiance Investment (Hong Kong) Ltd#	96.0%
Shanghai Huayue Industrial Investment Co., Ltd*	4.0%
<b>Total</b>	<b>100.0%</b>

Note:

# The name is directly translated from Chinese Name: 金辉投资(香港)有限公司. Mr. Lin Dingqiang indirectly holds 64.97% shares and Ms. Lin Fengying indirectly holds 35.03% shares of 金辉投资(香港)有限公司.

\*The name is directly translated from Chinese Name: 上海华月实业投资有限公司. 上海华月实业投资有限公司 is 25% held by Ms. Chen Yun, 25% by Mr. Lin Wei, 20% by Ms. Lin Fengyu, 15% by Ms. Lin Fenghua, 15% by Ms. Lin Ping.

Source: Radiance

### Exhibit 2: Radiance's Revenue Breakdown by Business Segment (RMB: in million)

Revenue / % of total	FY2017		FY2018		1H2019	
Property Sales	11,634	93.99%	15,105	95.30%	9,659	95.72%
Property Management	349	2.79%	449	2.09%	266	2.64%
Property Rental Services	129	1.75%	282	1.64%	165	1.64%
Others	266	1.57%	253	0.98%		
<b>Total</b>	<b>12,378</b>	<b>100.00%</b>	<b>16,087</b>	<b>100.00%</b>	<b>10,091</b>	<b>100.00%</b>

Source: Radiance

## Business Profile

### Market Position

Radiance remained in the top 40 among the Chinese property developers from 2015 to 2018 in terms of both contracted sales amount and GFA. And the company maintained a year-on-year 30% increase in its contracted sales growth during this period.

#### Exhibit 3: Radiance's Rankings by Contracted Sales Among the Chinese Property Developers

Amount / Ranking	FY2015		FY2016		FY2017		FY2018		Ranking Changes (2018 vs 2015)
Contracted sales amount *	22.06	46 <sup>th</sup>	30.72	52 <sup>nd</sup>	44.51	42 <sup>nd</sup>	74.68	41 <sup>st</sup>	+5
Contracted sales by GFA #	2.08	39 <sup>th</sup>	2.97	34 <sup>th</sup>	3.70	37 <sup>th</sup>	5.11	40 <sup>th</sup>	-1

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

Amount / Ranking	FY2017		FY2018	
Attributable land bank by value	RMB198.3 bn	44 <sup>th</sup>	RMB156.6 bn	60 <sup>th</sup>
Land bank by GFA	17.94m sqm	39 <sup>th</sup>	16.63m sqm	50 <sup>th</sup>
New acquisition land bank by value	RMB83.78 bn	34 <sup>th</sup>	RMB29.36 bn	67 <sup>th</sup>
New land acquisition by GFA	6.39m sqm	34 <sup>th</sup>	2.62m sqm	56 <sup>th</sup>

Note:

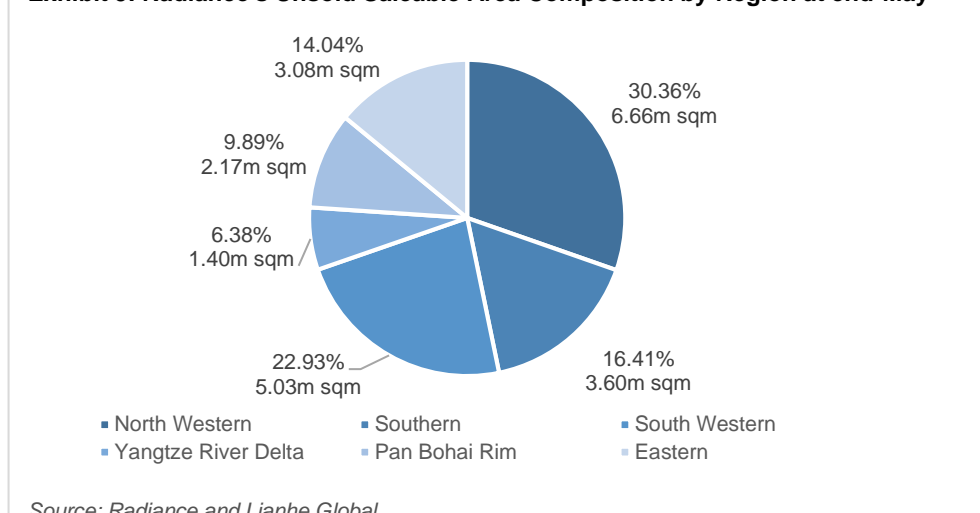
sqm: square meters

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

### Expanding and Diversified Land Bank Portfolio

Radiance's land bank is diversified. Its projects are distributed in 30 cities over 6 regions of China, which includes Pan Bohai Rim, the Yangtze River Delta, Eastern, North-Western, Southern and South Western Regions.

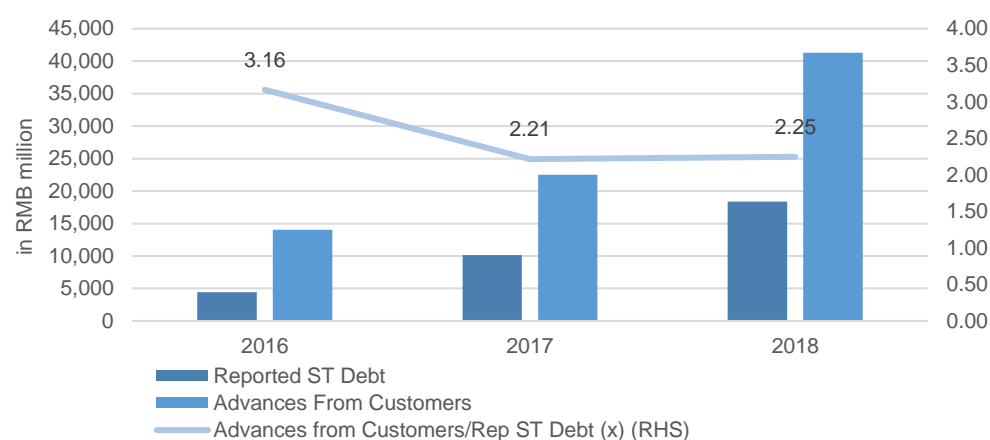
**Exhibit 5: Radiance's Unsold Saleable Area Composition by Region at end-May**


Radiance has been expanding its land bank portfolio since 2017. Its land bank at cost had a year-on-year over 50% growth to RMB74.6 billion at end-2018 from RMB31.9 billion at end-2016. Radiance's unsold saleable land bank value reached RMB284.7 billion at end-May 2019, which is sufficient to support its 2.5-3.5 years' contracted sales. Over 65% of Radiance's land bank is located in tier 2 cities with the top 3 exposures in the provincial and municipal cities of Xi'an (6.27m sqm), Chongqing (1.97m sqm) and Fuqing (1.24m sqm). Among all the cities, Xi'an, Chongqing, Fuzhou and Suzhou remained as the biggest contributors to Radiance's contracted sales in 2017 and 2018.

### Stable Operating Performance and Prudent Cost Management

Radiance has applied a standardization model for its property development projects. It adopts the standard models which cater to different buyer groups (the first-time buyer, upgrader, high-end investor etc.) in the property development process to control the quality and manage the overall operating costs.

In addition to the process of standardization, Radiance at the same time adopts a quick turnover strategy to maintain a relatively high operating efficiency. It usually starts the presale of a project in 8 months after acquisition of a piece of land and its overall average cash collection rate was over 90% in the previous years. The short cash turnover cycle and high cash collection rate enable Radiance to bring in more cash to support Radiance's expansion and operating needs.

**Exhibit 6: Radiance's cash received from contracted sales and other operating business enjoyed a year-over-year increase**


Source: Radiance and Lianhe Global

## Financial Profile

### Low Land Costs Underpin High-than-peer Profitability

The prudent control of land costs and better utilization of acquisition channels underpin Radiance's higher-than-peer profitability, which is reflected by its over 30% gross margin in 2017 and 2018.

Radiance has a competitive advantage over its peers on acquiring low-cost land. Its average land cost is around RMB3,865 per square meter, which only accounts for 28%-29% of Radiance's contracted average selling price in 2018-2019. The low land acquisition costs are attributed to Radiance's prudent control of its overall land costs before the acquisitions. It usually will conduct a profitability assessment to make sure that it can achieve an at least over 30% and 15% internal rate of return and net profit margin respectively for every project to be acquired through an open market channel. In tier 2 and 3 cities, Radiance is inclined to use a mergers and acquisitions method to control its overall costs.

Moreover, Radiance's competitive land costs are attributed to its foresight in planning its land bank layout in some strategic cities with a huge property price growth potential, such as Xi'an, Chongqing, and Wuhan. Radiance entered into these cities years before the property prices underwent a substantial increase in the local market. When the local market rebounded, it could enjoy the benefit in gaining extra profit from the property price increase.

However, as the competition in tier 2 cities is becoming fiercer, we expect that the land price will increase in the coming years. And the property selling price in some tier 2 cities, which Radiance has a large exposure, such as Xi'an and Chongqing, are still controlled by the local governments. Therefore, we forecast that Radiance's gross margin will decrease slightly from the previous 33% level but will stay at above 30% in the following 12 to 24 months.

### High Leverage Constrains Credit Profile

Radiance has been expanding its operating scale through debt-funded acquisitions since 2017. Its debt level increased correspondingly with its asset base growth. Radiance's debt level increased to RMB44.8 billion at end-2018 from RMB19.9 billion at end-2016. However, as Radiance's project delivery tenors were scattered between 1.5 to 2.5 years, which made its

revenue recognition pace lag behind the debt increase, its financial leverage as measured by debt/capitalization surged to 74.6% in 2018 from 63.7% in 2016.

Radiance's asset expansion fuelled its contracted sales growth in 2017 and in 2018. Its contracted sales increased by 45% to RMB48.68 billion in 2018. We expect Radiance will decelerate its expansion pace in the following 12 months, acquire new land mainly through utilizing the proceeds received from contracted sales and cut down its land acquisition expenses in 2019. As such, we project Radiance's financial leverage will decrease in the following 12 to 24 months as most of the contracted sales from 2017 and 2018 will be delivered in 2019 and 2020 while the debt level will be managed at the same level as in 2018.

### Key Assumptions

- Attributable contracted sales amount: RMB70-115 billion for 2019-2021
- Cash collection rate: 90% for 2019-2021
- Land acquisition expenditures: 53-62% of cash collected from annual contracted sales for 2019-2021
- Sell-through rate: 90% for 2019-2021

### Key Financial Metrics

2017A-2021F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalisation	Quick Ratio
Weighted Average	45.3%	1.98x	71.88%	0.15x

Source: Radiance and Lianhe Global's adjustments and forecasts

### Liquidity

Radiance's RMB14.2 billion cash on hand was just about enough to cover its RMB14.2 billion short-term debt at end-June 2019. However, the company has wide access to various financing channels in the onshore market and it had unutilized bank facility of RMB62.5 billion and a bond issuance quota of USD300 million at end-June 2019. Moreover, as Radiance has cut its acquisition expenses since 2019, the liquidity gap can be partly filled by the cash received from contracted sales.

### Peer Comparisons

#### Exhibit 7: Key Financial Metrics

RMB: in million	Radiance		Road King Infrastructure Limited 1098.HK		Yuzhou Properties Company Limited 1628.HK	
	Unlisted		1098.HK		1628.HK	
Listing code	Unlisted		1098.HK		1628.HK	
Period	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Revenue	11,349	15,142	12,787	18,890	21,701	24,306
Gross Margin (%)	30.36	29.31	40.09	45.00	35.51	30.72
Operating Margin (%)	24.45	23.50	30.30	39.21	31.43	27.46
EBIT Margin (%)	24.45	23.50	30.30	39.21	31.43	27.46
EBIT/Interest (x)	1.28	7.16	3.99	6.52	4.01	2.19
Total Debt/Total Capital (%) <sup>1</sup>	70.26	71.39	48.55	45.46	61.25	67.06

<sup>1</sup> Adjusted capitalisation does not subtract third-party guarantees from adjusted equity.

Quick Ratio (x)	0.14	0.20	0.27	0.28	0.32	0.42
Inventory Days	1,882	2,117	1,166	917	743	790
Cash from Operations	-11,655	556	6,887	5,376	2,512	3,157
Cash and Cash Equivalents	6,105	13,478	7,123	10,357	15,596	27,162

Source: Bloomberg

#### Exhibit 8: Key Operating Metrics

in million square meters	Radiance		Road King Infrastructure Limited		Yuzhou Properties Company Limited	
	Unlisted		1098.HK		1628.HK	
Listing code						
Period	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Contracted sales (RMB million)	44,500	74,682	24,242	31,648	40,306	56,003
Contracted sales GFA	3.70	5.37	1.43	1.81	2.38	3.70
Contracted Average Selling Price (RMB/sqm)	12,027	13,906	17,000	17,400	17,000	15,125

Source: Company's annual reports and Lianhe Global

Radiance's revenue scale is comparable to Road King Infrastructure Limited ("Road King") but smaller than Yuzhou Properties Company Limited ("Yuzhou"). However, Radiance's contracted sales were larger than Yuzhou which was due to its rapid contracted sales growth in 2018. Radiance's revenue delivery pace is relatively slower than the peers as such that its revenue scale stayed at the same level as Road King. As we project the company will accelerate the revenue delivery pace in 2019 and 2020, its revenue will enjoy an increase to around RMB25-39 billion. At the same time, as Radiance plans to control its debt growth, its leverage as measured by debt/capitalization will have a decrease to around 73%-74% in 2019 and 2020.

Both Yuzhou and Radiance maintain a prudent operating style in the past years that their gross margin stayed at over 30%, which has provided them with enough buffer to achieve a strong profit result even the property price is under pressure.



## Appendix I: Radiance's Rating Factors

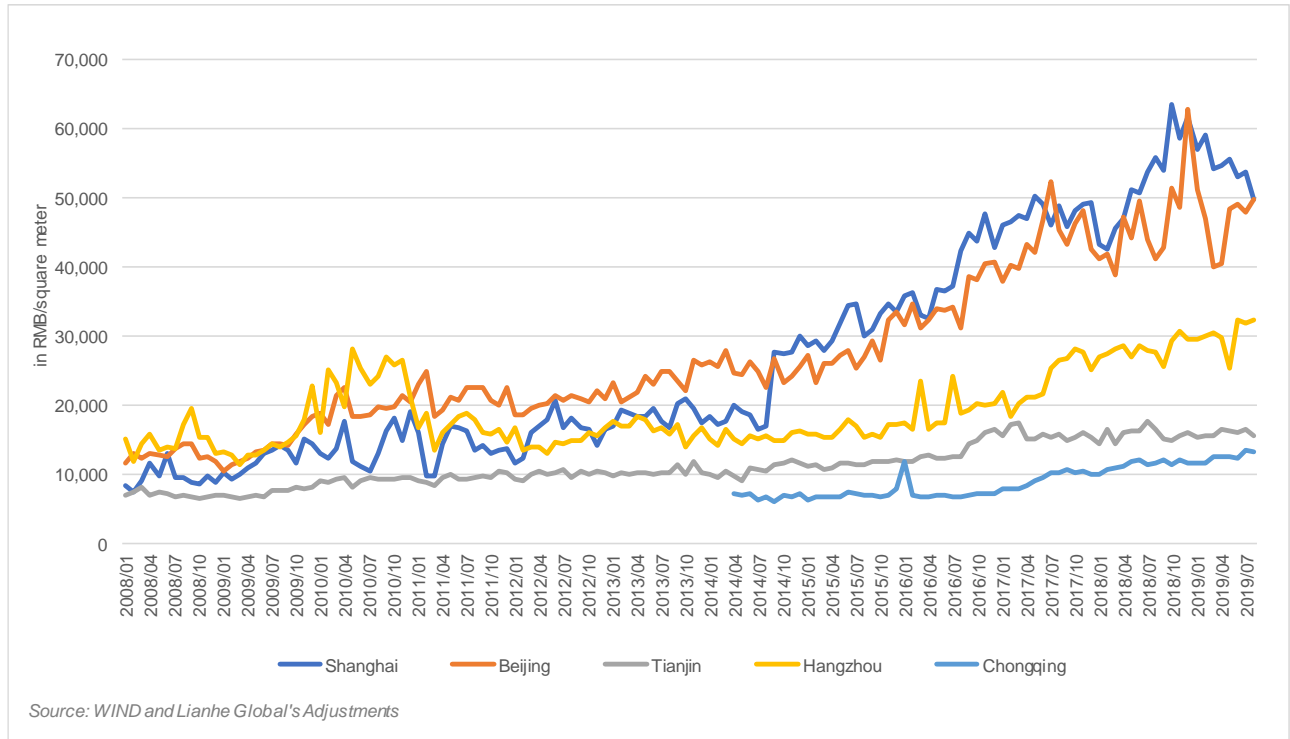
Rating Factors	Weight	Initial Rating
<b>I. Market Demand Analysis</b>	<b>15.0%</b>	<b>a-</b>
<b>II. Business Analysis<sup>2</sup></b>	<b>45.0%</b>	<b>bb+</b>
<b>III. Financial Analysis<sup>3</sup></b>	<b>40.0%</b>	<b>b-</b>
<b>IV. Base Score</b>	<b>100.0%</b>	<b>bb</b>
<b>V. Industry Risk</b>		<b>bbb</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		Nil
<b>Issuer Credit Rating from Scorecard</b>		<b>BB</b>
<b>Issuer Credit Rating Assigned</b>		<b>BB-</b>

*Source: Lianhe Global*

<sup>2</sup> Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

<sup>3</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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