

Yincheng International Holding Co., Ltd

Initial Issuer Report

Summary	
Issuer Rating	B+
Outlook	Stable
Location	China
Industry	Homebuilder and Real Estate
Date	12 June 2020

Lianhe Ratings Global Limited (“Lianhe Global”) has assigned a ‘B+’ global scale Long-term Issuer Credit Rating to Yincheng International Holding Co., Ltd (“Yincheng” or “the company”). The Outlook is Stable.

Summary

The Issuer Rating reflects Yincheng’s established market position and branding in its home market Nanjing, and a healthy and stable pipeline of development projects on hand. However, Yincheng’s rating is constrained by its small operating scale and geographical concentration when compared with its peers.

The Stable Outlook reflects our expectation that Yincheng will continue delivering its planned projects and maintain its competitive position in core markets such as Nanjing, while expanding its operating scale and diversifying its land bank in a prudent manner.

Operating Data:

Yincheng International Holding Co., Ltd

	31 Dec 2018	31 Dec 2019
Revenue (RMB: in million)	5,070	9,092
Contracted Sales (RMB: in million)	9,545	19,821
Contracted Average Selling Price (RMB/square meter)	19,029	17,555
Contracted Sales GFA (million square meters)	0.50	1.13
Land Bank GFA (million square meters)	4.01	5.22

GFA: Gross Floor Area

Source: Yincheng and Lianhe Global

Rating Rationale

Regional Focus in a Few Tier 2 and Tier 3 Cities with Reliance in Nanjing: Yincheng commenced its operations in Nanjing in 2002 and has expanded its footprint to a few other cities in the Yangtze River Delta Region. The majority of Yincheng’s revenue and contracted sales were derived from projects in Nanjing, with the rest primarily from Wuxi and Suzhou. Yincheng’s operating scale is relatively small when compared with the other larger regional players. Its total attributable land bank by GFA at end-2019 and contracted sales in 2019 were 4.3 million sq.m. and RMB19.8 billion respectively.

The sale and delivery of projects outside of the core cities are expected to commence in the next 12 to 24 months, which will reduce the market concentration risk of Yincheng. Although we expect Yincheng to continue its healthy performance in Nanjing, its market concentration risk remains, and its execution capabilities remain to be seen for its operations outside of the core cities. Yincheng’s operating scale and market concentration will be a constraint to its credit profile in the next 12 to 24 months.

Quality Land Bank with Pre-sale Supported Land Purchase to Fuel Development: Yincheng’s attributable landbank as at end-2019 amounted to 4.3 m sq.m.. Over 70% of the landbank was located in Nanjing, Wuxi, Ma’anshan and Zhenjiang, with Nanjing accounting for 43%, as at end-2019, which still presents sound fundamentals to support resilience in the property market in the Yangtze River Delta Region.

Yincheng employs the strategy of “a regional focus with in-depth market penetration in metropolitan cities”. In the next two years, Yincheng targets achieving land bank saleable resources of over RMB50 bn, with expansion into selected peripheral tier 2 and tier 3 cities in the Yangtze River Delta Region. With a history of proven experience and branding in Nanjing, Yincheng has been able to purchase high quality land parcels for its development. The majority of the Yincheng’s projects are currently under development, which are expected to book pre-sales and revenue in the next 12 to 24 months. We expect Yincheng to continue to acquire land parcels with support from pre-sale proceeds from projects on hand, in order to fuel its development phase.

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Applicable Criteria

General Corporate Rating Criteria (16 July 2018)

Diversified Product Portfolio with Efficient Development-to-Sale Cycle: Yincheng offers a wide range of residential properties. Yincheng is also collaborating with Tencent to develop a smart home system that targets the youth community, and it is developing a retirement community for the aged population.

Yincheng typically targets to commence pre-sale within eight months from land acquisition. This efficient development-to-sale cycle allows Yincheng to monetize its projects and collect cash to fund its operation and land purchases in a timely manner. Historically Yincheng has been able to achieve a cash collection rate of above 80%. This model also allows Yincheng to replicate its operation when penetrating into the other cities in the region.

Growing Sales and Operation Scale Allowing for Deleveraging: Yincheng recorded strong contracted sales y-o-y growth of 65.7% and over 100% in 2018 and 2019, respectively. We expect Yincheng to continue its growth momentum as and when its existing projects start to monetize, and when new land parcels are acquired with construction commencing in 2020 and 2021. Gross margins for its projects increased from 17% in 2017 to 29% in 2018. We expect gross margins in the next 12 to 24 months to maintain at the low 20's % level.

As Yincheng is in the stage of project monetization, the growth in contracted sales is expected to generate decent cash flow to support its land cost payment and debt repayment in the next 12 to 24 months. We expect its financial leverage as measured by debt/capitalization¹ to gradually decrease to c.70-73% from a peak of 80.1% in 2018.

Rating Sensitivities

We would consider downgrading Yincheng's rating if it were to aggressively replenish its land bank which result 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 1.0x consistently, and/or its operating performance were to deteriorate such that its property development business market position or sales experience a material decline.

We would consider upgrading Yincheng's rating if it were to (1) expand its operating scale and demonstrate successful diversification into other regions and (2) maintain its financial leverage as measured by debt/capitalization at below 60% or EBITDA interest coverage at above 3.0x consistently.

Company Profile

Yincheng is a Chinese property developer that focuses on mass residential property development in China. It was first established as a state-owned enterprise in 1993 and approved to be restructured into limited company in 2001. Its former employees (including Mr. Huang Qingping and Mr. Xie Chenguang) became its shareholders. The company has been listed on the Hong Kong Stock Exchange (1902.HK) since 2019.

Yincheng is majority owned (35.79%) by Mr. Huang Qingping, the current Chairman and non-executive director of Yincheng. Mr. Dai Chengshu and Mr. Zhu Linnan are the second and third largest shareholders and own 12.98% and 7.03% of the company respectively.

The sale of properties is Yincheng's major revenue source. This segment contributed c. 99% of revenue to Yincheng and its contribution represented a slight but continuous growth during 2015-2019. Revenue from the sale of properties amounted to RMB8,996 million in 2019, representing a significant year-on-year increase mainly due to the substantial amount of completed properties

¹ Total debt includes Yincheng's reported interest-bearing debt, lease liabilities and guarantees made in favor of related parties

delivered in 2019. Yincheng's development projects are mainly located in the Yangtze River Delta Region covering a total of nine cities at end-2019. Revenue from rental and other income only accounted for c.1% of total revenue in 2019 and its contribution to the whole company was limited when compared with Yincheng's property development business.

Exhibit 1: Yincheng's Shareholder Structure at end-2019

Shareholder	Percentage
Mr. Huang Qingping ⁽¹⁾	37.26%
Mr. Dai Chengshu	12.98%
Mr.Zhu Linnan	7.03%
Mr.Xie Chenguang ⁽²⁾	5.40%
Mr.Ma Baohua ⁽³⁾	4.97%
Other non-public	5.50%
Public	26.86%
Total	100.0%

Note:

(1) Mr. Huang Qingping is the Chairman and non-executive director of Yincheng

(2) Mr. Xie Chenguang is the non-executive director of Yincheng

(3) Mr. Ma Baohua is the executive director and president of Yincheng

Source: Yincheng

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

Revenue / % of total	FY2017	FY2018		FY2019	
Sale of Properties	4,669	99.9%	5,067	99.9%	8,996
Rental and Other Income	7	0.1%	3	0.1%	2
Total	4,676	100%	5,070	100%	9,092

Source: Yincheng's IPO offering circular, 2018 annual report and 2019 interim report

Business Profile

Market Position

Yincheng is a relatively small property developer as measured by contracted sales and landbank. After 3 years of expansion, Yincheng's contracted sales grew to RMB19,821 million, representing a year-on-year increase of 108% in 2019. Its ranking in terms of contracted sales amount increased rapidly to 119th in 2019 from 184th in 2016. Yincheng's ranking in contracted sales GFA lagged behind its ranking in contracted sales amount, primarily as its sale of properties was mainly concentrated in tier 2 cities, particularly Nanjing, with relatively higher average selling price.

Yincheng's land bank GFA increased to 5.2 million square meters at end-2019. Yincheng began to actively replenish its land bank and expanded its operation to the other cities in the Yangtze River Delta Region (such as Wuxi, Ma'anshan and Zhenjiang) from Nanjing since 2016. After Yincheng's aggressive debt-funded expansion, especially in 2018, its land bank is sufficient for development in approximately the next two years. Yincheng's geographical coverage extended to 9 cities, mainly including Nanjing, Wuxi and Ma'anshan at end-2019. As Yincheng mainly acquired its land bank in the open-bid market and the supply of land in the open-bid market is highly restricted, its average land acquisition cost almost doubled in 2019 to c. RMB6,700 per sq.m.

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

Amount / Ranking *	FY2016		FY2017		FY2018		FY 2019		Ranking Changes (2019 vs 2016)
Contracted sales amount (RMB bn)	Nil	184 th	5.76	194 th	9.54	154 th	19.82	119 th	+65
Contracted sales by GFA (m sqm)	Nil	200 th	0.21	>200 th	0.50	164 th	1.13	Nil	Nil

Note:

*CRIC Information Centre might use adjusted numbers of contracted sales and GFA in the ranking
Source: Contracted sales and GFA from company's audited reports, rankings from CRIC Information Centre

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

Amount / Ranking	FY2017	FY2018
Attributable land bank by value (RMB bn)	Nil	>100 th
Land bank by GFA (m sqm)	Nil	>100 th
New acquisition land bank by value (RMB bn)	4.21	96 th
New land acquisition by GFA (m sqm)	Nil	>100 th

Note: CRIC Information Centre might use adjusted numbers of contracted sales and GFA in the ranking
Source: Amount from company's audited reports, and rankings from CRIC Information Centre

Regional Operation with Focus in a Few Tier-2 and Tier-3 Cities in the Yangtze River Delta Region; Heavy Reliance in Nanjing though with Gradual Regional Diversification

Yincheng commenced its operations in Nanjing in 2002 and has expanded its footprint to other cities in the Yangtze River Delta Region, including Wuxi, Suzhou, Zhenjiang, Hangzhou, Ma'anshan and Hefei. Yincheng's operating scale is relatively small when compared with other larger regional players. Its total attributable land bank by GFA at end-2019 and contracted sales in 2019 were only 4.3 million square meters and RMB19.8 billion respectively. It was ranked over 100 in terms of both contracted sales amount and contracted sales GFA in 2019, according to CRIC's statistics.

Majority of Yincheng's revenue was derived from projects in Nanjing, which accounted for approximately 85.2%, 93.5%, 97.8% and 73.1% in 2016, 2017, 2018 and 2019, respectively, with the rest primarily from Wuxi. The company has recently started to expand its geographical focus to other cities in the Yangtze River Delta Region, and the sale and delivery of those projects are expected to commence in 2020. The revenue contribution from Nanjing is expected to decline to c. 45-65% in 2020 and 2021.

In terms of contracted sales, Nanjing and Wuxi contributed to c. 86% and c. 14% respectively of the total contracted sales of the company in 2017, while Nanjing, Wuxi, Suzhou, Zhenjiang and Ma'anshan contributed to approximately 53%, 27%, 8%, 8% and 4% respectively of the total contracted sales of the company in 2018. The percentages have improved further in 2019 with Nanjing, Wuxi, Suzhou, Hangzhou, Xuzhou, Hefei, Zhenjiang, Ma'anshan and Taizhou contributing approximately 58%, 14%, 7%, 8%, 3%, 4%, 3%, 2% and 1% respectively of the total contracted sales of the company.

Although we expect the company to continue its healthy performance in Nanjing, market concentration risk remains, and execution capabilities remain uncertain for operations outside of

Nanjing given its relatively small operating scale. Yincheng's operating scale and market concentration will be a constraint to its credit profile in the next 12 to 24 months.

Exhibit 5: Yincheng's Total Land Bank GFA Composition by City

GFA (in thousand square meters)	FY2018	% of total	FY2019	% of total
Nanjing	1,610	40.2	2,253	43.2
Wuxi	729	18.2	585	11.2
Ma'anshan	722	18.0	490	9.4
Zhenjiang	430	10.7	364	7.0
Suzhou	155	3.9	143	2.7
Xuzhou	151	3.8	319	6.1
Hefei	120	3.0	120	2.3
Taizhou	0	0.0	107	2.0
Hangzhou	92	2.3	840	16.1
Total	4,009	100	5,220	100

Source: Company's financial reports and Lianhe Global
Exhibit 6: Yincheng's Total Land Bank GFA Composition by City Tier

GFA (in thousand square meters)	FY2018	% of total	FY2019	% of total
Tier 2	2,858	71.3	4,260	81.6
Tier 3	1,152	28.7	960	18.4
Total	4,009	100	5,220	100

Source: Company's financial reports and Lianhe Global

Diversified Product Portfolio with Efficient Development-to-Sale Cycle

Yincheng offers a wide range of residential properties, including high-rise apartments, multi-story apartments and low-density houses, with ancillary facilities catering to the needs and preferences of different segments of target customers.

Yincheng is also collaborating with Tencent to develop a smart home system for "Kinma Q + Community", a property project that targets the youth community. The company plans to set up a retirement community for the aged population called "Peaceful Paradise", which comprises residential buildings with facilities such as elderly care and hospital facilities.

Yincheng typically targets to commence pre-sale within eight months from the land acquisition. This efficient development-to-sale cycle allows Yincheng to monetize its projects and collect cash to fund its operation and land purchases in a timely manner. The company also places significant emphasis on personalized design and quality control of its properties. From 2016 - 2018 Yincheng has been maintaining an over 80% customer satisfaction rate vis-à-vis an industry average of mid-60% in accordance to customer satisfaction surveys conducted by an independent third party research organization.

Growing Sales and Operation Scale Allowing for Deleveraging

Yincheng recorded contracted sales of RMB9.5 billion in 2018, representing a c. 65.7% increase when compared with RMB5.8 billion in 2017. Revenue was RMB5.1 billion in 2018, representing a mere c. 8.4% when compared with RMB4.7 billion in 2017, primarily because a substantial part of contracted sales in 2017 and 2018 would be recognized in 2019 and 2020. Contracted sales in 2019 were RMB19.8 billion, representing an over 100% increase when compared with 2018. There were 10 projects that started pre-sale in 2019.

We expect Yincheng to continue its growth momentum as and when its existing projects started to monetize. Gross margins for its projects have increased from 17% in 2017 to 29% in 2018. However, the company's gross margin decreased to 16% in 2019 primarily due to lower gross profit attributable to the sales of Honor Mansion, a project that accounted for c.42% of Yincheng's revenue from sale of properties in 2019. Gross margins in the next 12 to 24 months are expected to maintain in the low 20's % level.

As Yincheng is in the stage of project monetization, the growth in contracted sales will generate decent cash flow to support its land cost payment and debt repayment in the next 12 to 24 months. Historically the company has been able to achieve a cash collection rate of above 80%. As the scale expands, we expect this rate to come down a little bit but still remain at above 75-80% level. However, we remain conservative on projects outside of Nanjing given Yincheng's limited experience outside of this city and its relatively small operating scale

Financial Profile

Reducing Leverage and Lengthening Maturity Profile

Yincheng's debt is primarily financed by long-term debt. The percentage of its short-term debt due in the next 12 months decreased from 48% of its total debt at end-2018 to 41% at end-2019. Per discussion with management, the company has been paying attention to their short- and long-term debt structure and is tending to allocate more long-term debt in their financing structure while striving to keep their cash position at least more than 1x of its short-term debt.

Yincheng's utilization of financing sources is distributed among bank loans, property funds, bond offerings and other financing tools, of which bank loans accounted for about 65% at end-2019. In addition, as a listed company in Hong Kong, the company can utilize other means of financing including equity placements, which also provide an additional source of financing.

Yincheng's aggressive land acquisitions in the past three years led to a notable increase in leverage from 2016 to 2018. We expect the company to gradually bring down its leverage for the next three years due to its good cash collection from contracted sales with decent growth to underpin its land acquisitions. Yincheng expects to increase land replenishment in 2020 and 2021 as most of its current projects will be pre-sold out from 2019 to early 2021.

We expect leverage in terms of debt/EBITDA and debt/capitalization² to improve gradually and EBITDA interest coverage to normalize in the next 18 to 24 months. We expect Yincheng to continue its projects monetization and de-leveraging phase. However, the company's credit profile will continue to be constrained by its small operating scale and geographic concentration of land bank.

Key Assumptions

- Contracted sales amount: RMB18-40 billion for 2019-2021
- Land acquisition expenditures: c. RMB14,000 million and c. RMB22,000 million in 2020 and 2021, respectively
- Continuing focus on residential property projects

² Total debt includes Yincheng's reported interest-bearing debt, lease liabilities and guarantees made in favor of related parties

Key Financial Metrics

2017A-2021F	Debt/Land Bank	EBITDA/Interest	Debt/Capitalization ³	Quick Ratio
Weighted Average	50.3%	2.67	74.8%	0.24

Source: Yincheng and Lianhe Global's adjustments and forecasts

Liquidity

Yincheng held c. RMB4,032 million cash on hand (c. RMB1,137 million restricted cash and minimal pledged deposits) at end-2019.

Yincheng's had c. RMB4,918 million debt due within one year at end- 2019. The company had undrawn facilities at end-2019 and is also in the phase of projects monetization with pre-sale proceeds providing decent cashflow. The company has access to various onshore and offshore financing channels. Moreover, as a Hong Kong-listed company, Yincheng can also utilize other financing channels such as the equity market, to ease its liquidity. We therefore expect that Yincheng's liquidity will be sufficient.

³ Total debt includes Yincheng's reported interest-bearing debt, lease liabilities and guarantees made in favor of related parties

Appendix I: Yincheng's Rating Factors

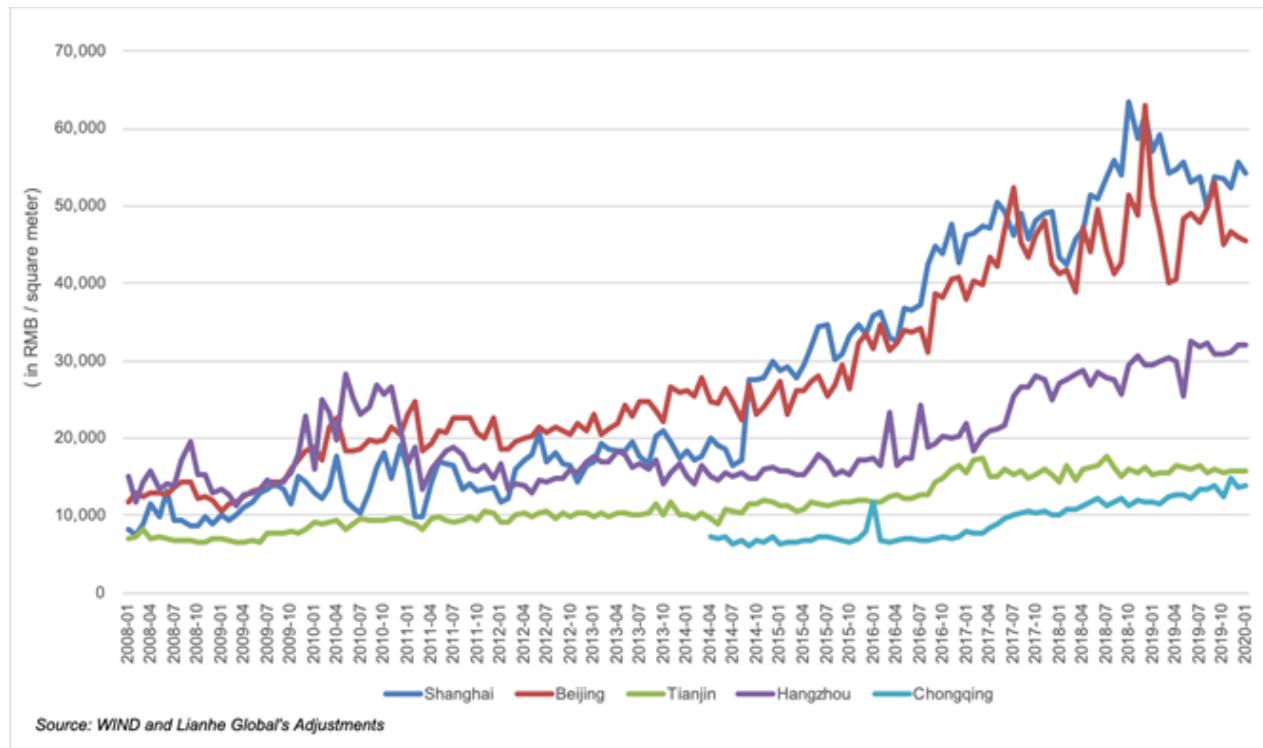
Rating Factors	Weight	Initial Rating
I. Market Demand Analysis	15.0%	a-
II. Business Analysis⁴	45.0%	b+
III. Financial Analysis⁵	40.0%	b
IV. Base Score	100.0%	b+
V. Industry Risk		bbb
VI. Qualifiers		
Liquidity		Neutral
Corporate Governance		Neutral
Debt Structure and Financial Policy		Neutral
Idiosyncratic Analysis		Neutral
Stand-Alone Creditworthiness (SAC)		b+
VII. External Support		
Corporate Entity Support		Nil
Issuer Credit Rating from Scorecard		B+
Issuer Credit Rating Assigned		B+

Source: Lianhe Global

⁴ Business Analysis contains sub-factors of market position, diversification, competitive position, operating efficiency and profitability.

⁵ 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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