Moody's
INVESTORS SERVICE

Rating Action: Moody's changes Yanlord's outlook to negative; downgrades bond rating

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Hong Kong, November 11, 2011 -- Moody's Investors Service has revised to negative from stable the outlook on Yanlord Land Group Limited's Ba2 corporate family rating.

At the same time, Moody's has downgraded Yanlord's senior unsecured bond rating to Ba3 from Ba2 due to increased subordination risk.

The rating action follows Yanlord's recently announced investment in a 50% equity stake in a residential property site in Shanghai for a cash consideration of around RMB1.7 billion which will be paid in five installments by July 2012. The site has a gross floor area of 143,363 square meters.

"The negative outlook reflects Moody's concern that Yanlord's balance sheet liquidity will be reduced by the RMB1.7 billion payment for the Shanghai project and RMB1.8 billion for another recent acquisition of a 60% interest in a joint venture project in Tang Jia Wan District in Zhuhai, despite the attractive acquisition prices of both projects relative to the previous year's land prices," says Ken Chan, a Moody's Vice President and Senior Analyst.

These two acquisitions comprise 73% of its reported cash of RMB4.7 billion as of September 2011.

The Shanghai project is located in a prime area of Shanghai and is expected to have good marketability, and development will take about two years. Thus Yanlord needs to replenish its liquidity through the sale of existing projects.

But Moody's is uncertain whether Yanlord can attain its 2012 sales budget given the strong regulatory measures and challenging economic situation in the next 12 months.

"Moody's expects Yanlord to increase its onshore borrowings to fund these acquisitions and pay for the SGD375 million convertible bonds which could be put in 2012," says Chan.

As such, Yanlord's onshore borrowings will trend towards 15%-20% of its total assets, that will raise the subordination risk for unsecured bond holders.

Nonetheless, Yanlord's Ba2 corporate family rating continues to reflect its competitive business model, which focuses on high-quality properties that generate good profit margins. It also reflects its proven track record of replicating its business model in second-tier cities. Moreover, Yanlord's demonstrated access to the debt and capital markets and its history of raising equity to fund development operations also supports its rating.

However, Yanlord's rating is constrained by its revenue concentration in a few major cities, particularly Shanghai, and the volatility of its deluxe products.

In addition, Yanlord's selective approach on land acquisitions has resulted in a small land bank, which compares less favorably to its Ba-rated peers. Nonetheless, its current land bank is adequate at least for the next five years of development.

Upgrade pressure is limited given the current negative outlook. However, the outlook could be changed back to stable if the company (1) achieves its presales target over the next 12 months which improves its balance sheet liquidity; and (2) improves its EBITDA/interest coverage ratio to over 4.0x - 4.5x on a sustained basis, and maintains its adjusted debt/capitalization to below 45%.

The ratings could be downgraded if Yanlord (1) fails to execute its business plan such that operating cash flow generation is weaker than anticipated over the next 12 months; or (2) engages in other material land acquisitions to add further strain on its balance sheet; and/or (3) exhibits weakening credit metrics with adjusted debt/capitalization trending above 45-50% and/or EBITDA/interest under 3.5x - 4.0x.

The principal methodology used in this rating was Moody's Global Homebuilding Industry published in March 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Yanlord focuses on large-scale residential developments in China targeting mid-to-high and high-end segments. It has a total land bank of 5.65 million sqm in nine cities distributed across five major regions in China. The Yangtze River Delta is its largest market accounting for 40% of the company's land bank and 72% of its revenue in 2010.

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