Press Release

Yanlord Land Group Ltd. Outlook Revised To Negative; 'BB' Rating Affirmed

HONG KONG (Standard & Poor's) Nov. 11, 2011--Standard & Poor's Ratings Services said today it revised the outlook on China-based real estate property developer Yanlord Land Group Ltd. to negative from stable. In line with this revision, we also lowered the Greater China credit scale rating on Yanlord to 'cnBB+' from 'cnBBB-' and that on the notes to 'cnBB+' from 'cnBBB-'. At the same time, we affirmed the 'BB' long-term corporate credit rating on Yanlord and our 'BB' issue rating on the company's outstanding senior unsecured notes.

"We revised the outlook to reflect Yanlord's weaker-than-expected contracted sales and its aggressive expansion despite the uncertain market conditions in China," said Standard & Poor's credit analyst Frank Lu. "The company's weak sales performance so far this year highlights its weaker-than-expected execution capability and its concentration in the high-end residential segment."

Cash receipts for contracted sales in the first nine months were less than 50% of its original full-year budget. The profit margin also decreased significantly compared with that in 2010, due to recognition of less-profitable projects.

"We believe Yanlord's credit protection measures will weaken significantly in 2011-2012, pushing the company closer to our downgrade triggers. The deterioration is mainly because of weak sales and aggressive new land acquisitions in the past two months," said Mr. Lu.

In our view, Yanlord's leverage ratios will remain high in 2012 due to new land acquisitions. The company had total debt of Chinese renminbi (RMB) 16.1 billion at the end of September 2011, which is 40% higher than the level a year earlier and more aggressive than most 'BB' rated peers'. Yanlord's new land acquisitions since October 2011 require RMB3.46 billion in land premiums payable during 2011-2012. We estimate that the company's debt-to-EBITDA ratio may be higher than most 'BB'-rated peers in 2011, possibly exceeding 5x.

We expect Yanlord's profit margin to decrease in the coming two years. This is mainly due to the increased land costs and higher revenue contribution from projects outside Shanghai. In our view, the company's gross profit margin will be more or less 40% in 2011 and 2012, compared with over 50% during 2008 and 2009.

In our view, the company has somewhat high geographic concentration with nearly half of its property sales from Shanghai. We expect this proportion to decline, however. Also, the company is more exposed than its peers to the Chinese government's policy measures to cool the property market, given its focus on the high-end segment, especially in first- and second-tier cities in China such as Shanghai, Tianjin, and Nanjing.

These weaknesses are partly mitigated by the good reputation of Yanlord's branding and the good location of its land bank, which should be sufficient for development over the next five years. In our view, Yanlord could be vulnerable to land supply changes due to its small land bank.

We may consider lowering the rating if: (1) cash receipts from property sales are less than RMB8 billion in 2011; (2) Yanlord's debt-funded expansion remains aggressive; or (3) its debt-to-EBITDA ratio exceeds 5x in 2011 and we don't see signs of improvement.

We may revise the outlook to stable if the company reduces its leverage and improves its liquidity position.

RELATED CRITERIA AND RESEARCH

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, July 2, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Key Rating Factors For Chinese Real Estate Developers, June 2, 2008
- Corporate Ratings Criteria 2008, April 15, 2008

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