

Yanlord Outlook Revised To Negative On Slower-Than-Expected Sales And Revenue Recognition; 'BB-' Rating Affirmed

HONG KONG (Standard & Poor's) Nov. 19, 2014--Standard & Poor's Ratings Services said today that it had revised its outlook on Yanlord Land Group Ltd. to negative from stable. At the same time, we affirmed our 'BB-' long-term corporate credit rating on the China-based property developer and our 'BB-' long-term issue rating on the company's outstanding senior unsecured notes. As a result of the outlook revision, we lowered our long-term Greater China regional scale ratings on Yanlord and the notes to 'cnBB' from 'cnBB+'.

"We revised the outlook because Yanlord's high-end product positioning casts uncertainty over the company's recovery prospects in 2015, and we believe this could weaken its cash flow adequacy and leverage," said Standard & Poor's credit analyst Dennis Lee.

In our view, the correction in China's property market will continue over the next 12 months, which would drive the demand for mass-market products and not favor Yanlord's product positioning. In addition, we expect the company's sales and revenue recognition to be lower than our projection this year. As a result, its credit protection metrics will weaken and key ratios such as EBITDA interest coverage will drop below our downgrade trigger of 3x in 2014.

We expect Yanlord to miss its 2014 contracted sales target of Chinese renminbi (RMB) 16 billion. In our base case, we estimate the company's contracted sales to be about RMB13 billion, which is about 13% lower than its sales in 2013. Yanlord's contracted sales were RMB6.3 billion in the first three quarters of this year. We factored in a sales recovery in the fourth quarter as the company launches more projects during this time. We attribute Yanlord's lower-than-expected sales performance to a weakened market sentiment and tightened credit conditions during the year. We expect the company's contracted sales to grow 15% in 2015, to reflect higher construction expenditure for new projects in 2014. However, Yanlord's mid-to-high-end product positioning will remain a challenge for sales under the current market condition where end-users dominate demand.

We lowered our estimate of Yanlord's revenue recognition to about RMB12 billion. The company recognized revenue of RMB4.25 billion in the first three quarters of 2014, down 35% from the same period last year. We note that the company has about RMB11.8 billion of unrecognized sales as of the end of September, of which it expects to recognize about 60% in this year. However, Yanlord's key credit protection metrics could be weaker than what we expect if the company experiences any delivery slippage.

We expect that Yanlord's profitability will gradually decline in 2014 and 2015. In our view, the company's change in business strategy and product mix to increase sales for end-user demand and adopt a more competitive pricing strategy to increase asset churn would pressure its margin.

In our base-case scenario, we expect Yanlord to manage its borrowings with discipline. We estimate that the company's debt will moderately increase to about RMB19.5 billion in 2014 and RMB22 billion in 2015, from RMB18 billion in 2013. However, we forecast that Yanlord's EBITDA interest coverage will drop to 2.5x-3x in 2014, from 3.2x in 2013, because of lower-than-expected sales and revenue recognition and declining profitability. At the same time, the

company's debt-to-EBITDA ratio will also weaken to 5x-5.5x, from 4.7x. Yanlord's credit metrics could slightly improve in 2015, given our expectation of higher sales. However, we estimate that EBITDA interest coverage will remain less than 3x and the debt-to-EBITDA ratio will stay about 5x. We therefore revised the company's financial risk profile to "aggressive" from "significant."

"The affirmed rating reflects Yanlord's concentration risk in the mid-to-high-end product segment and increasing leverage as a result of slow sales and declining profitability," said Mr. Lee. "The company's good financial flexibility, generally disciplined financial management, low refinancing risk, and strong brand recognition continue to temper the weaknesses."

The negative outlook reflects our view that Yanlord's key credit protection measures such as EBITDA interest coverage and the debt-to-EBITDA ratio could weaken over the next 12 months because of lower-than-expected contracted sales and revenue recognition. We also expect Yanlord's profitability to weaken, but it will remain in line with that of peers.

We may lower the rating if: (1) Yanlord's sales execution and delivery remain weaker than our forecast in the next 12 months, such that its EBITDA interest coverage is lower than 2.5x and debt-to-EBITDA ratio shows no sign of improvement from the level in 2014; or (2) the company's property sales are materially below our expectation of RMB15 billion in 2015.

We may revise the outlook to stable if Yanlord improves its sales execution and delivery, and maintains its disciplined financial management, such that its debt-to-EBITDA ratio improves to less than 5x in 2015 and looks likely to stay at that level afterwards.

RELATED CRITERIA AND RESEARCH

Related Criteria

- [Standard & Poor's National And Regional Scale Mapping Tables](#), Sept. 30, 2014
- [Key Credit Factors For the Homebuilder and Real Estate Developer Industry](#), Feb. 3, 2014
- [Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Jan. 2, 2014
- [Corporate Methodology](#), Nov. 19, 2013
- [Corporate Methodology: Ratios and Adjustments](#), Nov. 19, 2013
- [Group Rating Methodology](#), Nov. 19, 2013
- [2008 Corporate Criteria: Rating Each Issue](#), April 15, 2008

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