S&P Global Ratings

Press Release

Yanlord Land Group Outlook Revised To Positive From Stable On Strengthened Financial Position; 'BB-' Rating Affirmed

- Yanlord's financial position improved significantly due to robust contracted sales performance and improved margin. The company's financial leverage in 2016 was stronger than we had expected.
- We believe the China-based property developer can sustain the leverage improvement based on its high earnings and margin visibility in 2017, and our assumptions that Yanlord will continue to have satisfactory sales execution and disciplined land acquisitions.
- We are revising the outlook on Yanlord to positive from stable.
- We are affirming our 'BB-' long-term corporate credit rating on Yanlord and our 'BB-' long-term issue rating on the company's outstanding senior unsecured notes. We are also affirming our 'cnBB+' long-term Greater China regional scale rating on Yanlord and the notes.

HONG KONG (S&P Global Ratings) March 7, 2017--S&P Global Ratings said today that it had revised its outlook on Yanlord Land Group Ltd. to positive 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. We also affirmed our 'cnBB+' long-term Greater China regional scale rating on Yanlord and the notes.

"We revised the outlook to positive as we expect Yanlord to sustain its improved leverage over the next 12 months and continue to demonstrate satisfactory sales execution and disciplined land acquisitions," said S&P Global Ratings credit analyst Dennis Lee. "In our base case, we forecast that Yanlord's debt-to-EBITDA ratio will stabilize at 3.5x-4.0x in the next two years."

Yanlord's operating performance and financial leverage improvement in 2016 were stronger than we had anticipated. The company's total contracted sales of Chinese renminbi (RMB) 33 billion were significantly higher than our base-case projection of RMB25 billion. Driven by a strong revenue increase and substantial margin recovery, Yanlord's debt-to-EBITDA ratio improved to below 3.0x in 2016, from 4.3x in 2015.

We believe the earnings and margin visibility of Yanlord in 2017 is high, given the company's large unrecognized contracted sales amount of RMB26.5 billion as of end-2016 and our expectation that the company will complete and deliver at least 70% of the sales in 2017. The amount does not include the sales of completed projects, which can be recognized in the same year.

We anticipate that Yanlord will maintain its contracted sales at RMB30 billion-RMB35 billion in 2017 and 2018, despite the recent government tightening policies. The stable sales performance is supported by the company's increased saleable resources and our assumption that property prices in the key cities in which Yanlord operates, such as Shanghai, Nanjing, and Suzhou, will remain stable due to low inventory levels. However, we believe Yanlord's high-end product positioning could make it more sensitive to tightening policies and overall market sentiment than peers that target mass-market buyers.

Stable property prices in tier-1 and key tier-2 cities will continue to support Yanlord's above-average margins, in our view. We forecast that the gross margin will reach 36%-38% in 2017 and around 35% in 2018, from 31.2% in 2016. We believe the company can protect its contracted sales margin in 2017, given that its Shanghai projects are highly profitable with over 40% margin. However, such high margins are unlikely to be sustained over the next three to five years, given rising land costs in higher-tier cities, the government's cooling measures on property prices, and lower contributions from its Shanghai projects starting 2018. Yanlord's good brand recognition, project execution, and diverse land banking strategy provide some buffer against the industry's margin decline, in our view.

We anticipate that Yanlord will continue to increase its land bank in a controlled manner. The company accelerated its land purchases in 2016 with total spending of about RMB15 billion in Tianjin, Nanjing, Suzhou, and Shenzhen. In our base case, we project the company will spend about RMB16 billion on land acquisition in 2017, around 50% of its contracted sales this year.

In our view, Yanlord's land reserves are adequate but not abundant. Including a new purchase in Nanjing in December 2016, the company currently has land reserves of about 6 million square meters (sqm), more than the about 4 million sqm as of end-2015. We estimate that the existing reserves are sufficient for development for the next four to five years.

The positive outlook reflects our view that Yanlord will continue to demonstrate satisfactory sales execution despite the government's recent tightening measures. We also expect the company to replenish its land bank in a disciplined manner, and maintain a stable growth aspiration, such that its financial leverage improvement in 2016 sustains.

"We could raise the rating if we consider that Yanlord is able to control its financial leverage while continuing to expand, such that its debt-to-EBITDA ratio stays below 4x for a prolonged period," said Mr. Lee.

We could revise the outlook back to stable if we determine that Yanlord's debt-to-EBITDA ratio cannot remain below 4.0x. This could happen if the company's sales are materially weaker than our projection of about RMB32 billion in 2017, or its debt-funded land acquisitions are more aggressive that we expect. It could also happen if Yanlord experiences significant project delays, which then hurt its booking revenue and EBITDA.

RELATED CRITERIA

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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
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