MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Yanlord to Ba2; outlook stable

Global Credit Research - 25 Apr 2017

Hong Kong, April 25, 2017 -- Moody's Investors Service has upgraded Yanlord Land Group Limited's corporate family and senior unsecured debt ratings to Ba2 from Ba3. Moody's has also upgraded to Ba2 from Ba3 the senior unsecured rating of the USD notes issued by Yanlord Land (HK) Co., Limited and irrevocably and unconditionally guaranteed by Yanlord Land Group Limited.

At the same time, Moody's has changed the ratings outlook to stable from positive.

RATINGS RATIONALE

"The ratings upgrade reflects our expectation that Yanlord's credit metrics will be stronger and better than those of its Ba3 rated Chinese property peers, as it will continue its track record of prudent financial and liquidity management," says Anthony Lee, a Moody's Analyst.

Yanlord's prudent financial management -- with a focus on containing debt growth and maintaining a good liquidity position -- supports the rating upgrade.

The company's contracted sales grew by 174% and its revenues by 149% over 2012-2016, while its reported debt grew by 73% in the same period.

This measured growth in debt is supported by Yanlord's business strategy of developing quality properties and keeping its sales growth at a moderate rate. This strategy in turn has underpinned its manageable capital requirements.

Consequently, its contracted sales grew at a compound annual growth rate of 29% over 2012-2016.

The company's business strategy also helps it maintain growth in its average selling prices (ASP) and slow down the decline in its gross margins. The ASP of its contracted sales increased from around RMB23,100 per square meter (sqm) in 2012 to around RMB30,900 per sqm in 2016, while its gross margins declined from 36.4% to 31.2% over the same period. The company's ASP and margins were higher than those of its Ba-rated property peers.

Debt growth is also contained by Yanlord's land acquisition strategy. Moody's estimates its aggregate land acquisition payments (excluding joint ventures and associates) amounted to RMB26.4 billion over 2012-2016, representing 27% of its aggregate contacted sales (excluding joint ventures and associates) of RMB99 billion over the same period. This level was low when compared to more than 30% reported by some of its rated peers.

Notwithstanding this cautious land acquisition strategy, the company's land bank of 5.9 million sqm at end-2016 can support its development plans over the next 4-5 years, in turn enabling it to exercise discretion in its land acquisitions -- one of the company's strength.

Yanlord recorded sound credit metrics in 2016. It achieved revenue/adjusted debt of 102% and EBIT/interest of 5.7x in 2016. Moody's estimates that its revenue/adjusted debt and EBIT/interest will be above 100% and over 5x respectively in the next 12-18 months. These levels support its Ba2 corporate family rating.

The company had RMB18 billion in cash at end-2016, covering 177% and 80% of its short-term debt and gross debt respectively. Its strong liquidity position provides it with a buffer against market volatility and the negative impact from tightening policy measures.

Yanlord's Ba2 corporate family rating reflects its good brand name and high-quality properties, which provide it with strong pricing power and support its healthy gross margin. In addition, its sales execution strategy -- adjusted to cater to a broad spectrum of market demand -- helps to reduce the negative impact from regulatory measures that constrain property demand.

The rating also considers Yanlord's good ability to access the debt and capital markets.

At the same time, the rating is constrained by its geographic concentration, moderate scale with volatility in its sales, and the potential impact of tightening measures on its property purchases in key operating cities.

The stable outlook reflects Moody's expectation that Yanlord will maintain a disciplined approach in its land acquisitions, moderate growth in scale, stable financial metrics and a strong liquidity position over the next 12-18 months.

Upward rating pressure could emerge if Yanlord increases its scale, while maintaining (1) a strong liquidity position; and (2) sound credit metrics, with adjusted revenue/debt above 100% and EBIT/interest coverage above 4.5x on a sustained basis.

On the other hand, rating downgrade pressure could emerge if the company's contracted sales fall and credit metrics weaken, with EBIT/interest coverage falling below 3.5x, or adjusted revenue/debt falling below 80%.

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in April 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Yanlord Land Group Limited is a major property developer in China. It operates in the major Chinese cities of Shanghai, Nanjing, Suzhou, Nantong, Shenzhen, Tianjin, Zhuhai, Chengdu, Tangshan, Zhongshan and Sanya. Yanlord was established in 1993 and Yanlord Land Group Limited was listed on the Singapore Stock Exchange in 2006. Its land bank totaled 5.9 million square meters at end-2016.

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