Research Update:

Yanlord 'BB-' Rating Affirmed On Financial Discipline; Outlook Stable

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Rating Action Overview

- Yanlord Land Group Ltd. will likely maintain financial discipline to control debt and preserve liquidity during the property market downturn, backed by a sufficient land bank in higher-tier cities.
- Adequate land reserves and unrecognized contracted presales could support the operating scale and financial performance of the China-based property developer over the next two years.
- We affirmed the 'BB-' long-term issuer credit rating on Yanlord. At the same time, we affirmed the 'B+' long-term issue rating on the senior unsecured notes that Yanlord guarantees.
- The stable rating outlook reflects our view that Yanlord will effectively control its leverage and maintain adequate liquidity with disciplined land acquisitions and investments over the next 12-24 months.

Rating Action Rationale

We affirmed the ratings because we expect Yanlord to maintain financial discipline to preserve liquidity and control debt. The company's adjusted debt could decline by 7%-10% in 2023 and 5%-10% in 2024. This reflects controlled land acquisitions and some debt repayment with internal resources.

Yanlord has a land bank that can sustain development and property sales for about three years. As such, the company has no imminent need to replenish its land bank.

We expect controlled land investments in 2023, before Yanlord gradually resumes land acquisitions in 2024-2025. The company is not likely to increase land spending meaningfully until the property market sustainably recovers and private developers' access to capital markets improves.

Yanlord's attributable land investments plunged by 75% to Chinese renminbi (RMB) 1.94 billion in 2022, from RMB7.64 billion in 2021. The company was light on acquisitions to preserve liquidity. It opted to collaborate with other partners and acquire only minority interests in projects (1%-25.5%).

Liquidity should be adequate in 2023, although the liquidity buffer could shrink. Yanlord will likely maintain adequate liquidity. This is despite a decline in the company's cash to short-term debt coverage ratio, due to a spike in short-term debt. Support will come from its intact banking relationships, cost-cutting, manageable counterparty risks for joint ventures (JVs), and limited refinancing risk.

Yanlord has been managing liquidity by reducing land investments and cutting operating expenses. Although the company relies on JV partnerships extensively for property development, it has a good record of financial management and manageable counterparty risks for JVs that mitigate the risk of cash accessibility at the project level. Most of Yanlord's JV partners are state-owned enterprises.

We believe Yanlord has manageable refinancing risk. Of the company's total short-term debt of RMB16.6 billion as of Dec. 31, 2022, almost half were construction loans in China and Singapore. Apart from that, about 17% was secured borrowings pledged with hotel and investment properties in China and Singapore. Yanlord could repay construction loans with cash flow from project presales. The company could also roll over debt when it starts constructing new projects.

Still, Yanlord's liquidity buffer could shrink. The company is likely to repay its outstanding U.S. dollar senior notes equivalent to RMB2.3 billion with internal resources. This is because Chinese developers still do not have access to offshore debt markets. Yanlord's cash from operations could also decline over the next 12-24 months due to lower contracted sales.

Contracted presales could drop in 2023-2024 and operating scale could shrink beyond 2024-2025. This is due to Yanlord's low acquisition rate.

We expect contracted presales to decline by 26%-32% to RMB46 billion-RMB50 billion in 2023 and be flat in 2024. This compares with the RMB68.1 billion in 2022, which was up 14% year on year. The drop mainly reflects reduced salable resources and potentially lower sell-through rates because of a higher portion of salable resources in lower Tier-2 and Tier-3 cities.

Yanlord's operating scale could further shrink. This is if the company remains light on acquisitions beyond 2024 and gradually becomes a construction agency rather than a developer.

That said, Yanlord can largely secure revenue bookings for the next two to three years. This is given the company's abundant unrecognized contracted presales as of end-2022 and quality salable resources the company owns.

We estimate revenue will surge to RMB48 billion-RMB52 billion in 2023, from RMB28.7 billion in 2022. The main drivers will be increased consolidated contracted presales for recognition, including from the bestselling Yanlord Arcadia project. Contracted presales for this project totaled RMB20 billion in 2021-2022.

We thus expect leverage to temporarily improve to 3.4x-3.6x in 2023, before climbing again to 5.0x-5.3x in 2024-2025. The increase will reflect reduced EBITDA from a smaller operating scale and the gradual resumption of land acquisitions.

Outlook

The stable outlook on Yanlord reflects our expectation that it will control debt and maintain adequate liquidity with disciplined land acquisitions and investments.

Although Yanlord's operating scale could contract in the long run if the company does not resume consistent land acquisitions, the company could still maintain its credit metrics over the next two to three years. This is because it has sufficient salable resources and abundant unrecognized contracted presales.

Downside scenario

We could downgrade Yanlord if its consolidated or look-through debt-to-EBITDA ratio weakens to above 5x and consolidated EBITDA interest coverage falls below 2.0x for a sustained period. This could happen if: (1) revenue recognition is weaker than our expectation due to delays in project completions; (2) sales execution and profitability are significantly weaker than our expectation due to weak market demand; and 3) the company fails to control debt and finance costs with aggressive debt-funded investments.

Upside scenario

We could upgrade Yanlord if the company maintains its consolidated and look-through debt-to-EBITDA ratio below 4x for a sustained period. This could happen if it enhances property sales for stronger revenue growth, significantly improves its profitability, and strikes a good balance between debt growth and land replenishments.

Company Description

Yanlord invests in, develops, and manages real estate in China and Singapore. The company develops mid-to-high-end residential properties, commercial properties, and integrated complexes for sale and lease.

Yanlord has been listed on the Singapore stock exchange since 2006. The company operates in 20 cities in China as well as in Singapore.

As of Dec. 31, 2022, Yanlord had a land bank of about 9.46 million square meters in China and Singapore, in terms of gross floor area. The bulk was mainly in high-tier cities such as Suzhou, Nanjing, and Shanghai. The company also has investment properties and three residential projects under development in Singapore.

Our Base-Case Scenario

Assumptions

- Contracted presales to decline to RMB46 billion-RMB50 billion in 2023 and be flat in 2024. This reflects still-weak market sentiment and a higher portion of salable resources in lower Tier-2 and Tier-3 cites, leading to lower sell-through rates than in 2022.
- Revenue to surge to RMB48 billion-RMB52 billion in 2023, mainly from many more consolidated projects for delivery. Revenue to be down to RMB20 billion-RMB25 billion in 2024-2025 because of lower contracted presales in 2023-2024.
- Gross margin for property development to stabilize at 20%-22% in 2023-2024, from 23.6% in 2022. This is due to ongoing price caps in high-tier cities and weak market sentiment since the second half of 2021.
- Overall EBITDA margin to temporarily decline to 21%-23% in 2023, before returning to

23%-26%, versus 24.8% in 2022. This reflects larger contributions from the lower-margin property development segment in 2023.

- Overall cash collection to be about 95% of attributable sales in 2023, slightly lower than in 2021-2022.
- No consolidated land acquisitions in 2023 to preserve liquidity, as in 2022. Yanlord will resume land acquisitions gradually with consolidated land premiums of RMB4 billion-RMB6 billion in 2024 and RMB5 billion-RMB7 billion in 2025, accounting for 15%-30% of consolidated contracted presales.
- Construction costs of RMB9 billion-RMB11 billion in 2023 and RMB8 billion-RMB9 billion in 2024.
- Adjusted debt to drop to RMB38 billion-RMB39 billion as of end-2023, and RMB35 billion-RMB36 billion as of end-2024, from RMB42.1 billion as of end-2022.

Key metrics

Based on these assumptions, we arrive at the following credit metrics:

- Adjusted consolidated debt-to-EBITDA ratio to improve to 3.4x-3.6x in 2023, due to bulk consolidated contracted sales for recognition in 2023. The ratio to return to 5.0x-5.3x in 2024-2025 due to lower EBITDA from property development and gradual land acquisitions.
- EBITDA interest coverage to improve to 4.0x-4.2x in 2023, but fall back to 2.6x-3.0x in 2024-2025.

Liquidity

We view Yanlord's liquidity as adequate. This reflects the company's good cash generation and prudent liquidity management.

For liquidity sources, we applied a 10% haircut to accessible cash at the subsidiary level and a 20% haircut to funds from operations over the 12 months ending December 2023.

By our estimates, Yanlord has a ratio of liquidity sources to liquidity uses of about 1.23x. We do not factor in potential cash outflow for uncommitted land acquisitions.

In our view, Yanlord can be flexible on land acquisitions. This is because it has a land bank that can sustain about three years of development.

Yanlord has diverse funding channels. The company has strong banking relationships with large onshore and overseas banks, backed by a long operating record, its listing status in Singapore, and quality investment properties in China and Singapore

Principal liquidity sources

- Accessible cash of RMB12 billion-RMB14 billion as of Dec. 31, 2022. We applied haircuts according to our expectations for project-level cash accessibility.
- Accessible cash from operations over the 12 months ending Dec. 31, 2022, of RMB5 billion-RMB6 billion. We applied 20% haircuts according to our expectations of cash accessibility, assuming: (1) cash flow from contracted presales, property investments, and

other income that we estimate at RMB31 billion-RMB33 billion; (2) construction expenditure of RMB9 billion-RMB11 billion; and (3) selling, general, and administrative expenses, taxes, interest expenses, and other miscellaneous expenses that we estimate at RMB10 billion-RMB12 billion.

- Undrawn offshore committed bank facilities of RMB3.1 billion.

Principal liquidity uses:

- Short-term debt of RMB16.6 billion as of Dec. 31, 2022.
- Committed but unpaid land premium payments of about RMB95 million in 2023.
- Capex and dividends of RMB0.8 billion-RMB1.0 billion in 2023.

Covenants

Yanlord's major financial covenants are related to: (1) consolidated tangible net worth; (2) consolidated current assets to consolidated current liabilities; (3) consolidated net borrowings to the aggregate of consolidated tangible net worth and the amount attributable to non-controlling interests in the parent's subsidiaries; (4) the fixed charge coverage ratio; (5) consolidated pledged assets to consolidated total assets; and (6) consolidated secured borrowings to consolidated total borrowings.

Yanlord complied with its financial covenants as of Dec. 31, 2022. The company had adequate headroom to meet most of its financial covenants except for the ratio of consolidated current assets to consolidated current liabilities, which has smaller headroom.

Environmental, Social, And Governance

ESG credit indicators: E-3; S-2; G-3

Environmental and governance factors are moderately negative considerations in our credit rating analysis of Yanlord. The company faces environmental and social risks that are generally in line with its industry peers.

Governance factors constraining Yanlord are its board structure and the strong influence of controlling shareholder, Mr. Zhong Sheng Jian. Mr. Zhong is the company chairman and CEO, with an approximate 71.55% stake in the company (excluding treasury shares).

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2022, Yanlord's capital structure consisted of RMB23.8 billion of secured debt and RMB23.5 billion of unsecured debt (including external guarantees). Of this amount, RMB8.0 billion was at the subsidiary level (all guarantees were at the holding-company level). The secured debt was slightly above our notching-down threshold of 50%.

Analytical conclusions

We rate the existing senior unsecured notes issued by Yanlord's financing vehicle, Yanlord Land (HK) Co. Ltd., and guaranteed by Yanlord, one notch below the long-term issuer credit rating on Yanlord. This is because they rank behind a significant amount of secured debt in the capital structure.

Ratings Score Snapshot

Issuer credit rating: BB-/Stable/--

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/leverage: Aggressive

Anchor: bb-

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb-

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Yanlord Land Group Ltd.	
Issuer Credit Rating	BB-/Stable/--
Yanlord Land (HK) Co. Ltd.	
Senior Unsecured	B+