STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

Press Release

Yanlord Land Group Ltd. Downgraded To 'B+' On Increased Leverage And Declining Profitability; Outlook Stable

HONG KONG (Standard & Poor's) March 31, 2015--Standard & Poor's Ratings Services today lowered its corporate credit rating on China-based property developer Yanlord Land Group Ltd. to 'B+' from 'BB-'. The outlook is stable.

We also lowered our issue rating on the company's outstanding senior unsecured notes to 'B+' from 'BB-'. At the same time, we affirmed our 'cnBB' long-term Greater China regional scale ratings on Yanlord and its notes.

"We lowered our rating on Yanlord to reflect our expectation that the company's leverage and interest coverage are unlikely to materially improve in the next 12 months," said Standard & Poor's credit analyst Dennis Lee. "In our view, Yanlord's revenue growth and scale expansion in 2015 will not be sufficient to offset its declining profitability and expected debt increase."

We expect Yanlord's margins to continue weakening over the next 12 months. We also believe the negative impact from the market downturn in 2014 and increasing land and construction costs have not been fully reflected in Yanlord's revenue and margins. The company will gradually recognize the sales contracted in 2014 over the next two years.

We believe Yanlord's profitability in the long run will largely be constrained by its limited land reserves, particularly its depleting land reserves in its core market, Shanghai. Yanlord's existing land reserve of 4.3 million square meters is small when compared with peers, and it is not sufficient to support the company's expansion, in our view.

"Yanlord will likely need to replenish land reserves significantly and may do so in Shanghai and other higher-tier cities. The rising land cost in top-tier cities will squeeze its margin," Mr. Lee said. "On the other hand, sales prices in these cities are also higher. Hence, we do not expect Yanlord's profitability to change significantly from 2015 onward."

We expect Yanlord to increase debt, given higher construction expenditure and land acquisitions in the next two years. This is to support its strategic focus on scale expansion and faster turnover. In our view, Yanlord's expansion during an industry downturn exposes it to higher financial risks.

"Despite challenging market conditions, we forecast 25%-30% sales growth for Yanlord in 2015. The growth is mainly supported by increased saleable resources that the company invested in over the past two years," Mr. Lee said.

Yanlord's debt-to-EBITDA ratio is stronger than its peers with a "highly leveraged" financial risk profile. Its EBITDA interest coverage is also better than its peers'. In our comparable rating analysis, the company therefore received a "positive" assessment under the modifier section.

The stable outlook reflects our view that Yanlord's leverage will remain high, with a debt-to-EBITDA ratio at about 6x, in the next 12 months. We also expect its profitability to weaken further due to increasing market competition and rising construction and land costs. Nevertheless, Yanlord's sales and revenue growth could partially offset its high leverage and declining profitability.

We could lower the rating if Yanlord's contracted sales do not grow in 2015, or if the company's gross margin declines substantially, such that its EBITDA interest coverage falls below 2x on a sustained basis. Our sensitivity analysis suggests that a gross margin of lower than 23%, with other assumptions in our base case remaining unchanged, would indicate such weakness.

We could raise the rating if Yanlord cautiously manages its balance sheet while expanding, such that its debt-to-EBITDA ratio improves to below 5x sustainably. Our sensitivity analysis suggests that contracted sales above RMB18 billion and gross margin rebounding above 30% in 2015, with other assumptions remain constant, would indicate such strength.

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, Dec. 16, 2014
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

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