MOODY'S INVESTORS SERVICE

Credit Opinion: Yanlord Land Group Limited

Global Credit Research - 17 Dec 2015

Singapore

Ratings

Category	**Moody's Rating**
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3
Senior Unsecured -Dom Curr	Ba3
Yanlord Land (HK) Co., Limited	
Outlook	Stable
Bkd Senior Unsecured	Ba3

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Key Indicators

[1]**Yanlord Land Group Limited**

	9/30/2015(L)	**12/31/2014**	**12/31/2013**	**12/31/2012**	**12/31/2011**
Revenue (USD Billion)	**$2.2**	**$1.9**	**$1.8**	**$1.6**	**$1.4**
Cost Structure (Pre-Impairment Gross Margin)	**29.3%**	**29.4%**	**35.6%**	**36.6%**	**33.8%**
EBIT Coverage of Interest	**3.4x**	**2.7x**	**3.6x**	**3.5x**	**3.0x**
Revenue to Debt	**73.7%**	**59.1%**	**64.2%**	**75.6%**	**53.5%**
HB and PD Debt to Total Capitalization	**37.8%**	**39.0%**	**37.6%**	**32.9%**	**40.2%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

1) Good branding and quality products

2) Change of business strategy to meet mass-market demand

3) High quality but small land bank

4) Credit metrics well-positioned relative to similarly rated peers

5) Good access to debt and capital markets and history of raising new equity

Corporate Profile

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, Tangshan, Chengdu, and Sanya.

The company was established in 1993 and listed on the Singapore Stock Exchange in 2006.

Its land bank, totaling 4.8 million square meters at end-September 2015, is spread across five geographic regions in China, namely the Yangtze River Delta, Pearl River Delta, Bohai Rim, Western China and Hainan region.

SUMMARY RATING RATIONALE

Yanlord's Ba3 corporate family rating reflects its strong brand and high-quality properties, allowing it to generate above-industry-average margins, and its adjusted sales execution strategy to meet mass-market demand.

The rating also considers Yanlord's good ability to access the debt and capital markets, and its history of raising equity to fund its development projects.

At the same time, the rating is constrained by its sales concentration and the small size of its land bank, as well as its high debt leverage relative to similarly rated peers.

DETAILED RATING CONSIDERATIONS

(1) GOOD BRANDING AND QUALITY PRODUCTS

Yanlord has developed a good brand through its long operating track record. The company has been in the property development business since 1993.

While it started its operations in Shanghai, it has since expanded its business to Nanjing, Suzhou, Nantong, Tianjin, Zhuhai, Shenzhen, Tangshan, Sanya and Chengdu.

Yanlord focuses on developing high-quality properties at premium prices, a strategy that supports its premium branding, and which in turn leads to stronger pricing power.

Specifically, it develops large-scale properties in prime areas with high economic growth and good transportation networks.

Its management has established strict land acquisition criteria, ensuring good marketability for its end-products.

It is one of only a few Chinese developers that delivers fully fitted residential properties. Such projects require renovation expertise; skills which Yanlord possesses.

Its products generally achieve higher second-hand prices than those from other developers, making them suitable as investment properties.

The company's properties typically take longer and are most expensive to construct. Given the longer period required for completion, Yanlord can gradually increase prices in the later phases of the development process.

Moreover, a low rate of production means that its supply levels are low, thereby reducing the pressure to lower prices significantly in a downmarket.

Its premium property prices are also supported by its good after-sales services, as it acts on feedback from buyers on ways to improve its properties.

It also provides property management services, which in turn help ensure good secondary-market prices for its products.

(2) CHANGE OF BUSINESS STRATEGY TO MEET MASS-MARKET DEMAND

Yanlord has established a good record of developing deluxe residential properties in the Yangtze River Delta region and displayed good sales execution through previous property downcycles in 1997-99, 2002-05 and 2008-09, as seen by the fact that sales prices for its properties were largely unaffected.

The company adjusted its business strategy after experiencing slow sales in 2011, tapping demand from the mass market by developing small- and medium-sized properties that offer better sales volumes, but exhibit lower profit margins.

Yanlord's sales slowed in 2011 because of stricter regulatory measures on home ownership that resulted in lower demand for its deluxe properties and large-sized residential units of 200-300 square meters in gross floor area (GFA).

Its contracted sales increased by 64% in 2012 and 24% in 2013, reflecting the success of its change in business strategy.

Despite the shift in business strategy, Yanlord's units remain higher-priced relative to mass market products because of the better quality of Yanlord's products.

The higher selling prices support Yanlord's gross margins, which remained healthy, at 29.1% for the 12 months ended 30 September 2015, and partly mitigates the margin pressure commonly faced by Chinese property developers.

Yanlord achieved contracted sales of RMB20.3 billion in the first nine months of 2015, significantly higher than the contracted sales of RMB12.7 billion that it registered in 2014, and exceeding its original target of RMB18 billion for 2015.

The better performance in 2015 reflects Yanlord's good sales execution, against the backdrop of supportive government measures implemented since September 2014 that encouraged property demand.

By contrast, sales in 2014 fell from the levels seen in 2013 because of the oversupply situation across China's property market, as the country's economy slowed.

We expect Yanlord to achieve full-year contracted sales of about RMB25 billion in 2015 and contracted sales growth in excess of 10% in 2016, based on the company's estimated sellable resources in 2016 of about RMB48 billion.

(3) HIGH QUALITY BUT SMALL LAND BANK

Yanlord's land bank is of high quality and is spread across 10 cities in five regions, with a large portion located in the centers of first- and second-tier cities.

Its land bank is moderately diversified across the 10 cities, six of which -- namely Shanghai, Nanjing, Zhuhai, Shenzhen, Tianjin and Chengdu -- each accounted for more than 10% of the company's total land bank in terms of GFA.

The slight concentration seen in each of these cities is a result of Yanlord's strategy of acquiring sizable land parcels and developing large, multiple-phased projects in prime locations.

However, Yanlord's land bank of 4.8 million square meters in GFA at end-September 2015 is small when compared with its Ba-rated peers.

The company's strategy of focusing on well-located land banks indicate that its business model requires higher cash needs for land replenishment, as evident from its land acquisitions in Shanghai in late 2011.

Yanlord also selectively participates in early stages of land development to acquire quality land at reasonable prices.

For example, since 2009, it has been involved in the primary land development of the Sino-Singapore Nanjing Eco Hi-tech Island project; a partnership with the Singapore and Nanjing governments. The project has been profitable since 2013.

(4) CREDIT METRICS WELL-POSITIONED RELATIVE TO SIMILARLY RATED PEERS

Yanlord's EBIT coverage of interest remains broadly in line with that of similarly rated peers. Its debt leverage -- as measured by revenue/debt -- is slightly weak for its Ba3 corporate family rating, but will improve over the next 12 months.

EBIT coverage of interest improved to 3.4x for the 12 months ended 30 September 2015 from 2.7x in 2014, due to increased project deliveries.

Revenue/debt, on the other hand, remained slightly low, at 74% for the 12 months to 30 September 2015, despite adjusted debt falling to RMB18.8 billion at end-September 2015 from RMB19.9 billion at end-2014.

Total debt fell in the nine months to 30 September 2015 because of lower land acquisition during the period.

We believe Yanlord will experience healthy revenue growth over the next 12-18 months, based on contracted sales of RMB24.2 billion at end-September 2015 available for revenue booking, if the projects are completed.

We expect that the company's revenue growth will increase over the next 12-18 months such that revenue/debt will improve to 80%-100% and EBIT coverage of interest will increase to 3.5x-4.0x. Such levels are appropriate for the company's Ba3 corporate family and senior unsecured debt ratings.

(5) GOOD ACCESS TO DEBT AND CAPITAL MARKETS AND HISTORY OF RAISING NEW EQUITY

Yanlord exhibits good access to the local onshore and offshore capital markets to support its construction requirements, land acquisitions, and debt refinancing.

The company has demonstrated its access to both the onshore and offshore debt capital markets.

For example, it raised approximately USD600 million (SGD847 million) in convertible bonds to support its growth in 2007 and 2009. It also issued USD300 million of senior unsecured bonds in 2010, USD400 million in 2011, RMB2 billion in May 2013, and SGD400 million in April 2014.

The company benefits from access to offshore syndicated bank loans. It raised USD200 million in syndicated loans in 2007, and another USD400 million in syndicated loans in December 2009.

After a prepayment of USD400 million in the second quarter of 2011, it signed USD150 million in revolving credit facilities with offshore banks.

Yanlord also raised USD385 million and USD170 million in syndicated loans in June 2014 and May 2015 respectively.

The company has shown flexibility in raising funds through equity offerings. It raised equity of around USD380 million (SGD537 million) in 2007 and 2009 to provide funding for its operations during a volatile time in the property market. This development was particularly important, as its deluxe properties show higher volatility to demand and prices.

Liquidity Profile

Yanlord's liquidity position is adequate.

At end-September 2015 Yanlord held cash-on-hand of RMB12.2 billion, an amount which more than covered its maturing short-term debt of around RMB5.5 billion, including the RMB2 billion senior notes coming due in May 2016, and committed land payments over the next 12 months.

Yanlord's cash to short-term debt of 222% at end-September 2015 compares favorably with Ba3-rated peers.

Rating Outlook

The stable outlook on Yanlord's ratings reflects our expectation that the company will continue to achieve contracted sales growth, exhibit prudent financial management and maintain adequate liquidity levels.

What Could Change the Rating - Up

Upgrade pressure on the ratings could emerge if the company: (1) successfully executes its growth plans while maintaining strong balance sheet liquidity; and (2) achieves an EBIT coverage of interest in excess of 4.0x-4.5x on a sustained basis.

What Could Change the Rating - Down

The ratings could be downgraded if Yanlord: (1) fails to execute its sales plan such that its liquidity profile weakens, as reflected in cash/short term debt coverage falling below 1.5x; or (2) engages in other material land acquisitions that strain its liquidity position; and/or (3) exhibits weakening credit metrics, in particular, if its EBIT coverage of interest falls below 2.5x-3.0x over a sustained period.

Other Considerations

Mapping to Moody's Rating Methodology for Homebuilding And Property Development Industry

When mapped to the Homebuilding and Property Development methodology, Yanlord scores around the Ba-B range for most rating factors.

Its cost structure is a positive outlier, reflecting its generally high-quality products, which sell at premium prices. However, this is counterbalanced by its weak revenue to debt, which is rated at B.

Rating Factors

Yanlord Land Group Limited

Homebuilding And Property Development Industry Grid [1][2]	Current LTM 9/30/2015	
Factor 1 : Scale (15%)	**Measure**	**Score**
a) Revenue (USD Billion)	$2.2	Ba
Factor 2 : Business Profile (25%)		
a) Business Profile	Ba	Ba
Factor 3 : Profitability and Efficiency (10%)		
a) Cost Structure (Pre-Impairment Gross Margin)	29.3%	Baa
Factor 4 : Leverage and Coverage (30%)		
a) EBIT Coverage of Interest	3.4x	Ba
b) Revenue to Debt	73.7%	B
b) HB and PD Debt to Total Capitalization		na
Factor 5 : Financial Policy (20%)		
a) Financial Policy	Ba	Ba
Rating:		
a) Indicated Rating from Grid		Ba2
b) Actual Rating Assigned		Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 9/30/2015(L); Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.