S&P Global
Ratings

Press Release

Yanlord Land Group Upgraded to 'BB' From 'BB-' On Improved Financial Position, Good Profitability : Outlook Stable

- Yanlord's financial position is improving due to substantial margin growth and prudent expansion strategies.
- We expect the Chinese developer's debt-to-EBITDA ratio to remain below 4x over the next 12-24 months driven by high margins on the back of disciplined land acquisitions, and steadier sales performance despite China's administrative price-cap policies.
- We are raising our long-term corporate credit rating on Yanlord to 'BB' from 'BB-' and our long-term issue rating on the company's senior unsecured notes to 'BB-' from 'B+'.
- The stable outlook reflects our view that Yanlord will continue to be disciplined in its expansion strategies. We also expect the company to maintain high margins over the next two to three years, due to its niche market position in the high-end segment and increasingly diversified land acquisition strategies.

HONG KONG (S&P Global Ratings) March 14, 2018-- S&P Global Ratings today raised its long-term corporate credit rating on China-based real estate developer Yanlord Land Group Ltd. to 'BB' from 'BB-'. The outlook is stable. At the same time, we raised our long-term issue rating on the company's outstanding senior unsecured notes to 'BB-' from 'B+'.

We upgraded Yanlord to reflect our view that the company can sustain its strong financial position over the next two to three years, driven by continued high profitability and good financial discipline. We also expect Yanlord's contracted sales performance to be steadier over the next 12 months after a decline in 2017, given we believe that the company will strike a balance between sales growth and achieving high selling prices.

We forecast that leverage will moderately increase to 3.5x-4.0x over the next two years as the company expands scale and increases capital spending. However, debt leverage is unlikely to exceed this level due to Yanlord's strong profitability and prudent expansion strategies, in our view. The company's leverage as measured by the ratio of debt-to-EBITDA was below 3.0x in the past two years.

The strong profitability is supported by the company's premium brand position and historically low-cost projects in high-tier cities such as Shanghai, Nanjing, and Suzhou. Even as Shanghai's contribution declines over the next few years, we expect Yanlord's EBITDA margin to be above 30%, which is above

the industry average in China.

In our view, Yanlord will maintain a disciplined approach in its expansion strategies. The company has steadily increased its land reserves to 6.74 million square meters (sqm), from 5.93 million sqm as of 2016. The company aims to increase its annual contracted sales to Chinese renminbi (RMB) 50 billion by 2020 from about RMB26.3 billion in 2017. To do so, we estimate the company will increase land purchases to about RMB12 billion per year, around 40% of its annual sales. Nonetheless, we expect Yanlord to continue to be profit-focused instead of scale-driven, and take a diversified approach to land purchases, including urban redevelopment, primary land development, and joint ventures.

Yanlord's premium market position and focus on higher-tier cities could increase sensitivity to cooling measures and policy changes. For example, the company's contracted sales declined 21% in 2017 as it held back projects in Nanjing due to administrative price controls. However, we anticipate the company will increase its contracted sales by 18%-26% in 2018 and 22%-26% in 2019 due to growing saleable resources and sufficient margin in completed projects.

The stable outlook reflects our view that Yanlord will continue to be disciplined in its debt-funded expansion in the next 12-24 months. We also expect the company to maintain satisfactory sales and an EBITDA margin above 30% in the forecast period.

We could lower the rating if Yanlord's debt-to-EBITDA ratio weakens to above 4x on a sustained basis. This could happen if: (1) the company's debt-funded land acquisitions are materially larger than our expectation in 2018; (2) the company's revenue or sales is significantly weaker than we expected due to policy controls or project delays; or (3) the company's EBITDA margin is significantly below our forecast

An upgrade is less likely in the coming 12 months, given our expectation for Yanlord's leverage and its relatively small operating scale and niche market focus. Nevertheless, we could raise the rating if the company's debt-to-EBITDA ratio improves to below 3x on sustained basis, while it significantly improves its diversity and scale.

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, 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: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods,

Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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