Moody's
INVESTORS SERVICE

Rating Action: Moody's confirms Yanlord's Ba2 CFR; changes outlook to negative

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Hong Kong, January 23, 2020 -- Moody's Investors Service has confirmed Yanlord Land Group Limited's (Yanlord) Ba2 corporate family rating (CFR).

In addition, Moody's has confirmed the Ba3 backed senior unsecured rating on the bonds issued by Yanlord Land (HK) Co., Limited, a wholly-owned subsidiary of Yanlord, and guaranteed by Yanlord.

At the same time, Moody's has changed the outlook to negative from "rating under review".

These rating actions conclude Moody's review initiated on 28 October 2019.

RATINGS RATIONALE

"The ratings confirmation reflects our expectation that the newly acquired assets from United Engineers Limited (UEL) will improve Yanlord's business diversification and underpin a recovery in its credit metrics over the next 12-18 months, from the weak levels estimated for 2019," says Cedric Lai, a Moody's Vice President and Senior Analyst.

"However, the negative outlook reflects the uncertainty around the company's ability to execute on its ambitious deleveraging plan in the next 12-18 months," adds Lai.

On 20 January 2019, Yanlord announced the closing of its general offer for all UEL shares. Upon closing, the company held 95.91% of UEL's ordinary shares, triggering the full acquisition of the company and making it a wholly-owned subsidiary of Yanlord. Yanlord plans to delist UEL from the Singapore Stock Exchange.

UEL specializes in property rental and hospitality, property development, engineering, distribution, manufacturing, and corporate services & others. It operates across Singapore, Malaysia, China, and USA.

Moody's expects Yanlord's metrics will weaken following the acquisition, as the company will fund the acquisition for 50% with debt and as it will assume all of UEL's liabilities. In addition, Moody's expects Yanlord will record slow revenue recognition for 2019. Consequently, Moody's expects Yanlord's debt leverage — as measured by revenue/adjusted debt -- will weaken to 38% in 2019 from 54% in 2018, and its interest coverage — as measured by adjusted EBIT/interest coverage — to fall to 3.8x from 5.3x over the same period.

However, Moody's expects Yanlord's credit metrics will improve over the next 12-18 months, supported by (1) the company's plan to deleverage by slowing its land acquisitions; (2) improving revenue recognition on the back of strong contracted sales in 2019; and (3) strong rental income growth from its newly acquired investment properties portfolio in Singapore.

Specifically, Moody's forecasts that Yanlord's debt leverage and interest coverage will improve to 55%-60% and 4.5x-5.0x respectively over the next 12-18 months. In addition, the company's adjusted rental income/interest coverage should improve to 45%-50% over the same period. However, these metrics will largely hinge on Yanlord's ability to deleverage over the next 12-18 months.

For the full year of 2019, Yanlord registered strong 103% year-on-year contracted sales growth to RMB55.5 billion. Such strong contracted sales performance supports the company's liquidity.

Yanlord's Ba2 corporate family rating continues to reflect its established brand name and high-quality products, which provide it with strong pricing power and support its above-peer-average gross margin. In addition, the company's sales strategy, aimed at catering to a broader spectrum of market demand, helps reduce the negative impact from regulatory measures that constrain property demand.

The rating also considers Yanlord's good liquidity profile, and strong access to both onshore and offshore funding.

Meanwhile, the rating is constrained by the company's (1) geographic concentration; (2) high leverage due to its large-scale land acquisitions and UEL acquisition; and (3) exposure to tightening property regulations.

The company's Ba3 senior unsecured debt rating is one notch lower than the corporate family rating, due to structural subordination risk. This risk reflects the fact that the majority of claims are at the operating subsidiaries and have priority over Yanlord's senior unsecured claims in a bankruptcy scenario. In addition, the holding company lacks significant mitigating factors for structural subordination. As a result, the likely recovery rate for claims at the holding company will be lower.

Yanlord's liquidity position is good. Moody's expects that the company's cash holdings and cash flow from operating activities will be sufficient to cover its maturing debt and committed land payments over the next 12 months. At 30 September 2019, Yanlord's cash balance of RMB16.1 billion (including restricted cash of RMB436 million) covered about 141% of its short-term debt of RMB11.4 billion as of the same date.

In terms of environmental, social and governance (ESG) factors, Moody's has taken into account the concentrated ownership by Yanlord's key shareholder, Mr. Zhong Sheng Jian, who held an approximate 70.11% direct and indirect stake as of 30 June 2019.

This risk is partially mitigated by (1) the presence of four independent non-executive directors on Yanlord's eight-member board of directors, who also chair the audit, nominating, remuneration and risk management committees; (2) the company's moderate 15%-20% dividend payout ratio over the past three years; and (3) the presence of other internal governance structures and standards, as required under the Corporate Governance Code for companies listed on the Singapore Stock Exchange.

Moody's is unlikely to upgrade Yanlord's ratings given the negative outlook.

Nevertheless, Moody's could revise the outlook to stable if the company is successful in deleveraging through proactive financial management, exercising prudence in any new land acquisitions or other mergers and acquisitions, while sustaining sales growth through the cycles and maintaining good liquidity.

The ratings could be downgraded if (1) the company's contracted sales growth is slower than Moody's expectation; (2) its credit metrics weaken, with EBIT/interest coverage falling below 3.5x, adjusted revenue/debt falling below 60% or recurring rental income/interest coverage failing to progress toward 40%-45%; or (3) the company's liquidity deteriorates, with cash/short-term debt below 1.25x, and all on a sustained basis.

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in January 2018. 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. The company operates across a number of major Chinese cities, including Shanghai, Nanjing, Suzhou, Hangzhou, Nantong, Shenzhen, Tianjin, Zhuhai, Chengdu, Tangshan, Jinan, Zhongshan, Haikou, Sanya and Wuhan.

Yanlord Land Group Limited listed on the Singapore Stock Exchange in 2006. The company had a total land bank of 8.59 million square meters by gross floor area at 30 June 2019.

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