MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook for Yanlord to stable from negative

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Hong Kong, March 09, 2021 -- Moody's Investors Service has affirmed Yanlord Land Group Limited's (Yanlord) Ba2 corporate family rating (CFR) and 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 stable from negative.

"The change in outlook to stable from negative reflects our expectation that Yanlord's credit metrics will continue to improve over the next 12-18 months, supported by its strong revenue growth and controlled debt increase," says Cedric Lai, a Moody's Vice President and Senior Analyst.

Specifically, Yanlord's revenue growth will be driven by its strong sales execution over the past two years. Its total contracted sales grew 41% year over year to RMB78.5 billion in the full year of 2020, despite the negative impact from the coronavirus outbreak. This comes after the company's contracted sales grew 103% year over year to RMB55.5 billion for the full year in 2019.

"At the same time, the rating affirmation reflects our expectation that the company will maintain its financial discipline and good liquidity position over the next 12-18 months," adds Lai.

RATINGS RATIONALE

Yanlord's Ba2 CFR reflects the company's established brand name and high-quality products, which provide it with strong pricing power. In addition, the company's sales strategy, aimed at catering to a broader spectrum of market demand, helps to reduce the negative impact from regulatory measures that constrain property demand. The rating also takes into consideration for Yanlord's good liquidity profile and strong access to onshore and offshore funding.

On the other hand, the rating is constrained by the company's geographic concentration, moderate debt leverage, and material exposure to joint venture (JV) businesses, which hinders the transparency of its credit metrics. However, the latter is mitigated by the company's reputable JV partners.

Moody's expects Yanlord's debt leverage -- as measured by revenue/adjusted debt -- will continue improve to 65%-72% over the next 12-18 months from 49% in 2020 and 30% in 2019. This is driven by Moody's expectation of Yanlord's strong revenue recognition on the back of its strong contracted sales growth over the past two years, as well as its disciplined approach to pursuing growth and controlling debt increase. Specifically, the company managed to reduce its total adjusted debt by 22% year on year to RMB48.7 billion as of the end of 2020.

Meanwhile, Moody's expects Yanlord's EBIT/interest coverage will improve to 3.5x-4.0x over the same period from 3.0x in 2020, reflecting the effect of revenue growth and declining interest costs, which will more than offset Moody's expected decline of gross profit margin. The company's gross profit margin will likely weaken to around 28% in the next 12-18 months from 36% in 2020, due to rising land costs and regulatory measures on property selling prices in its home base.

In addition, the company's adjusted rental income/interest coverage should improve to 35%-40% in 2021-2022 from 23% in 2020, supported by rental income growth on the back of recovery for its operations in its investment properties portfolio in Singapore.

Moody's believes Yanlord's sizable salable resources, strong sales execution and solid housing demand in the company's core markets will enable its contracted sales to grow to RMB80 billion--RMB85 billion annually in 2021 and 2022.

The company's Ba3 senior unsecured debt rating is one notch lower than the CFR, 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. The company's cash balance of RMB17.3 billion covered 2.1x of its short-term debt as of the end of 2020. Moody's expects the company's cash holdings, together with operating cash inflow, will be able to cover its maturing short-term debt, unpaid committed land purchases and dividend payments over the next 12-18 months.

In terms of environmental, social and governance (ESG) factors, Moody's has taken into account the concentrated ownership by Yanlord's largest shareholder and chairman, Mr. Zhong Sheng Jian, who held approximately 70.457%, direct and indirect, stake in the company as of the end of December 2020. Moody's has also considered (1) the presence of five independent non-executive directors on Yanlord's nine-member board of directors, who also chair the audit, nominating, remuneration as well as risk management and sustainability committees; (2) the company's moderate 18%%-25% 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.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade Yanlord's CFR if it successfully diversifies the operations geographically and executes its sales plan through the cycle, while maintaining strong financial and liquidity profiles.

Specifically, Moody's could upgrade the rating if Yanlord's (1) revenue/adjusted debt exceeds 85%; and (2) EBIT/interest coverage is above 4.5x-5.0x, both on a sustained basis.

On the other hand, Moody's could downgrade the rating if (1) Yanlord's contracted sales growth slows or (2) it pursues aggressive expansion, such that its credit metrics weaken, with EBIT/interest coverage falls below 3.25x-3.5x and revenue/adjusted debt reduces below 60%-65% on a sustained basis; or (3) its liquidity weakens, as reflected by cash/short-term debt declining below 125%.

The principal methodology used in these ratings was Homebuilding And Property Development Industry published in January 2018 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1108031. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Yanlord Land Group Limited is a real estate developer in China and Singapore. The company operates across a number of major Chinese cities, including Shanghai, Nanjing, Suzhou, Hangzhou, Nantong, Taicang, Yancheng, Shenzhen, Zhuhai, Zhongshan, Tianjin, Tangshan, Shenyang, Jinan, Haikou, Sanya, Wuhan and Chengdu. Yanlord also has two residential developments in Singapore.

Yanlord Land Group Limited is listed on the Singapore Stock Exchange in 2006. The company had a total land bank of 10.6 million square meters by gross floor area as of 31 December 2020.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406 .

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