MOODY'S

Rating Action: Moody's downgrades Yanlord's ratings to B1/B2; outlook negative

30 Nov 2023

Hong Kong, November 30, 2023 -- Moody's Investors Service has downgraded Yanlord Land Group Limited (Yanlord)'s corporate family rating (CFR) to B1 from Ba3 and the backed senior unsecured rating on the bonds issued by Yanlord Land (HK) Co., Limited, a wholly-owned subsidiary of Yanlord, to B2 from B1. The bonds are guaranteed by Yanlord.

At the same time, Moody's has maintained the negative rating outlooks.

"The downgrades reflect our expectation that Yanlord's credit metrics and liquidity buffer will weaken further over the next 12-18 months due to its worse-than-expected decline in its property sales and constrained access to debt capital markets," says Cedric Lai, a Moody's Vice President and Senior Analyst.

"The negative outlook reflects uncertainties over Yanlord's ability to recover its declining contracted sales and funding access over the next 6-12 months, given the current volatile market and funding conditions," adds Lai.

RATINGS RATIONALE

Moody's projects that Yanlord's contracted sales will fall to RMB30 billion - RMB35 billion annually in 2023 and 2024 because of its moderate business scale and reduced land resources to preserve liquidity over the past 12-18 months. The company's contracted sales dropped 52% to RMB28.1 billion over the first ten months of 2023, which was significantly weaker than national average of a 3.7% decline in the same period. The company's contracted sales amounted to RMB68.1 billion in 2022, an increase of 14% from that in 2021.

The sales decline will weaken the company's operating cash flow and credit metrics over the next 12-18 months. Moody's projects Yanlord's debt leverage, as measured by debt/ EBITDA, will rise to 6.2x-6.5x over the next 12-18 months from 5.9x for the 12 months ended June 2023, while its EBIT/interest coverage will drop to 2.0x-2.3x from 2.6x for the same period. These forecasts incorporate Moody's expectation that the company will face a lower profit margin of around 25% over the next 12-18 months compared with 28% in the first half of 2023.

Yanlord's liquidity remains adequate. Its cash balance and projected operating cash flow will likely be sufficient to cover its committed land payments, dividend payments and maturing debts over the next 12-18 months. However, its liquidity buffer will decline because the company will have to use internal resources to repay part of its maturing debt amid weak funding conditions.

Yanlord's B1 CFR reflects the company's established brand name and high-quality products. The rating also considers Yanlord's adequate liquidity and solid recurring rental income from its investment properties (IP) in China and Singapore, which provide the company with some stable cash flow. Moody's expects Yanlord's rental income/interest coverage to improve to around 45% over the next 12-18 months from 40% over the 12 months ended June 2023, supported by steady rental income growth.

On the other hand, the rating is constrained by Yanlord's volatile operating performance, geographic concentration an weakening sales and credit metrics. The company's significant exposure to joint venture (JV) businesses also hinders the transparency of its credit metrics, although the strength of its reputable JV partners tempers this risk.

The company's B2 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.

In terms of environmental, social and governance (ESG) factors, Moody's has considered Yanlord's concentrated ownership, with its largest shareholder and chairman, Mr. Zhong Sheng Jian, holding an approximately 71.55% direct and indirect stake (excluding treasury shares) in the company, based on the latest publicly available information. Moody's has also taken into account the presence of internal governance structures and standards as required by the Singapore Exchange.

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

An upgrade of the ratings is unlikely in the near term, given the negative outlook.

However, Moody's could revise Yanlord's rating outlook to stable if the company improves its sales and credit metrics, strengthens its access to long-term funding, and maintains sufficient liquidity.

Credit metrics that could indicate a stable rating outlook include EBIT/interest coverage above 2.8x and debt/EBITDA below 6.0x on a sustained basis.

Moody's could downgrade Yanlord's ratings if the company's sales, credit metrics or liquidity weaken, or if the company pursues aggressive expansion or its access to funding deteriorates. Credit metrics indicating a downgrade include EBIT/interest coverage falling below 2.0x or debt/EBITDA above 7.0x, both on a sustained basis.

The principal methodology used in these ratings was Homebuilding and Property Development published in October 2022 and available at https://ratings.moodys.com/rmc-documents/394515. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Yanlord Land Group Limited is a real estate developer in China and Singapore, and is listed on the Singapore Stock Exchange. It had a land bank with a gross floor area (GFA) of about 9.1 million square meters as of June 2023, located mainly across six geographic regions in China, including the Yangtze River Delta, the Greater Bay Area, the Bohai Rim, Central China, Hainan and Western China. The company also has residential development projects and investment properties in Singapore.

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 on https://ratings.moodys.com/rating-definitions.

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