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Announcement: Moody's: Yanlord's strong profit margin and liquidity support its Ba2 rating

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Hong Kong, August 16, 2017 -- Moody's Investors Service says that Yanlord Land Group Limited's strong profit margin, interest coverage ratio and liquidity support its Ba2 corporate family rating and the stable outlook on the rating.

"Yanlord's credit profile supports its Ba2 rating, and reflects the company's above-peer profit margin and interest coverage, as well as its strong liquidity profile," says Anthony Lee, Moody's Lead Analyst for Yanlord.

Lead by the higher average selling prices of products delivered in 1H 2017, the company's adjusted gross margin and EBIT to interest coverage improved to 41% and 7.5x for the 12 months ended 30 June 2017 from 31% and 5.7x in 2016. Such levels are strong relative to its Ba-rated Chinese property peers.

Yanlord's liquidity position is strong. At end-June 2017, its cash balance totaled RMB16 billion, covering 2.6x of its short-term debt.

On the other hand, Moody's notes that the company's debt leverage — as measured by revenue to adjusted debt — has risen. Specifically, the ratio fell to 70% for the 12 months ended 30 June 2017 from 102% in 2016, because of the high level of spending on land acquisitions during this time.

"Nevertheless, we expect that Yanlord's high debt leverage as at June 2017 is temporary and will return to a level commensurate with its Ba2 rating, based on the fact that we expect to see some moderation in its land-banking activities, and an acceleration in revenue growth over the next 6-12 months," adds Lee.

As a result, Yanlord's revenue to debt should trend towards 80%, and it should maintain an EBIT to interest above 5.5x over the next 12 months. Such credit metrics support its Ba2 corporate family rating.

Moody's expects that Yanlord will keep its total spending on land in 2017 to within the company's budget of RMB15-RMB20 billion, which will in turn control debt growth over the next 6-12 months.

At the same time, Yanlord will likely post higher revenue growth over the next 12 months, supported by a large amount of unrecognized revenue of RMB27.8 billion at end-June 2017.

Yanlord acquired a few large development sites in the past 6-9 months. Moody's estimates that the total cost of these plots of land was around RMB20 billion, and part of it was paid in 1H 2017 and was partially funded by additional borrowings.

Moody's expects that the new projects will support Yanlord's gross profit margin in the long run. For instance, the average purchase land cost for the Nanjing Eco Hi Tech Island project represents around one third of the selling price recorded in the existing secondary market for Yanlord's Oasis New Island Gardens project, which is located in the same area.

The principal methodology used in this rating was Homebuilding And Property Development Industry published in April 2015. 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. It operates in the large Chinese cities of Shanghai, Nanjing, Suzhou, Nantong, Shenzhen, Tianjin, Zhuhai, Chengdu, Tangshan, Zhongshan, Sanya and Wuhan.

Yanlord was established in 1993 and Yanlord Land Group Limited was listed on the Singapore Stock Exchange in 2006. Its land bank totaled 6.0 million square meters at end-June 2017.

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 www.moodys.com for the most updated credit rating action information and rating history.

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