



Rating Action: Moody's downgrades Yanlord to Ba3/B1; outlook negative

28 Aug 2023

Hong Kong, August 28, 2023 – Moody's Investors Service has downgraded Yanlord Land Group Limited (Yanlord)'s corporate family rating (CFR) to Ba3 from Ba2 and the backed senior unsecured rating on the bonds issued by Yanlord Land (HK) Co., Limited, a wholly-owned subsidiary of Yanlord, to B1 from Ba3. The bonds are guaranteed by Yanlord.

The rating outlook remains negative.

"The downgrade reflects our expectation that Yanlord's credit metrics and liquidity buffer will weaken over the next 12-18 months due to its declining contracted 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 amid subdued market prospects and volatile funding conditions," adds Lai.

RATINGS RATIONALE

Moody's expects Yanlord's contracted sales to continue declining because of its moderate business scale, reduced land resources due to its smaller scale of land acquisitions to preserve liquidity over the past 12-18 months, and a more challenging operating environment in China's property market.

Moody's projects that Yanlord's contracted sales will fall around 34% to around RMB45 billion in 2023 and 2024 after strong growth of 14% to around RMB68.1 billion in 2022. The company's contracted sales declined 38% to RMB23.0 billion over the first seven months of 2023, compared with 0.7% growth in the national market.

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-6.6x over the next 12-18 months from 5.9x for the 12 months ended June 2023, while its EBIT/interest coverage will decline to 2.3x-2.4x from 2.6x for the same period. These forecasts incorporate Moody's expectation that the company will face a decline in its profit margin to around 23%-24% from 28% in the first half of 2023.

While Yanlord's liquidity will be adequate, Moody's believes Yanlord's liquidity buffer will run down over the next 12-18 months. This is because it will use its internal resources to repay part of its maturing debt during the period, while its access to debt capital markets will remain constrained amid volatile debt capital markets, especially for privately-owned developers.

Yanlord's Ba3 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 stable cash flow that can partly temper the cash flow volatility arising from its property development business. Moody's expects Yanlord's rental income/interest coverage to improve to around 41%-47% 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 and weakening credit metrics. The significant exposure to joint venture (JV) businesses also hinder the transparency of its credit metrics, although the strength of its reputable JV partners tempers this risk.

The company's B1 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 3.0x and debt/EBITDA below 5.5x-6.0x on a sustained basis.

Moody's could downgrade Yanlord's ratings if the company's sales, credit metrics and liquidity weaken, or if the company pursues aggressive expansion. Credit metrics indicating a downgrade include EBIT/interest coverage falling below 2.3x or debt/EBITDA above 6.5x-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 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.

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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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