

Research Update:

Yanlord Land Group Downgraded To 'B+' On Weakened Liquidity Buffer; Outlook Negative

August 28, 2023

Rating Action Overview

- Yanlord Land Group Ltd.'s concentrated maturities in early 2024 have reduced its liquidity buffer. In our view, refinancing risk is rising for most China-based developers, especially privately owned enterprises, partly due to the woes of some large industry players.
- Weakening property market sentiment even in higher-tier cities in China could also hinder Yanlord's contracted sales and profitability.
- On Aug. 28, 2023, S&P Global Ratings lowered its long-term issuer credit rating on Yanlord to 'B+' from 'BB-'. We also lowered the long-term issue rating on the senior unsecured notes that Yanlord guarantees to 'B' from 'B+'.
- The negative rating outlook reflects the risk that Yanlord's contracted sales could further decline over the next 12-18 months, tightening the property developer's cash from operations. This may also weaken the company's financing activities in the period.

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Rating Action Rationale

We downgraded Yanlord due to its weakened liquidity buffer. The company's ratio of cash to short-term debt has weakened compared with our previous assessment. Yanlord has concentrated debt maturities in February 2024. These include offshore senior notes with an outstanding amount of US\$376 million and the term loan tranche of a syndicated loan of US\$600 million maturing in February 2024 (US\$80 million was amortized and repaid in August 2023).

We expect Yanlord to repay the maturing notes using internal resources. The company's ability to refinance the syndicated loan would be critical for its credit standing, in our opinion. Refinancing risk is rising for Chinese developers, especially those privately owned enterprises. This is due to the recent deterioration in property sales in China and the woes of some large industry players. It is likely that banks would be more cautious about lending to developers, especially those that are not state-owned.

We estimate Yanlord's accessible cash at the holding company level will be insufficient to cover its February 2024 maturities. This is despite the company's efforts to manage liquidity by reducing

land investments and cutting operating expenses amid the downcycle in the past two to three years. Yanlord will need to rely on cash upstreamed from operating project companies and on financing cash inflow. These could be more uncertain and difficult in case the downcycle worsens.

As of June 30, 2023, Yanlord also had other short-term debt of about Chinese renminbi (RMB) 10 billion. These were mainly onshore construction loans of RMB6.1 billion, interest-bearing loans from non-controlling shareholders of subsidiaries of RMB1.4 billion, and secured borrowings pledged with investment properties and construction loans in Singapore totaling RMB2.5 billion equivalent. We believe Yanlord could repay and draw down construction loans with presales and deliveries on a rolling basis.

Yanlord's contracted presales could further drop in 2023-2024 amid weak market sentiment.

We expect the company's contracted presales to decline by 38% to RMB42.5 billion in 2023 and dip further to RMB41 billion in 2024. This compares with RMB68.1 billion in 2022, which was up 14% year on year. The lower presales forecast mainly reflects reduced salable resources due to fewer land acquisitions, and increasing exposure to lower tier-two and tier-three cities.

Nevertheless, about 88.7% of Yanlord's land (in terms of gross floor area) is in tier-one and tier-two cities in China. Only 8.2% are in tier-three cities, and the remainder are in Singapore. If the China market recovers with help from effective stimulus policies, the company will benefit from its exposure to higher-tier cities, in our view.

Yanlord's operating scale could shrink owing to controlled land acquisitions. The company has remained light on land acquisitions. In the first half of 2023, its attributable land cost was just RMB249 million. All three projects acquired in the period use an asset-light model, with Yanlord's interest at no more than 10%. We believe the company is unlikely to significantly increase land spending until its concentrated maturities are resolved and the property market sustainably recovers.

Yanlord's land bank on hand is still sufficient for three years of development and property sales. Additionally, the company, together with its joint ventures and associates, had unrecognized contracted presales of RMB95.4 billion as of June 30, 2023. This could also support revenue booking over the next two to three years. That said, if Yanlord remains silent in the land market beyond 2024-2025, it will gradually become a project manager rather than a developer.

Outlook

The negative rating outlook reflects our view of Yanlord's heightening refinancing risk in this property downcycle in China. It also reflects the risk that the company's contracted sales could further weaken over the next 12-18 months amid deteriorating market sentiment.

Downside scenario

We could downgrade Yanlord if its liquidity further deteriorates such that liquidity sources are insufficient to cover liquidity uses.

We could also downgrade Yanlord if its consolidated or look-through debt-to-EBITDA ratio weakens to more than 6.0x and consolidated EBITDA interest coverage falls below 2.0x for a sustained period. This could happen if: (1) revenue recognition is weaker than our expectation, possibly due to delays in project completion; (2) sales execution and profitability are significantly weaker than our expectation due to weak market demand; and (3) the company fails to control debt and finance costs, with aggressive debt-funded investments.

Upside scenario

We could revise the outlook to stable if Yanlord's liquidity improves, possibly due to stronger property sales, better accessibility to cash in project companies, and materially better financing inflow than we expect.

Company Description

Yanlord engages in the investment, development, and management of real estate properties in China and Singapore. The company develops mid-to-high-end residential properties, commercial properties, and integrated complexes for sale and lease.

Yanlord has been listed on the Singapore stock exchange since 2006. The company has operations in 20 cities in China and Singapore.

As of June 30, 2023, Yanlord had a total land bank of about 9.08 million square meters in China and Singapore, in terms of gross floor area. The bulk was mainly in high-tier cities such as Suzhou, Nanjing, and Shanghai. The company also has investment properties and three residential projects under development in Singapore.

Our Base-Case Scenario

Assumptions

- Contracted presales to decline to RMB42.5 billion in 2023 and RMB41 billion in 2024. This reflects the current weak market sentiment in China, even in higher-tier cities.
- Revenue to surge to RMB50 billion in 2023, mainly from many more consolidated projects for delivery. Revenue to fall to RMB25 billion-RMB28 billion in 2024-2025, of which RMB20 billion-RMB23 billion will be from property development. The drop reflects lower contracted presales in 2023-2024.
- Gross margin for property development to stabilize at 19%-21% in 2023-2025, from 23.6% in 2022. This is due to ongoing price caps in high-tier cities and weak market sentiment since the second half of 2021.
- Overall EBITDA margin to temporarily decline to about 22% in 2023, before returning to 24%-26% in 2024-2025, versus 24.9% in 2022. The dip in 2023 will be due to a larger contribution from the lower-margin property development segment.
- Overall cash collection to be 95%-96% of attributable sales in 2023-2025, slightly lower than 96%-98% in 2020-2022.
- Total cash land premium to be about RMB1.5 billion in 2023, with no consolidated land acquisition to preserve liquidity. Land acquisitions to resume gradually, with consolidated land premiums of RMB2 billion-RMB4 billion in 2024 and RMB5 billion-RMB7 billion in 2025, accounting for 14%-30% of consolidated contracted presales.
- Construction costs will be RMB9 billion-RMB11 billion in 2023 and RMB6 billion-RMB8 billion in 2024.
- Adjusted debt to drop to RMB39 billion as of end-2023, and RMB33 billion-RMB36 billion in

2024-2025, from RMB43.4 billion as of end-2022.

Yanlord Land Group Ltd.--Forecast summary

(Mil. CNY)	--Fiscal year ended Dec. 31--					
	2020a	2021a	2022a	2023e	2024f	2025f
Contracted sales	78,455	59,587	68,091	42,466	41,126	39,153
Revenue	23,918	34,833	28,712	50,220	27,981	25,632
Revenue growth (%)	28.1	45.6	(17.6)	74.9	(44.3)	(8.4)
EBITDA	8,226	8,825	7,157	10,987	6,900	6,453
EBITDA margin (%)	34.4	25.3	24.9	21.9	24.7	25.2
Debt	45,322	40,549	43,422	39,050	35,571	33,637
Adjusted ratios						
Debt/EBITDA (x)	5.5	4.6	6.1	3.6	5.2	5.2
EBITDA interest coverage (x)	2.7	3.4	2.6	4.1	2.8	2.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We view Yanlord's liquidity as less than adequate, reflecting concentrated maturities in the 12 months ending June 30, 2024. By our estimates, Yanlord has a ratio of liquidity sources to liquidity uses of about 1.13x.

We did not factor in potential cash outflow for uncommitted land acquisitions. In our view, Yanlord has flexibility in land acquisition expenditure because it has a land bank that can sustain about three years of development.

Principal liquidity sources

- Accessible cash of RMB11 billion-RMB13 billion as of June 30, 2023. We applied haircuts according to our expectations for project-level cash accessibility.
- Accessible cash from operations over the 12 months ending June 30, 2024, of RMB7 billion-RMB9 billion, assuming: (1) cash flow from contracted pre-sales, property investments, and other income that we estimate at RMB26 billion-RMB28 billion; (2) construction expenditure of RMB7 billion-RMB9 billion; and (3) selling, general, and administrative expenses, taxes, interest expenses, and other miscellaneous expenses that we estimate at RMB10 billion-RMB12 billion.
- Undrawn offshore committed bank facilities and new loan drawdown of RMB1.4 billion.

Principal liquidity uses

- Short-term debt of RMB17.8 billion as of June 30, 2023.
- Committed but unpaid land premium and accrued land payments of RMB0.7 billion.

- Capital expenditure of RMB200 million over the 12 months ending June 30, 2024.

Covenants

Yanlord's major financial covenants are related to: (1) consolidated tangible net worth; (2) ratio of consolidated current assets to consolidated current liabilities; (3) ratio of consolidated net borrowings to the aggregate of consolidated tangible net worth and the amount attributable to non-controlling interests in the parent's subsidiaries; (4) the fixed charge coverage ratio; (5) ratio of consolidated pledged assets to consolidated total assets; and (6) ratio of consolidated secured borrowings to consolidated total borrowings.

Yanlord complied with its financial covenants as of June 30, 2023. The company had adequate headroom to meet most of its financial covenants except for the ratio of consolidated current assets to consolidated current liabilities, which has a smaller headroom.

Environmental, Social, And Governance

Environmental and governance factors are moderately negative considerations in our credit analysis of Yanlord. The company faces environmental and social risks that are generally in line with its industry peers.

Governance factors constraining Yanlord are its board structure and the strong influence of controlling shareholder, Mr. Zhong Sheng Jian. Mr. Zhong is the company chairman and CEO, with an approximate 71.55% stake (direct or indirect) in the company (excluding treasury shares) as of March 6, 2023.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Dec. 31, 2022, Yanlord's capital structure consisted of RMB23.8 billion of secured debt and RMB23.5 billion of unsecured debt (including external guarantees). Of this, RMB8.0 billion was at the subsidiary level (all guarantees were at the holding-company level). The secured debt ratio was slightly above our notching-down threshold of 50%.

Analytical conclusions

We rate the existing senior unsecured notes issued by Yanlord's financing vehicle, Yanlord Land (HK) Co. Ltd., and guaranteed by Yanlord one notch below the long-term issuer credit rating on Yanlord. This is because the notes rank behind a significant amount of secured debt in the capital structure.

Ratings Score Snapshot

Issuer Credit Rating	B+/Negative/--
Business risk:	Fair

Issuer Credit Rating	B+/Negative/--
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Fair
Financial risk:	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Less Than Adequate (-1 notch)
Management and governance	Fair (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	b+

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded; Outlook Action

	To	From
Yanlord Land Group Ltd.		
Issuer Credit Rating	B+/Negative/--	BB-/Stable/--
Yanlord Land (HK) Co. Ltd.		
Senior Unsecured	B	B+

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