Yanlord Land Group Upgraded To 'BB-' And 'cnBB+' On Improved Leverage From Strong Sales Performance; Outlook Stable

- Yanlord's leverage significantly improved in 2015 as a result of strong sales performance and restrained land acquisitions.
- We forecast the leverage to remain at this level in the coming 12 months despite our projection of a substantial increase in land acquisitions.
- We are therefore raising our long-term corporate credit rating on Yanlord and our issue rating on its outstanding senior unsecured notes to 'BB-' from 'B+'. We are also raising our Greater China regional scale long-term ratings on the company and its notes to 'cnBB+' from 'cnBB'.
- The stable outlook reflects our view that Yanlord will maintain its debt leverage in the coming 12 months. In our view, Yanlord's adequate cash balance and cash inflow from sales will continue to provide sufficient resources for the company to expand without any significant increase in debt.

HONG KONG (Standard & Poor's) March 3, 2016--Standard & Poor's Ratings Services said today that it had raised the long-term corporate credit rating on China-based real estate developer Yanlord Land Group Ltd. and the issue rating on the company's outstanding senior unsecured notes to 'BB-' from 'B+'. The outlook on the corporate credit rating is stable. In line with the upgrade, we also raised the Greater China regional scale long-term ratings on the company and its notes to 'cnBB+' from 'cnBB'.

"We raised the rating on Yanlord to reflect the company's improved leverage in 2015 as a result of stronger-than-expected sales performance and restrained land acquisitions," said Standard & Poor's credit analyst Dennis Lee. We forecast that its key credit metrics will remain at a similar level in the coming 12 months. Yanlord's debt-to-EBITDA ratio notably improved to about 4.3x in 2015, from 6.2x in 2014. In our base-case scenario, the ratio will stabilize at 4.0x-4.5x in 2016 and weaken slightly to 4.5x-5.0x in 2017. We added back capitalized interest in cost of goods sold when calculating our adjusted EBITDA.

Yanlord achieved contracted sales of Chinese renminbi (RMB) 28.9 billion in 2015, significantly better than the company's projection of RMB18 billion at the beginning of the year. During the period, its cash balance also increased to RMB17.5 billion from RMB6.6 billion.

Yanlord's geographic focus in high-tier cities and good product positioning offsets its high sales and earnings volatilities from a small number of projects, in our view. Yanlord has a track record of steady execution in its key markets, including Shanghai, Tianjin, Nanjing, Chengdu, Suzhou, Zhuhai, and Shenzhen. We expect the company's product orientation toward upgrader demand to continue to benefit from improved market condition in these cities. Nonetheless, the company could be sensitive to policy risk in local governments, and its revenue recognition may be more volatile than similarly rated peers because of its project concentration.

We believe Yanlord's projects in Shanghai will remain the key sales contributors in 2016, in addition to those in Nanjing and Suzhou. We expect property prices in higher-tier cities to continue a rising trend in 2016 due to low inventory level and the government's supportive measures. In addition, we expect Yanlord's strategy of increasing asset churn will further support its sales. We forecast Yanlord's contracted sales will decline slightly to RMB25 billion in 2016 due to the high base in 2015. Yanlord estimates that it has more than RMB40 billion of saleable resources. It has achieved contracted sales of RMB5.6 billion in the first two months of 2016.

We also expect Yanlord's profitability to be stable in the coming two years. In our view, rising land cost and intensifying competition is likely to keep the company's gross margin below 30% despite the price recovery in higher-tier cities since mid-2015.

In our view, Yanlord will accelerate its buying of land in 2016 and 2017. The company was cautious toward land acquisitions in the past few years, relative to many of its peers.

In our base case, we assume the company will spend RMB15 billion-RMB16 billion per year in land acquisitions to replenish its land bank. Despite higher land cost, we anticipate that the company's cash position and satisfactory sales performance will provide sufficient resources to support its expansion. Thus, we anticipate only a moderate increase in Yanlord's gross debt in 2016.

"The stable outlook reflects our view that Yanlord will control its debt leverage in the next 12-24 months, despite our expectation of higher land acquisitions during the period," said Mr. Lee. In our view, Yanlord's adequate cash balance and cash inflow from sales will remain sufficient for the company to expand without a significant debt increase. We also expect Yanlord to maintain its EBITDA margin of about 27% during the same period.

We could lower the rating if Yanlord's debt-to-EBITDA ratio deteriorates above 5x. This could happen if Yanlord's land acquisition is substantially larger than our assumption of RMB15 billion in 2016. This could also happen if Yanlord's revenue growth is materially weaker than we expected, as a result of project delays.

An upgrade is unlikely in the coming 12 months, given that Yanlord's operating scale, and its project and geographic diversity are weaker than those of 'BB' rated peers'. Nevertheless, we may consider raising the rating if Yanlord continues to diversify and expand, while maintaining a satisfactory profitability, adopts a more conservative financial policy, and significantly improves its leverage, such that its debt-to-EBITDA ratio is sustainably below 4x.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Standard & Poor's National And Regional Scale Mapping Tables, Jan. 19, 2016
- National And Regional Scale Credit Ratings, Sept. 22, 2014
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Homebuilder And Real Estate Developer Industry, Feb. 3, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013

- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Media Contacts:
Cecilia Ho, Hong Kong (852) 2532 8061, cecilia.ho@standardandpoors.com

Analyst Contacts:
Dennis Lee, CFA, FRM, Hong Kong; dennis.lee@standardandpoors.com
Laura C Li, CFA, Beijing; laura.li@standardandpoors.com

About Standard & Poor's