Rating_Action: Moody's affirms Yanlord's Ba2/Ba3 ratings; changes outlook to negative

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Hong Kong, March 10, 2023 -- Moody's Investors Service has revised the rating outlooks on Yanlord Land Group Limited (Yanlord) and Yanlord Land (HK) Co., Limited to negative from stable.

At the same time, Moody's has affirmed Yanlord's Ba2 corporate family rating (CFR) and the Ba3 backed senior unsecured rating on the bonds issued by Yanlord Land (HK) Co., Limited, a wholly-owned subsidiary of Yanlord. The bonds are guaranteed by Yanlord.

"The negative outlook reflects our expectation that Yanlord's contracted sales will decline and its credit metrics will worsen over the next 12-18 months," says Cedric Lai, a Moody's Vice President and Senior Analyst.

"The affirmation of the ratings reflects our expectation that Yanlord will maintain good liquidity and a disciplined approach toward business expansion and financial management," adds Lai.

RATINGS RATIONALE

Moody's forecasts Yanlord's contracted sales will underperform compared with the national market and decline by around 20%-25% in 2023 from the previous year, after a strong growth of 14% to around RMB68.1 billion in 2022. The weakening sales performance reflects the company's moderate business scale and significant slowdown in land replenishment over the past 12-18 months. 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 credit metrics will weaken-- its debt/EBITDA will deteriorate to around 6.8x over the next 12-18 months, compared with 6.4x in 2022, and its EBIT/interest coverage will decline to around 2.6x over the same period from 2.8x in 2022. These forecasts, which are weak for the company's Ba2 CFR, incorporate Moody's expectation that the company will face a decline in its profit margin to around 22% from 27% in 2022 during the same period.

However, Moody's expects Yanlord's liquidity to remain good, given that the company has maintained good access to both onshore and offshore financing. Its unrestricted cash of RMB20.7 billion as of the end of 2022 and projected operating cash flow will be sufficient to cover its maturing debt over the next 12-18 months, although the expected use of internal resources to repay maturing debt will likely reduce its liquidity buffer over time.

In addition, Moody's expects Yanlord's rental income/interest coverage to improve slightly to around 45% over the next 12-18 months from 43% in 2022, supported by steady rental income growth in China and Singapore.

Yanlord's Ba2 CFR reflects the company's established brand name and high-quality products,

which give it strong pricing power. In addition, its sales strategy caters to a broad spectrum of the market. The rating also considers Yanlord's good 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 mitigate the cash flow volatilities arising from its property development business.

On the other hand, the rating is constrained by Yanlord's volatile operating performance, geographic concentration and moderate debt leverage. The significant exposure to joint venture (JV) businesses also hinder the transparency of its credit metrics, although its reputable JV partners temper this risk.

The company's Ba3 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 as of the end of December 2022. The presence of internal governance structures and standards as required by the Singapore Exchange mitigates this risk.

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-3.5x and debt/EBITDA below 6.0x-6.5x on a sustained basis.

Moody's could downgrade Yanlord's ratings if the company's sales, credit metrics and its liquidity weakens, or if the company pursues aggressive expansion. Credit metrics indicating a downgrade include EBIT/interest coverage falling below 2.5x or debt/EBITDA above 6.8x-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/api/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 9.5 million square meters as of December 2022, 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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