

# Yanlord Land Group Ltd.

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## Table Of Contents

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Credit Highlights

Outlook

Our Base-Case Scenario

Company Description

Business Risk

Financial Risk

Liquidity

Covenant Analysis

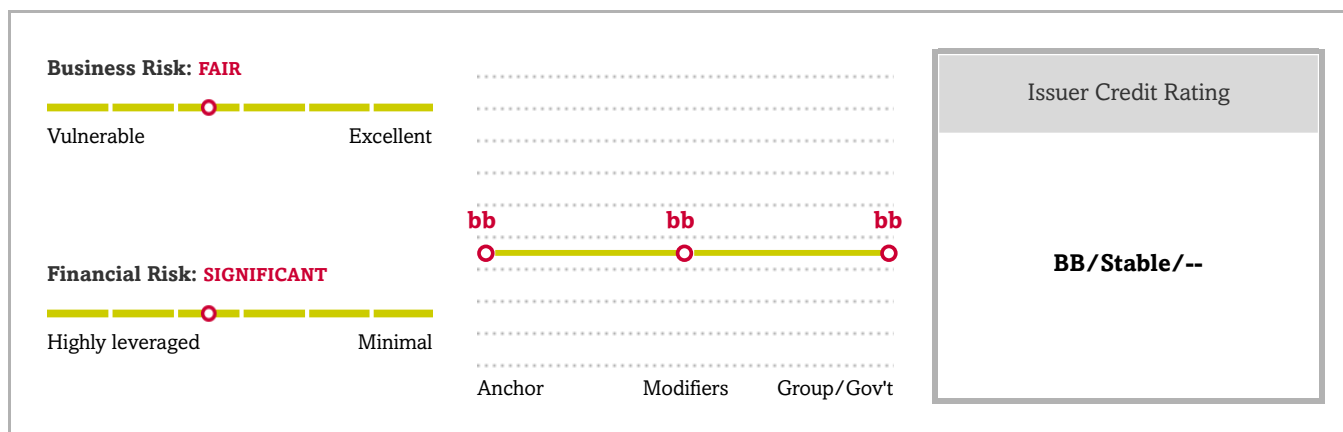
Issue Ratings - Subordination Risk Analysis

Reconciliation

Ratings Score Snapshot

Related Criteria

# Yanlord Land Group Ltd.



## Credit Highlights

### Overview

| Key Strengths                                                                                                    | Key Risks                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Above-average margins, supported by good quality land bank and strong branding in the high-end property segment. | Weakened leverage due to increase land acquisition spending, including JV investments.                                                                      |
| Good brand recognition and long operating track record of operations in tier-one and key tier-two cities.        | Small operating scale but steadily increasing land reserves in tier-one and major tier-two cities.                                                          |
| Diverse funding channels both onshore and offshore, with well managed debt maturities.                           | High geographic concentration risk with contracted sales coming from only eleven major cities. Top four cities contribute about 80% of total sales in 2018. |
|                                                                                                                  | Property cooling measures may affect margins, given the high exposure in higher-tier cities.                                                                |

**Debt will gradually reduce supported by gradual project deliveries and a slowdown in land acquisitions.** Yanlord Land Group Ltd.'s see through debt-to-EBITDA ratio, which includes proportionate consolidation of joint ventures (JVs), increased to 3.8x in 2018, from 2.4x in 2017, primarily because of large debt-funded acquisitions during the year. We expect the company's leverage to remain high, but gradually improve when projects start pre-sales over the next 12-24 months. Yanlord has tight financial headroom, given our downgrade trigger is a see through debt-to-EBITDA ratio of 4x. Nonetheless, the company has a track record of prudent debt-funded acquisitions and financial management while maintaining sufficient cash reserves.

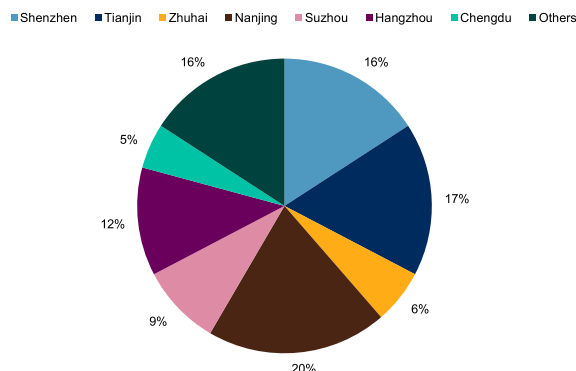
**Margins will stay above average compared with that of peers in the high-end segment.** Yanlord's margin will likely remain around 40% over 2019, but could drop modestly below 40% in 2020 due to the Chinese government's property cooling measures. Nonetheless, the company's strong brand positioning in high-end segments and good quality land bank at prime locations within key cities support its above-average profitability.

**Steadily increasing land reserves in key cities provide visibility over growth.** Through its strategic land acquisition strategy, Yanlord has acquired a good quality land bank across China. The Greater Bay area (22%) and Yangtze River Economic Belt (48%) form the major part of the company's land bank. Yanlord's long operating track record in this area and strong pricing power underpin our view of healthy growth. As of end-2018, the company has a total land bank of about 8 million square meters (sqm).

**Lower revenue lock in increases risk of revenue slippage.** Yanlord only has about Chinese renminbi (RMB) 13 billion of unrecognized revenue as of end-2018, compared to RMB23 billion at end-2017. We believe the revenue lock in rate has weakened due to lower contribution from subsidiary projects. However, several projects have launched pre-sales and are close to completion, and are likely to be recognized as revenue in this year. This should temper the revenue slippage risk.

**Chart 1**

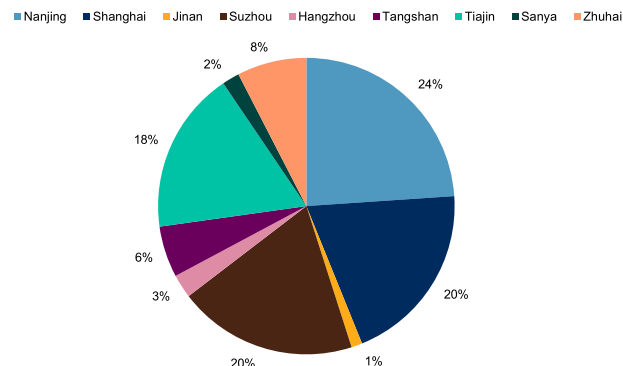
Land Bank By City\*



\*As of end-2018. Source: S&amp;P Global Ratings.

**Chart 2**

Property Contracted Sales Contribution By City



Source: S&amp;P Global Ratings.

## Outlook: Stable

The stable outlook reflects our view that Yanlord will continue to be disciplined in its debt-funded expansion in the next 12-24 months. We also expect the company to maintain satisfactory sales and an EBITDA margin above 30% in the forecast period.

### Downside scenario

We could lower the rating if Yanlord's see-through debt-to-EBITDA ratio weakens to above 4x on a sustained basis. This could happen if: (1) the company's debt-funded land acquisitions are materially larger than our expectation in 2019; (2) the company's revenue or sales is significantly weaker than we expected due to government policy controls or project delays; or (3) the company's EBITDA margin is significantly below our forecast.

### Upside scenario

An upgrade is less likely in the coming 12 months, given our expectation for Yanlord's leverage and its relatively small operating scale and niche market focus. Nevertheless, we could raise the rating if the company's debt-to-EBITDA ratio improves to below 3x on sustained basis, while it significantly improves its diversity and scale.

## Our Base-Case Scenario

| Assumptions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Key Metrics                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |           |          |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|----------|-------|-------|---------------|-------|---------|--------|-----------------------------------|------|----------|----------|-----------------------------------|------|----------|----------|--------------------------|------|-----------|----------|
| <ul style="list-style-type: none"><li>China's real GDP will increase by 6.2% in 2019 and by 6.0% in 2020, from 6.6% in 2018.</li><li>Chinese property development sales will mildly drop in 2019, with prices falling by up to 5% and volume declining 3%-7%.</li><li>Yanlord's sales growth will outperform the overall market due to the company's product positioning in the high-end residential segment and its geographic exposure to tier-one and key tier-two cities, where there is strong momentum in sales.</li><li>The company's total contracted sales will be about RMB40 billion in 2019 and RMB50 billion in 2020, compared to RMB25 billion in 2018 (including sales of properties and carparks). Of the total contracted sales, 40%-45% will be from JV projects.</li><li>Revenue will stay RMB23 billion-RMB24 billion 2019-2020.</li><li>Booking gross margin will decrease slightly to 40%-45% in 2019 and will stabilize at 35%-38% in 2020. This is due to a change in the project mix, with more lower margin project deliveries compared to the high margin ones in Shanghai in the previous years.</li><li>Spending on land acquisitions and construction will be about RMB6 billion in 2019-2020, compared to about RMB6.4 billion in 2018.</li><li>Average funding cost of about 6%.</li></ul> | <table><tr><th></th><th>2018A</th><th>2019E</th><th>2020E</th></tr><tr><td>EBITDA margin</td><td>44.3%</td><td>40%-44%</td><td>35-38%</td></tr><tr><td>See-through debt-to-EBITDA ratio*</td><td>3.8x</td><td>3.8-3.9x</td><td>3.3-3.8x</td></tr><tr><td>Consolidated debt-to-EBITDA ratio</td><td>3.8x</td><td>3.8-3.9x</td><td>3.8-3.9x</td></tr><tr><td>EBITDA interest coverage</td><td>4.8x</td><td>4.0x-4.3x</td><td>4.2-4.7x</td></tr></table> <p>*Including unaudited jointly controlled projects by shareholding proportion. A--Actual. E--Estimate.</p> |           | 2018A    | 2019E | 2020E | EBITDA margin | 44.3% | 40%-44% | 35-38% | See-through debt-to-EBITDA ratio* | 3.8x | 3.8-3.9x | 3.3-3.8x | Consolidated debt-to-EBITDA ratio | 3.8x | 3.8-3.9x | 3.8-3.9x | EBITDA interest coverage | 4.8x | 4.0x-4.3x | 4.2-4.7x |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 2018A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 2019E     | 2020E    |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |
| EBITDA margin                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 44.3%                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 40%-44%   | 35-38%   |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |
| See-through debt-to-EBITDA ratio*                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 3.8x                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 3.8-3.9x  | 3.3-3.8x |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |
| Consolidated debt-to-EBITDA ratio                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 3.8x                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 3.8-3.9x  | 3.8-3.9x |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |
| EBITDA interest coverage                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 4.8x                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 4.0x-4.3x | 4.2-4.7x |       |       |               |       |         |        |                                   |      |          |          |                                   |      |          |          |                          |      |           |          |

### Base-case projections

**Gross margin is likely to trend down to reflect lower margin projects outside Shanghai.** The high margin during 2017-2018 was mainly supported by the premium Shanghai projects with margin over 45%. Those projects benefited from low cost of land acquired in earlier years. We believe the future key projects will be from Nanjing, Suzhou, and Tianjin, which carry a lower gross profit margin of 25%-35%. However, EBITDA margin is likely to stay 35%-44% over the next two years, benefitting from the dividends from JV projects.

**Contributions from JV projects to offset reduction in revenue.** Some of the JV projects will start to deliver beginning 2019, which could contribute to EBITDA. This should partly offset the impact from reduction in the revenue.

***Slowing land acquisitions and ample sales should modestly improve debt leverage.*** We expect Yanlord's debt leverage to remain elevated in 2019 but to gradually improve, mainly due to the company's commitment to control its land acquisition and debt repayment. We add back contributions from JVs to arrive at our see-through leverage ratio.

***Total contracted sales should pick up in the next 12 months.*** The company's growing salable resources and increased contribution from JV projects in higher-tier cities supports our view.

## Company Description

Yanlord engages in the investment, development, and management of real estate properties in China. The company develops mid- to high-end residential properties, commercial properties, and integrated complexes for sale and lease. Founded in 1993, the company is listed on the Singapore stock exchange and has operations in about 15 cities in China. As of end-2018, Yanlord's total land bank is about 8 million sqm with the majority in cities such as Nanjing, Shenzhen, and Tianjin.

## Business Risk: Fair

Yanlord should continue to benefit from its satisfactory brand recognition, long operating track record, established position in the high-end segment, above-average profitability, and good business strategy execution. However, the company's small--albeit growing--land bank and operating scale result in high geographic concentration in its key operating markets, constraining its business profile.

We expect Yanlord to maintain good profitability over the next 12-24 months, supported by the company's premium brand and market positioning in the high-end segment. We forecast the gross margin to be slightly above 40% in 2018, and fall slightly to around 35% in 2020. The drop is mainly due to lowering contribution from ultra-high margin projects in Shanghai. At the same time, contribution from projects in Tianjin, Nanjing, and Suzhou will likely increase in the next 12-24 months. These projects have lower margin of 25%-30% on average. In our view, the company's margin could decline further if the government continues to impose a tight property price control policy.

We forecast Yanlord's contracted sales will grow to RMB38 billion-RMB40 billion in 2019, from about RMB25 billion in 2018. In our view, selective restrictive policy unwinding in the cities that Yanlord operates in and good economic fundamentals in higher-tier cities could support the growth. Yanlord has about RMB84 billion of saleable resource for 2019, for which we estimate the sell through rate is about 50%. In addition, we forecast that contracted sales from JV projects will account for 40%-45% of total contracted sales during the year.

We believe Yanlord's growing land bank is sufficient to support increasing sales over the next four to five years. The company has a total land bank of over 8 million sqm gross floor area (GFA). Nonetheless, this land bank is small compared to peers and the company may face pressure to acquire quality land at a reasonable cost. We expect Yanlord to continue to adopt diversified land purchase strategies. In our view, the company's JV partnership model will allow it to scale up and reduce its investment expenditure. Yanlord's JVs are mostly with reputed developers, such as Hongkong Land Holdings Ltd. and China Resources Land Ltd.

In our view, Yanlord's geographic diversification is limited. Eight cities contribute more than 95% of the company's

contracted sales whereas more than 70% of its land reserves are in Tianjin, Suzhou, Nanjing, Shenzhen, and Hangzhou. This makes Yanlord more vulnerable to policy changes and economic volatility. For example, the company held back projects in Chengdu in 2018 where it was unable to sell at its expected price due the government's price control. Nonetheless, we believe the company's good brand reputation, strong demand in higher-tier cities, and good operating record and execution could temper the above risk.

### Peer comparison

We consider KWG Property Holding Ltd. and Greentown China Holdings Ltd. as the closest peers of Yanlord. All these companies share the same geographic focus on higher-tier cities and target mid- to-high-end residential segments.

CIFI Holdings (Group) Co. Ltd.'s business model is slightly different, even though it focuses on tier-one and tier-two cities. This company follow a fast churn model and mainly targets end-users and upgraders.

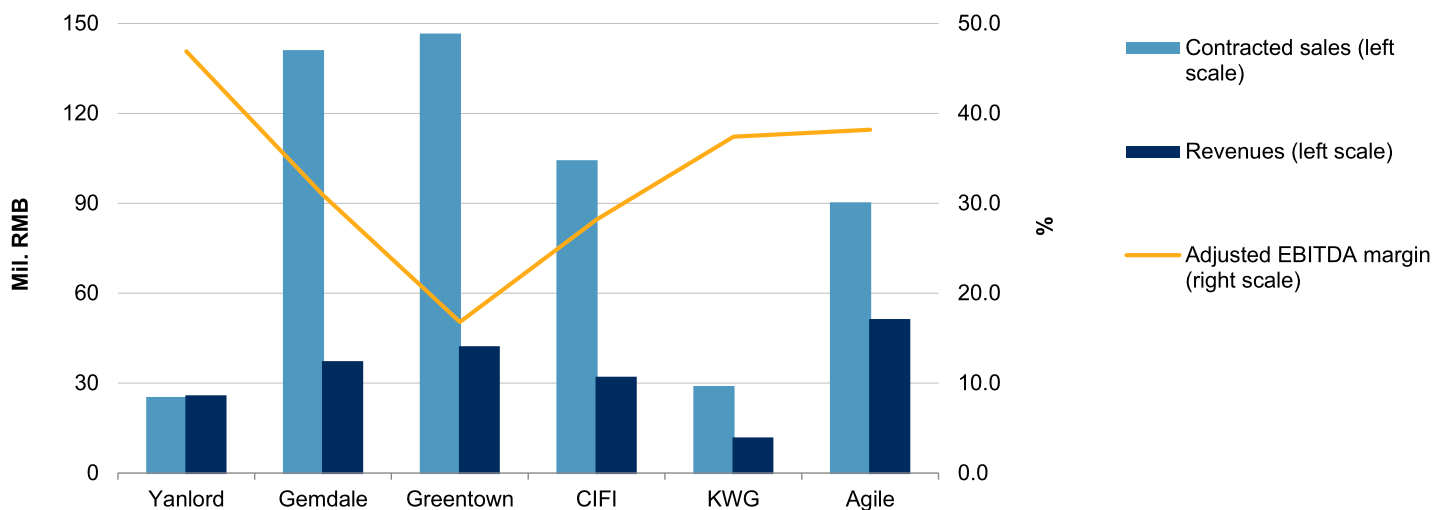
CIFI and Greentown have the largest operating scale with contracted sales of more than RMB150 billion, followed by Agile Group Holdings Ltd. at RMB100 billion. Yanlord is the smallest with RMB25 billion in sales in 2018.

In our view, KWG's EBITDA margin is comparable with Yanlord's, while Yanlord had a slightly better margin of over 40% over the past two years due to its quality land bank and premium brand positioning. KWG had margin of around 38% primarily due to its low cost land bank, followed by CIFI at 30% primarily due to lower ASP and large operating scale. Greentown's margin remain weak at around 15% due to its high construction costs.

Yanlord has better financial leverage ratios than its peers as they have aggressive growth appetite with high spending on land reserves.

**Chart 3**

#### Yanlord's Scale Is Smaller Than Most Peers But With Higher Margin



RMB--Chinese renminbi. Source: S&P Global Ratings.

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Table 1

## Yanlord Land Group Ltd.--Peer Comparison

Industry sector: Homebuilders and real estate developers

|                                        | Yanlord Land Group Ltd. | KWG Group Holdings Ltd. | CIFI Holdings (Group) Co. Ltd. | Greentown China Holdings Ltd. |
|----------------------------------------|-------------------------|-------------------------|--------------------------------|-------------------------------|
| --Average of past three fiscal years-- |                         |                         |                                |                               |
| <b>Mil. RMB</b>                        |                         |                         |                                |                               |
| Revenues                               | 25,397.0                | 9,295.3                 | 32,138.8                       | 43,743.6                      |
| EBITDA                                 | 10,561.0                | 3,311.0                 | 7,685.9                        | 7,148.7                       |
| FFO                                    | 5,149.8                 | (1,168.4)               | 812.1                          | (1,033.1)                     |
| Net income from continued operations   | 3,152.8                 | 3,706.7                 | 4,348.2                        | 1,703.3                       |
| Cash flow from operations              | 653.8                   | (4,565.1)               | 206.6                          | (5,644.7)                     |
| Capital expenditures                   | 1,286.9                 | 464.0                   | 583.2                          | 272.8                         |
| Free operating cash flow               | (633.1)                 | (5,029.1)               | (376.6)                        | (5,917.5)                     |
| Discretionary cash flow                | (1,839.1)               | (5,996.8)               | (1,845.9)                      | (6,721.5)                     |
| Cash and short-term investments        | 15,233.0                | 39,182.5                | 31,147.6                       | 32,031.8                      |
| Debt                                   | 30,247.3                | 62,091.3                | 52,905.3                       | 88,620.9                      |
| Equity                                 | 31,863.7                | 28,008.9                | 31,089.3                       | 38,876.2                      |
| <b>Adjusted ratios</b>                 |                         |                         |                                |                               |
| EBITDA margin (%)                      | 41.6                    | 35.6                    | 23.9                           | 16.3                          |
| Return on capital (%)                  | 18.5                    | 6.8                     | 13.5                           | 6.7                           |
| EBITDA interest coverage (x)           | 5.7                     | 1.0                     | 2.6                            | 1.5                           |
| FFO cash interest coverage (x)         | 3.9                     | 0.7                     | 1.5                            | 1.4                           |
| Debt/EBITDA (x)                        | 2.9                     | 18.8                    | 6.9                            | 12.4                          |
| FFO/debt (%)                           | 17.0                    | (1.9)                   | 1.5                            | (1.2)                         |
| Cash flow from operations/debt (%)     | 2.2                     | (7.4)                   | 0.4                            | (6.4)                         |
| Free operating cash flow/debt (%)      | (2.1)                   | (8.1)                   | (0.7)                          | (6.7)                         |
| Discretionary cash flow/debt (%)       | (6.1)                   | (9.7)                   | (3.5)                          | (7.6)                         |

RMB--Chinese renminbi. FFO--Funds from operations.

## Financial Risk: Significant

We expect Yanlord's financial headroom will continue to be tight in 2019, after it significantly reduced in 2018. Any further increase in debt-funded expansion beyond our estimate and slippage in project launch and delivery could increase its see through debt-to-EBITDA ratio above our downgrade trigger of 4x. However, the company has a track record of disciplined financial management and above-average profitability. We expect Yanlord continue to adopt a profit focused rather than scale driven strategy.

We also expect the company to adopt a more prudent approach to land acquisitions over the next 12-24 months. Yanlord's see through debt leverage increased moderately to 3.8x in 2018, from 2.4x in 2017, because of more

aggressive debt-funded acquisitions and increased spending on JV projects. The company acquired attributable land worth of RMB7 billion during 2018, including JV projects. We project Yanlord's capital spending to stay at RMB6 billion-RMB7 billion per year in the next two years. This accounts for 25%-28% of the company's annual contracted sales.

We forecast Yanlord's adjusted see through debt-to-EBITDA ratio to be 3.8x-3.9x in 2019 and slightly improve to 3.3x-3.8x in 2020. In our view, the JV projects could only have meaningful earnings contributions starting 2020 as more projects start to launch and complete, leading to a modest drop in leverage. At the same time, we believe the company's debt will remain elevated in 2019 but should start to decrease gradually when projects in Chengdu, Suzhou, and Shenzhen are launched for pre-sale in 2019-2020.

## Financial summary

Table 2

| Yanlord Land Group Ltd.--Financial Summary               |                               |            |          |          |           |
|----------------------------------------------------------|-------------------------------|------------|----------|----------|-----------|
| Industry sector: Homebuilders and real estate developers |                               |            |          |          |           |
|                                                          | --Fiscal year ended Dec. 31-- |            |          |          |           |
|                                                          | 2018                          | 2017       | 2016     | 2015     | 2014      |
| <b>Mil. RMB</b>                                          |                               |            |          |          |           |
| Revenues                                                 | 24,888.0                      | 25,638.4   | 25,664.4 | 16,581.4 | 11,736.0  |
| EBITDA                                                   | 11,027.7                      | 12,032.6   | 8,622.7  | 4,526.2  | 3,347.8   |
| FFO                                                      | 4,756.4                       | 6,254.1    | 4,439.0  | 1,414.7  | 433.9     |
| Interest expense                                         | 2,277.9                       | 1,753.5    | 1,482.1  | 1,300.8  | 1,493.6   |
| Cash interest paid                                       | 2,160.5                       | 1,706.2    | 1,233.0  | 1,264.9  | 1,337.0   |
| Cash flow from operations                                | 1,912.1                       | (10,446.3) | 10,495.7 | 14,554.2 | 1,944.9   |
| Capital expenditures                                     | 655.7                         | 1,213.1    | 1,991.9  | 1,117.7  | 3,784.4   |
| Free operating cash flow                                 | 1,256.4                       | (11,659.4) | 8,503.8  | 13,436.5 | (1,839.5) |
| Discretionary cash flow                                  | (711.1)                       | (12,374.1) | 7,568.0  | 12,667.7 | (2,560.6) |
| Cash and short-term investments                          | 10,317.4                      | 17,798.3   | 17,583.4 | 17,536.5 | 6,570.5   |
| Gross available cash                                     | 10,317.4                      | 17,798.3   | 17,583.4 | 17,536.5 | 6,570.5   |
| Debt                                                     | 41,706.1                      | 29,414.7   | 19,621.2 | 14,976.7 | 18,656.6  |
| Equity                                                   | 32,878.6                      | 32,702.8   | 30,009.6 | 30,534.5 | 29,061.8  |
| <b>Adjusted ratios</b>                                   |                               |            |          |          |           |
| EBITDA margin (%)                                        | 44.3                          | 46.9       | 33.6     | 27.3     | 28.5      |
| Return on capital (%)                                    | 16.9                          | 22.7       | 18.6     | 9.9      | 7.5       |
| EBITDA interest coverage (x)                             | 4.8                           | 6.9        | 5.8      | 3.5      | 2.2       |
| FFO cash interest coverage (x)                           | 3.2                           | 4.7        | 4.6      | 2.1      | 1.3       |
| Debt/EBITDA (x)                                          | 3.8                           | 2.4        | 2.3      | 3.3      | 5.6       |
| FFO/debt (%)                                             | 11.4                          | 21.3       | 22.6     | 9.4      | 2.3       |
| Cash flow from operations/debt (%)                       | 4.6                           | (35.5)     | 53.5     | 97.2     | 10.4      |
| Free operating cash flow/debt (%)                        | 3.0                           | (39.6)     | 43.3     | 89.7     | (9.9)     |
| Discretionary cash flow/debt (%)                         | (1.7)                         | (42.1)     | 38.6     | 84.6     | (13.7)    |

RMB--Chinese renminbi. FFO--Funds from operations.

## Liquidity: Adequate

We assess Yanlord's liquidity as adequate. We expect the company will have sufficient cash to cover its uses, with its ratio of liquidity sources to uses at around 1.4x in 2019. That said, we do not include uncommitted land acquisition spending in our liquidity uses calculation because the company has the flexibility to adjust land acquisitions according to its sales performance.

We believe Yanlord has some flexibility to cut budgeted costs for construction and land acquisitions to preserve liquidity under stressed conditions, if needed.

In our view, the company has developed diverse funding channels and solid relationships with banks. Key financing sources include onshore bank borrowings, offshore syndicated notes, and U.S. dollar senior unsecured notes in recent years.

| Principal Liquidity Sources                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Principal Liquidity Uses                                                                                                                                                                                                                                                             |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Unrestricted cash of RMB10.3 billion at the beginning of 2019.</li> <li>Committed and undrawn offshore bank facilities of about RMB600 million as of end-2018.</li> <li>New offshore loan drawn of about RMB1.4 billion so far in 2019.</li> <li>Funds from operations over 2019 of RMB8-RMB9 billion, estimated by: (1) cash flow from contracted sales, rental, other income, and dividend from JVs of RMB20 billion-RMB23 billion; (2) construction expenditure of RMB5.5 billion-RMB6.5 billion; and (3) selling, general, and administrative expenses, taxes, interest expenses, capital expenditure, dividend and other miscellaneous expenses that we estimate at about RMB9 billion.</li> </ul> | <ul style="list-style-type: none"> <li>Committed land premium payments (including attributable JV projects) of about RMB3 billion at the start of 2019.</li> <li>Short-term debt due in 2019 of about RMB8.7 billion.</li> <li>Capex and dividends of about RMB2 billion.</li> </ul> |

### Debt maturities

Table 3

| Yanlord Land Group Ltd.--Debt Maturity Profile  |                   |
|-------------------------------------------------|-------------------|
| Debt due in                                     | Amount (Mil. RMB) |
| On demand or within one year                    | 8,697             |
| More than one year but not exceeding two years  | 14,610            |
| More than two years but no exceeding five years | 10,955            |
| More than five years                            | 7,873             |

Table 3

## Yanlord Land Group Ltd.--Debt Maturity Profile (cont.)

|              |               |
|--------------|---------------|
| <b>Total</b> | <b>42,135</b> |
|--------------|---------------|

RMB--Chinese renminbi.

## Covenant Analysis

### Compliance expectations

Yanlord is in compliance with its financial covenants. We believe the company has ample headroom to meet its covenants over the next 12 months.

### Requirements

Yanlord has to meet some financial covenants on its borrowings mainly on net borrowings, tangible net worth, and interest coverage and current assets ratios. As of Dec. 31, 2018, the company has met these requirements.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

As of Dec. 31, 2018, Yanlord's capital structure consists of RMB16.3 billion in secured debt and RMB25.8 billion in unsecured debt. Of this, around RMB13 billion is unsecured debt issued or guaranteed by Yanlord's operating subsidiaries. The priority debt ratio of about 70% is above our issue rating notching down threshold of 50%.

### Analytical conclusions

We rate Yanlord's debt 'BB-', one notch lower than the issuer credit rating, given significant subordination risks in the capital structure.

## Reconciliation

Table 4

## Reconciliation Of Yanlord Land Group Ltd. Reported Amounts With S&amp;P Global Ratings' Adjusted Amounts

--Fiscal year ended Dec. 31, 2018--

## Yanlord Land Group Ltd. reported amounts

|                                            | Debt     | Shareholders' equity | EBITDA   | Operating income | Interest expense | S&P Global Ratings' adjusted EBITDA | Cash flow from operations |
|--------------------------------------------|----------|----------------------|----------|------------------|------------------|-------------------------------------|---------------------------|
| <b>Mil. RMB</b>                            |          |                      |          |                  |                  |                                     |                           |
|                                            | 41,731.7 | 25,030.1             | 10,318.9 | 10,231.3         | 694.0            | 11,027.7                            | 1,510.1                   |
| <b>S&amp;P Global Ratings' adjustments</b> |          |                      |          |                  |                  |                                     |                           |
| Cash taxes paid                            | --       | --                   | --       | --               | --               | (4,110.8)                           | --                        |
| Cash taxes paid - Other                    | --       | --                   | --       | --               | --               | --                                  | --                        |
| Cash interest paid                         | --       | --                   | --       | --               | --               | (2,155.4)                           | --                        |
| Operating leases                           | 85.0     | --                   | 23.5     | 5.0              | 5.0              | (5.0)                               | 18.4                      |

**Table 4**

| Reconciliation Of Yanlord Land Group Ltd. Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.) |               |                |               |                |                         |                              |                                  |
|--------------------------------------------------------------------------------------------------------------|---------------|----------------|---------------|----------------|-------------------------|------------------------------|----------------------------------|
| Accessible cash & liquid investments                                                                         | (2,579.3)     | --             | --            | --             | --                      | --                           | --                               |
| Capitalized interest                                                                                         | --            | --             | 685.0         | 685.0          | 1,578.8                 | --                           | --                               |
| Dividends received from equity investments                                                                   | --            | --             | 0.3           | --             | --                      | --                           | --                               |
| Nonoperating income (expense)                                                                                | --            | --             | --            | 612.5          | --                      | --                           | --                               |
| Reclassification of interest and dividend cash flows                                                         | --            | --             | --            | --             | --                      | --                           | 383.6                            |
| Noncontrolling interest/minority interest                                                                    | --            | 7,848.5        | --            | --             | --                      | --                           | --                               |
| Debt - Guarantees                                                                                            | 2,468.8       | --             | --            | --             | --                      | --                           | --                               |
| <b>Total adjustments</b>                                                                                     | <b>(25.6)</b> | <b>7,848.5</b> | <b>708.8</b>  | <b>1,302.6</b> | <b>1,583.9</b>          | <b>(6,271.3)</b>             | <b>402.0</b>                     |
| <b>S&amp;P Global Ratings' adjusted amounts</b>                                                              |               |                |               |                |                         |                              |                                  |
|                                                                                                              | <b>Debt</b>   | <b>Equity</b>  | <b>EBITDA</b> | <b>EBIT</b>    | <b>Interest expense</b> | <b>Funds from operations</b> | <b>Cash flow from operations</b> |
|                                                                                                              | 41,706.1      | 32,878.6       | 11,027.7      | 11,533.9       | 2,277.9                 | 4,756.4                      | 1,912.1                          |

RMB--Chinese renminbi.

## Ratings Score Snapshot

### Issuer Credit Rating

BB/Stable/--

### Business risk: Fair

- **Country risk:** Moderately high
- **Industry risk:** Moderately high
- **Competitive position:** Fair

### Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bb

### Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)

- **Comparable rating analysis:** Neutral (no impact)

**Stand-alone credit profile : bb**

## Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, Sept. 21, 2017
- 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
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Business And Financial Risk Matrix

| Business Risk Profile | Financial Risk Profile |        |              |             |            |                  |
|-----------------------|------------------------|--------|--------------|-------------|------------|------------------|
|                       | Minimal                | Modest | Intermediate | Significant | Aggressive | Highly leveraged |
| Excellent             | aaa/aa+                | aa     | a+/a         | a-          | bbb        | bbb-/bb+         |
| Strong                | aa/aa-                 | a+/a   | a-/bbb+      | bbb         | bb+        | bb               |
| Satisfactory          | a/a-                   | bbb+   | bbb/bbb-     | bbb-/bb+    | bb         | b+               |
| <b>Fair</b>           | bbb/bbb-               | bbb-   | bb+          | <b>bb</b>   | bb-        | b                |
| Weak                  | bb+                    | bb+    | bb           | bb-         | b+         | b/b-             |
| Vulnerable            | bb-                    | bb-    | bb-/b+       | b+          | b          | b-               |

## Ratings Detail (As Of May 19, 2019)\*

### Yanlord Land Group Ltd.

Issuer Credit Rating

BB/Stable/--

### Issuer Credit Ratings History

14-Mar-2018

BB/Stable/--

07-Mar-2017

BB-/Positive/--

03-Mar-2016

BB-/Stable/--

# **Ratings Detail (As Of May 19, 2019)\*(cont.)**

|             |                 |
|-------------|-----------------|
| 31-Mar-2015 | B+/Stable/--    |
| 19-Nov-2014 | BB-/Negative/-- |

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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