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Announcement: Moody's: Yanlord Land Group's credit profile improves after strong operating performance in 2015

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Hong Kong, March 04, 2016 -- Moody's Investors Service says that Yanlord Land Group Limited's (Ba3 stable) credit profile improved in 2015 because of its strong sales execution, prudent spending on land and prudent management of debt.

"Yanlord's contracted sales increased significantly by 227% to RMB28.9 billion in 2015, reflecting the company's strong brand name and the improving market sentiment in the higher tier cities in which it operates," says Dylan Yeo, a Moody's Analyst.

"As for liquidity, Yanlord's improved collections of cash from contracted sales and lower land premium payments resulted in a stronger liquidity position at end-2015," adds Yeo.

Backed by strong liquidity, Yanlord reduced debt by 8% to RMB18.3 billion at end-2015. This achievement — together with a 41% improvement in revenue recognition to RMB16.6 billion — resulted in a substantial improvement in the company's key credit metrics.

Moody's analysis is contained in its just-released report titled "Yanlord Land Group Limited: Credit Profile Improves After Strong Operating Performance in 2015," and is co-authored by Yeo and Victor Wong, a Moody's Associate Analyst.

Moody's report says that Yanlord's credit metrics are in line with its Ba3 corporate family and senior unsecured debt ratings, and the stable outlook on the company's ratings.

Yanlord's EBIT/interest coverage increased to 3.6x from 2.7x and revenue/adjusted debt strengthened to 90.5% from 59.1% in 2015. Both results are appropriate for its Ba3 ratings.

Moody's expects that Yanlord will continue its prudent approach towards financial management, keeping growth on its gross debt very low, with its strong presales and a strong liquidity position.

EBIT/interest coverage and revenue/debt will likely improve to 3.6-4.0x and 95%-100% respectively in 2016, based on Moody's expectation of stable revenue growth, lower onshore borrowing costs and limited debt growth.

Moody's believes that Yanlord's contracted sales will likely remain robust in 2016, because the company mainly operates in higher tier cities with healthy underlying economic strength and strong urbanization trends, such as Shanghai, Shenzhen, Nanjing, Tianjin and Suzhou.

In addition, the company is well positioned to appeal to increasingly affluent home upgraders because of its strong brand name and quality products.

Moody's also says that Yanlord will face manageable margin pressure over the next 12-24 months. At end-2015, Yanlord registered RMB22 billion in unrecognized revenue; an amount which was broadly in line with its current gross margin levels. Such sales will be progressively recognized over the next 12-18 months.

Moody's report says that its unlikely that Yanlord's profit margin will deteriorate significantly, because it: (1) relies on sales in high tier cities; (2) demonstrates strong pricing power, as supported by its strong brand name and quality products; and (3) exhibits a strong liquidity position and is not under pressure to destock.

At end-2015, Yanlord's gross margin remained healthy relative to similarly rated peers, despite falling to 27.5% from 29.2% in 2014 due to changes in the product mix of its delivered properties.

Yanlord's cash balance increased by 167% to RMB17.6 billion in 2015 and covers 3x its short-term debt maturities of RMB5.8 billion. The company's strong cash position provides it with the flexibility to pay down its RMB2 billion bond maturing in May 2016 and the call on its USD bond due in 2018 to manage its foreign currency exposure, if so intended.

Yanlord faces an increasing need to replenish its land bank due to the step-up in sales volume since 2015, as well as its recent low levels of acquisitions. Moody's expects that Yanlord will remain financially prudent and adopt a cautious approach towards its land purchases.

Subscribers can access the report at http://www.moodys.com/viewresearchdoc.aspx?docid=PBC_1018893

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