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Credit Opinion: Yanlord Land Group Limited

Global Credit Research - 11 Jun 2015

Singapore

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating -Dom Curr	Ba3
Senior Unsecured -Dom Curr	Ba3
Yanlord Land (HK) Co., Limited	
Outlook	Stable
Bkd Senior Unsecured	Ba3

Contacts

Analyst	Phone
Dylan Yeo/Hong Kong	852.3758.1384
Gary Lau/Hong Kong	852.3758.1377

Key Indicators

[1]**Yanlord Land Group Limited**

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012
Revenue (USD Billion)	**$1.8**	**$1.9**	**$1.8**	**$1.6**
Cost Structure (Pre-Impairment Gross Margin)	**29.5%**	**29.4%**	**35.6%**	**36.6%**
EBIT Coverage of Interest	**2.5x**	**2.7x**	**3.6x**	**3.3x**
Revenue to Debt	**55.2%**	**59.0%**	**64.0%**	**75.4%**
HB and PD Debt to Total Capitalization	**39.9%**	**40.7%**	**38.8%**	**34.6%**

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

1) Sales execution adjusted to meet mass-market demand

2) Concentrated sales but improving land bank distribution

3) Good branding and quality products

4) Good access to debt and capital markets and history of raising new equity

5) Small size of land bank

6) Weak Credit Metrics

Corporate Profile

Yanlord Land Group Limited is one of the major property developers in China. It operates in the major cities of Shanghai, Nanjing, Suzhou, Shenzhen, Tianjin, Zhuhai, Tangshan, Sanya and Chengdu. It was established in 1993 and was listed on the Singapore Stock Exchange in 2006.

Its total land bank of 4.9 million square meters at end-March 2015 is spread across nine cities and five fast-growing regions in China. It has some geographic concentration within the Yangtze River Delta, which accounted for around 38% of its land bank and 81% of its gross revenue from property sales in 2014.

SUMMARY RATING RATIONALE

Yanlord's Ba3 corporate family rating reflects its adjusting sales execution strategy to meet mass-market demand. The rating also reflects its strong brand and high-quality properties, allowing it to generate above-industry-average margins. It also considers Yanlord's good ability to access the debt and capital markets and its history of raising equity to fund development.

At the same time, its rating is constrained by its sales concentration, the small size of its land bank and weak credit metrics.

DETAILED RATING CONSIDERATIONS

(1) SALES EXECUTION ADJUSTED TO MEET MASS-MARKET DEMAND

Yanlord has a track record of developing deluxe residential properties in the Yangtze River Delta. The company was able to manage through previous down-cycles in 1997-99, 2002-05 and 2008-09, with sales prices for its properties largely unaffected.

However, regulatory measures introduced in 2010 to restrict property ownership to two properties per family have changed the demand and supply requirements of the Chinese property market. Yanlord experienced slow sales in 2011 as a result, as its deluxe properties and large-sized residential units of 200-300 square meters in gross floor area (GFA) need more time to sell.

Yanlord subsequently adjusted its business strategy, tapping demand from the mass market by developing small- and medium-sized properties that offer better sales volumes although lower profit margins. Nevertheless, Yanlord's high-priced units, which offer higher profit margins, partly mitigate the margin pressure commonly faced by Chinese property developers.

This change in business strategy enabled Yanlord to achieve RMB3 billion growth in contracted sales to approximately RMB15 billion in 2013 as compared with 2012. Although Yanlord recorded a drop in contracted sales to RMB12.7 billion in 2014 amid a weak property market in China, we expect the company to achieve good contracted sales growth in the coming 12 months due to its RMB36 billion of sellable resources in 2015.

(2) CONCENTRATED SALES BUT IMPROVING LAND BANK DISTRIBUTION

Yanlord's business model is more vulnerable to regulatory measures, as restrictions on home purchases are prevalent in its major operating area, the Yangtze River Delta (Shanghai, Nanjing and Suzhou).

In 2014, Shanghai accounted for 35% of its gross revenues from sales of properties and represented 23% of its delivered GFA. This sales concentration is a result of its strategy of holding a small land bank, but implementing large projects.

Nevertheless, Yanlord has started to diversify its sales concentration by gradually improving the distribution of its land bank across Nanjing, Suzhou, Chengdu, Tianjin, Shenzhen, Zhuhai, Sanya and Tangshan.

(3) GOOD BRANDING AND QUALITY PRODUCTS

Yanlord has been in the property development business since 1993. Although it started in Shanghai, it has since expanded its business to Nanjing, Suzhou, Tianjin, Zhuhai, Shenzhen, Tangshan, Sanya and Chengdu.

It focuses on developing high-quality properties at premium prices. Specifically, it develops large-scale properties in prime areas with high economic growth and good transportation networks. Its strategy supports its premium brand, which in turn commands premium pricing.

It is one of the few Chinese developers that delivers fully fitted residential properties. This requires expertise in renovation, which Yanlord possesses. Its products generally achieve better second-hand prices than those from other developers, making them very suitable for self-use and investment.

As such, the company's properties typically take longer to construct and cost more. Given the longer period required for completion, Yanlord can gradually increase prices in the later phases of development. Moreover, a low rate of production means that its supply is low, thereby reducing the pressure on large price reductions in a down-market.

Its premium property prices are also supported by its good after-sales services, as it acts on feedback from buyers on ways to improve its properties. It also provides property management services, helping ensure good secondary-market prices.

(4) GOOD ACCESS TO DEBT AND CAPITAL MARKETS AND HISTORY OF RAISING NEW EQUITY

Yanlord has demonstrated its access to both the onshore and offshore debt capital markets. The company raised approximately USD600 million (SGD847 million) in convertible bonds to support its growth in 2007 and 2009. It also issued USD300 million of senior unsecured bonds in 2010, USD400 million in 2011, RMB2 billion in May 2013, and SGD400 million in April 2014.

The company is also one of the few Chinese developers that can tap offshore syndicated bank loans. It raised USD200 million in syndicated loans in 2007, and another USD400 million in syndicated loans in December 2009. After a prepayment of USD400 million in the second quarter of 2011, it signed USD150 million in revolving credit facilities with offshore banks. Yanlord also raised USD385 million and USD170 million in syndicated loans in June 2014 and May 2015 respectively.

We believe Yanlord continues to have good access to the local onshore and offshore capital markets to support its construction requirements, land acquisitions, and debt refinancing.

Yanlord has also shown flexibility in raising funds through equity offerings. The company raised equity of around USD380 million (SGD537 million) in 2007 and 2009 to provide funding for its operations during a volatile time in the property market. This is particularly important as it sells deluxe properties that show higher volatility in demand and prices.

(5) SMALL SIZE OF LAND BANK

The company typically acquires sizable land parcels that enable multiple-phase developments in prime locations. Moreover, its management has established strict acquisition criteria, ensuring good marketability for its end-products.

Yanlord has a high-quality land bank, with an average cost of approximately RMB6,600 per square meter. A large portion is located in the centers of some of China's first- and second-tier cities.

The high prices for these well-located land banks also imply that its business model has higher costs and cash needs, as evident from its land acquisitions in Shanghai in late 2011.

However, its land bank of 4.9 million square meters in GFA as at end-March 2015 is small when compared with its Ba-rated peers, though it is sufficient to support development over the next five years. Its land bank is moderately diversified across nine cities, mainly in the Yangtze River Delta, Pearl River Delta, Bohai Rim District and Western China.

Yanlord's involvement in the Sino-Singapore Nanjing Eco Hi-tech Island project, a partnership with the Singapore and Nanjing governments for primary land development since 2009, has also provided it with opportunities to acquire quality land at reasonable prices. According to Yanlord, the project has been profitable since 2013.

(6) WEAK CREDIT METRICS

Yanlord's 2014 credit metrics were weak for its Ba3 ratings, mainly due to its high level of debt leverage, weak interest coverage, and greater-than-expected drop in gross profit margin - though the margin was still higher than the industry average in China.

We expect its credit metrics will remain weak in the next 12-18 months, with revenue/debt at 51%-56%, and EBIT coverage of interest at 2.5-2.7x.

The company's debt increased to RMB19.9 billion at end-2014 from RMB17.5 billion at end-2013, as it used debt to fund the construction of existing and new projects. As a result, despite the 4% year-on-year growth in reported revenue to RMB11.7 billion in 2014, revenue/debt remained weak at around 59%, which represented a slight decline from 64% in 2013.

The substantial compression in gross profit margin to 29.2% in 2014 from 35.5% in 2013 also contributed to its EBIT coverage of interest dropping to 2.7x in 2014 from 3.6x in 2013.

Meanwhile, as Yanlord still has unbooked revenue of RMB10.4 billion at end-2014, we expect the company will continue to enjoy revenue growth in the next 12 months. We also expect the growth in debt to continue in a controlled manner.

Liquidity Profile

At end-March 2015 Yanlord had cash-on-hand of RMB6.3 billion, which can more than cover its maturing short-term debt of around RMB2.7 billion and committed land payments over the next 12 months.

Notching Considerations

Notching for legal and structural subordination was not applied, as its secured and subsidiary debt to total assets was around 15% as at end-March 2015. Such a level is still within our threshold of 15%.

Rating Outlook

The stable rating outlook reflects our expectation that Yanlord will continue to achieve contracted sales growth and maintain prudent financial management to maintain adequate liquidity.

What Could Change the Rating - Up

Upgrade pressure could emerge if the company: (1) successfully executes its growth plans while maintaining strong balance sheet liquidity; and (2) achieves an EBIT coverage of interest of over 4.0x-4.5x on a sustained basis.

What Could Change the Rating - Down

The ratings could be downgraded if Yanlord: (1) fails to execute its sales plan such that liquidity weakens, as reflected in cash/short term debt coverage falling below 1.5x; or (2) engages in other material land acquisitions that strain its liquidity; and/or (3) exhibits weakening credit metrics, with EBIT coverage of interest under 2.5x-3.0x for a sustained period.

Other Considerations

Mapping to Moody's Home Building Methodology

When mapped to the Homebuilding Methodology, Yanlord scores around the Ba and B range for most rating factors.

Its cost structure is a positive outlier, reflecting its generally high-quality products, which sell at premium prices. However, this is counterbalanced by its weak revenue to debt, which is rated Caa.

Overall, the methodology indicates a grid outcome of Ba3, which is in line with Yanlord's assigned rating.

Rating Factors

Yanlord Land Group Limited

Homebuilding And Property Development Industry Grid [1][2]	**Current LTM 3/31/2015**	
Factor 1 : Scale (15%)	**Measure**	**Score**
a) Revenue (USD Billion)	$1.8	Ba
Factor 2 : Business Profile (25%)		
a) Business Profile	Ba	Ba

Factor 3 : Profitability and Efficiency (10%)		
a) Cost Structure (Pre-Impairment Gross Margin)	29.5%	Baa
Factor 4 : Leverage and Coverage (30%)		
a) EBIT Coverage of Interest	2.5x	B
b) Revenue to Debt	55.2%	Caa
b) HB and PD Debt to Total Capitalization		na
Factor 5 : Financial Policy (20%)		
a) Financial Policy	Ba	Ba
Rating:		
a) Indicated Rating from Grid		Ba3
b) Actual Rating Assigned		Ba3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics

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