**Rating Announcement** 31 July 2018

# China Vanke Co., Ltd.

Hong Kong

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|---|---|
| Category: | Corporate rating |
| Rating type: | Unsolicited rating |
| Industry: | Property Development |
| Long-term Credit Rating: | $AA_g$ |
| Rating Outlook: | Stable |


Analysts:

Jacky Lau jacky_lau@ccxap.com

Vincent Tong vincent_tong@ccxap.com

Director of Credit Ratings:

Guo Zhang guo_zhang@ccxap.com

Tel.: +852-28607111


## China Chengxin (Asia Pacific) Credit Ratings affirms the $AA_g$ rating of China Vanke Co., Ltd., with stable outlook

Hong Kong, 31 July 2018 -- China Chengxin (Asia Pacific) Credit Ratings ("CCXAP") announces that the AAg rating of China Vanke Co., Ltd. ("Vanke" or the "Company") is unaffected by its 2017FY results. The stable outlook remains unchanged. Vanke's rating reflects its leading market position supported by the steady growth in contracted sales, with a sustainable development model which provided stable cash flow and recurring income.

## Rating Rationale

The $AA_g$ rating is underpinned by the Company's (1) steady growth in contracted sales with a leading market position; (2) quality land bank to support the business development; (3) sustainable development model that increased recurring income; (4) improved profitability; and (5) adequate liquidity position with good access to onshore and offshore capital market. However, the rating is also constrained by (1) China's property market slowdown and tightening funding environment; and (2) heightened debt burden and weaker financial metrics.

**Vanke demonstrated a steady growth in contracted sales with a leading market position in the property development market.** The Company maintained a leading market position with the quality product mix and good geographic diversification. Vanke achieved the ranking of 2nd in terms of contracted sales among the property developers in Mainland China in 2017. Vanke also achieved the highest contracted sales in 22 cities such as Shenzhen and Shanghai. In 2017, the Company recorded the contracted sales of RMB 529.9 billion and contracted GFA of 36.0 million sqm, increasing 45.3% and 30.0% YoY, respectively. Vanke catered for the mass-market end-user segment. As for product mix, 82.7% of the contracted sales came from residential properties, of which small- and medium-sized products for first-time buyers and upgraders contributed 93%. In terms of regional breakdown, southern region, Shanghai region, northern region and central & western region accounted for 28.6%, 28.3%, 23.9% and 18.8% of total contracted sales.

**Vanke maintained strategic land acquisitions to support expanding operating scale, and its abundant land reserves could meet development needs in the next 3 to 4 years.** In 2017, Vanke acquired 216 new projects with the total GFA of 46.2 million sqm of which GFA attributable to the Company was 27.7 million sqm with a cost of RMB 218.9 billion. 72.3% of newly acquired GFA was acquired through cooperation and 74.7% of newly acquired GFA located in first or second-tier cities. With the nationwide operating strategy, Vanke expanded its geographic coverage to 75 cities. As of 31 December 2017, the Company reported the GFA of projects under construction of 68.5 million sqm and GFA of projects under planning of 63.2 million sqm, of which GFA attributable to the Company was 43.7 million sqm and 40.8 million sqm, respectively. As for regional breakdown, southern region, Shanghai region, northern region and central & western region contributed 23.8%, 20.5%, 26.8% and 28.9% of GFA under planning, respectively. In 2018, the Company's targeted commenced construction area was 35.5 million sqm, 2.9% lower than the commenced construction area in 2017.

**However, the tightening regulatory environment may create uncertainties to the Company's contracted sales and challenge its capital management.** By end-2017, the regulatory measures have been implemented in more than 150 cities, which narrowed the growth in property sales from 34.8% in 2016 to 13.7% in 2017. Meanwhile, the growth of average housing price in first and second-tier cities has been calmed down, with the YoY increase of 0.5% and 4.3% in first and second-tier cities, respectively. The slowdowns in property sales growth may give challenge to the Chinese property developers' capital management, as driven by the lagged cash collection from presales. Moreover, under a tightening financing environment in onshore capital market, the financing cost of Chinese property developers will also increase, which gave additional financial pressure to property companies with aggressive developing strategy.

**Vanke demonstrated a sustainable developing model which strengthened its business profile by creating synergy effect with property development business.** Vanke diversified its business into property services, investment properties, rental residential properties**,** logistics and warehousing services. For property services, the Company recorded the revenue of RMB 7.0 billion in 2017 by servicing 80 cities across Mainland China. For investment properties, the Company managed 172 commercial projects with GFA of over 10 million sqm at end-2017. Vanke accelerated the development of the rental residential properties business in 2016 given the supportive government policy. As of 31 December 2017, there were more than 30,000 units in services, covering 29 first or second-tier cities. Vanke focused on high-standard products in logistics and warehousing services segment. As of 16 April 2018, Vanke held 62 projects with total leasable area of 4.8 million sqm, of which 26 projects in operation with an average occupancy rate of 96%. Despite the development of rental residential properties as well as logistics and warehousing services may exert capital expenditure pressure in short-term, the sustainable development model of Vanke could strengthen its business profile with stabilized cash flow and increasing recurring income.

**The profitability of Vanke improved with increasing revenue.** In 2017, the Company reported total revenue of RMB 237.4 billion and net income of RMB 37.2 billion, increasing 3.7% and 31.2% YoY, respectively. Given the completion of high profitability projects, Vanke demonstrated a higher profitability. In 2017, the gross profit margin was 32.3% and the return of equity was 21.4%, as compared to 25.5% and 19.0% in 2016. Vanke had a sizeable sold but unrecognized contracted sales, amounting to RMB 414.3 billion at end-2017, which could support Vanke's revenue growth with estimated completed GFA of 26.3 million sqm in 2018. Although the tightening regulation might exert pressure on the profitability of the Company, we expect that Vanke will maintain an above the industrial average gross profit margin of around 28% in the next 12-18 months given its strong branding and track record of contracted sales.

**Vanke maintained robust financial profile, despite heightening debt level to support fast expansion.** With the expanding operating scale, Vanke's total debt increased from RMB 135.6 billion at end-2016 to RMB 202.1 billion at end-2017. As of 31 December 2017, the total capitalization ratio was 52.0% and net gearing ratio was 15.0%. In 2017, the total debt/EBITDA ratio was 3.1x and EBITDA interest coverage ratio was 8.1x, which were slightly weaker than 2.8x and 8.7x in 2016, but still remain at moderate level. As for maturity profile, the Company reduced the proportion of short-term debt, of which the short-term debt accounted for 36.5% of total at end-2017, as compared to 37.0% at end-2016. With the decreasing proportion of short-term debt, it may partially release the Company's refinancing pressure. The Company had a relatively large of debt denominated in foreign currency. The debt denominated in USD, HKD and GBP represent 24.9%, 2.3% and 0.4% of total debt. The Company has entered into forward exchange contracts to hedge foreign currency loans of USD 1.6 billion and HKD 3.5 billion at end-2017, while it held adequate amount of foreign currency to cover about 72% debt denominated in foreign currency, so the Company's exchange risk is manageable.

**As an A shares and H shares listed company, Vanke demonstrated a good access to onshore and offshore capital market.** In 2017, Vanke issued two tranches of 5 years corporate bonds with aggregate amount of RMB 4 billion at the coupon rate between 4.50% and 4.54%. Also, the Company issued 10 years USD 1 billion note at a coupon rate of 3.975% through its subsidiary, Vanke Real Estate (Hong Kong) Company Limited. The Company's liquidity profile was adequate. As of 31 December 2017, Vanke reported the total cash reserve of RMB 174.1 billion, of which restricted cash amounted to RMB 9.8 billion.

## Rating Outlook

The stable outlook on Vanke' rating reflects its steady growth in contracted sales with leading market position and broad geographic coverage. We also believe that the sustainable development model will provide stable cash flow and recurring income to the Company, which strengthen its business profile.

## Corporate Profile

Founded in 1984, Vanke was listed on both Shenzhen Stock Exchange (Stock Code: 000002.SH) in 1991 and Hong Kong Exchanges (Stock Code: 2202.HK) in 2014. Vanke is one of the leading property developers in China by providing high quality residential properties to first-time buyers and upgraders with geographic coverage of 75 cities. As of 31 December 2017, Shenzhen Municipal People's Government State-owned Assets Supervision and Administration Commission was the major shareholder of the Company by holding 29.38% of the shares through its subsidiary, Shenzhen Metro Group Co., Ltd..

# Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

**A. Long-Term Credit Ratings**

A long-term credit rating refers to a rating for a period of more than 12 months.

| Rating Symbol | Definition |
|---|---|
| **AAAg** | Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal. |
| **AAg+**<br>**AAg**<br>**AAg-** | Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low. |
| **Ag+**<br>**Ag**<br>**Ag-** | Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer. |
| **BBBg+**<br>**BBBg**<br>**BBBg-** | Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement. |
| **BBg+**<br>**BBg**<br>**BBg-** | Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk. |
| **Bg+**<br>**Bg**<br>**Bg-** | Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk. |
| **CCCg** | Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk. |
| **CCg** | Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found. |
| **Cg** | Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default. |
| **Dg** | Unable to meet financial commitments. Default is confirmed. |

**B. Long-term Credit Rating Outlook**

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

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| **Positive** | Indicates a rating with an ascending trend |
| **Negative** | Indicates a rating with a descending trend |
| **Stable** | Indicates the rating is likely to be stable |

## Disclaimer

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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656