Rating Announcement 31 July 2018

China Overseas Land & Investment Ltd.

Hong Kong

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

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China Chengxin (Asia Pacific) Credit Ratings affirms the AA_g rating of China Overseas Land & Investment Ltd., with stable outlook

Hong Kong, 31 July 2018 -- China Chengxin (Asia Pacific) Credit Ratings ("CCXAP") announces that the AA_g rating of China Overseas Land & Investment Ltd. ("China Overseas" or the "Company") is unaffected by its 2017FY results. The stable outlook remains unchanged. China Overseas' rating reflects its leading market position in the China's residential property market, together with its continuity of prudent financial management and operations. The rating also reflects its strong shareholder background and parental support from China Sate Construction Engineering Corp Corporation ("CSCEC").

Rating Rationale

The AA_g rating is underpinned by the Company's (1) leading market position in China's residential property market; (2) quality land reservations with broad geographic coverage; (3) long track record of strong profitability; (4) disciplined financial management and good liquidity position and (5) strong shareholder background. However, the rating is also constrained by (1) China's property market slowdown and tightening funding environment and (2) the Company's faster expansion in land investments leading to increasing funding needs in future.

China Overseas maintained its leading market position in mainland China and registered a strong contracted sales growth in 2017. The Company has a strong branding and market position, with focusing business development on the first- and second-tier cities of mainland China. The Company also has certain exposure to the third- and fourth tiers cities through an associate company, namely China Overseas Grand Oceans Group Ltd ("COGO"). In 2017, the Company demonstrated contracted sales of HKD 232.1 billion and contracted GFA of 14.5 million sqm, representing a YoY increase of 10.2% and 10.9%, respectively. It ranked the 7th largest property developers in China based on its contracted sales in 2017. As for geographical breakdown, the contracted sales in Huabei, Huadong, Huanan, Western, Northern region of mainland China as well as Hong Kong & Macau accounted for 28.0%, 13.6%, 16.9%, 11.8%, 22.1% and 7.7% of total contracted sales respectively. In 2017, the Company maintained high cash collection ratio of 93.4%. Moreover, in response to the growing property market in China, the Company increased its contracted sale target by 25.0% YoY to HKD 290.0 billion in 2018. The Company has sufficient saleable resources amounting to HKD 555 billion in 2018, which is expected to adequately meet its increased sales target. In 2018, the Company is expected to achieve a sell-through rate of 52%, which is considered as prudent and achievable. In the first six months of 2018, the Company registered contracted sales of HKD 150.8 billion, representing a YoY growth of 18.5%.

The Company has sufficient and quality land reservations with broad geographic coverage to meet its development need in the next three to four years. In 2017, the Company acquired 76 land parcels in 32 cities in mainland China and Hong Kong, adding a total GFA of 17.4 million sqm or attributable GFA of 14.6 million sqm to its land bank. The total cost of the newly acquired land parcels was approximately RMB 124.5 billion. The newly acquired lands (excluding COGO) mainly came from first- and second-tier cities of China as well as Hong Kong & Macau, which accounted for 86.2% of the total GFA. Particularly, the Company accelerated its land acquisitions activities in western region of China in 2017, which accounted for 42.1% of the total GFA in the year. The Company is expected to adopt active land acquisition strategy with planned land investments of HKD135 billion in 2018, representing a YoY increase of 22%. The increased land investment may lead to increasing funding needs in future. As of 31 December 2017, the Company had a total land bank (excluding COGO) of 63.8 million sqm, of which 53.8 million sqm was attributable to its equity interest, covering 42 cities in mainland China, Hong Kong & Macau. The land reserves are geographically diversified, with Huabei, Huadong, Huanan, Western, Northern region of China as well as Hong Kong & Macau, which accounted for 24.9%, 12.3%, 22.4%, 20.5%, 19.5%, and 0.4% of total GFA, respectively.

However, the tightening regulatory environment may give pressure on the property companies' contracted sales and challenge their 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 YoY increase of 0.5% and 4.3% in first and second-tier cities, respectively. The slowdowns in property sales growth may lead to 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. This may put additional financial pressure on the property companies imposing aggressive developing strategy.

The profitability of China Oversea remained relatively high as compared with its peers. In 2017, the Company reported revenue of HKD 166.0 billion and net profit of HKD 42.1 billion, representing a YoY increase of 1.2% and 9.8% respectively. The recognized gross profit margin increased to 34.2% in 2017 from 31.1% in 2016. The higher gross profit margin was driven by its strict project selection and effective cost control from management. We expect that the company will maintain strong profitability in next 12 to 18 months as supported by its prudent operation and outstanding project management.

The Company had strong credit metrics in association with its disciplined financial management. The Company continued to maintain a prudent development strategy, which help mitigate its financial risk in evolving property market in China. The Company maintained low debt leverage despite its fast growing business. At end-2017, the total debt of China Overseas was HKD 185.6 billion, slightly increased by 3.8% from that at end-2016. The debt-to-capital ratio further decreased to 40.4% at end-2017 from 44.0% at end-2016. The adjusted net debt-to-equity ratio was 29.8% at end-2017. The Company also registered a solid liquidity position. At end-2017, the Company had unrestricted cash reservations of HKD 99.5 billion, which was nearly three times of its short-term debt of HKD 34.1 billion. The liquidity position is enhanced by its enlarged sales proceeds collections amounted to HKD 163.7 billion in 2017. The Company also demonstrated an optimized debt structure with over 70% of total debts from long-term financing in past three years.

In 2017, the Company demonstrated a good financing flexibility. It helped the Company achieve lower average finance cost to 4.76%, dropped 49 bps as compared with that in 2016. The Company achieved nearly the lowest level of finance cost as compared with its peers. The Company raised funds through various means in both onshore and offshore capital market. In 2018, the Company signed a syndicated loan of HKD 18 billion with 15 banks at a rate of HIBOR + 1.38%, representing nearly the lowest financing costs in the market during the year. However, as of 31 December 2017, the Company's renminbi denominated indebtedness accounted for approximately 50.1% while non-renminbi denominated indebtedness accounted for 49.9%. With high exposure to foreign currency other than its operation assets, the Company may face certain risks from currency fluctuations.

Rating Outlook

The stable outlook on China Overseas' rating reflects its strong branding and leading market position in the China's residential property market, with a broad geographic coverage. We also believe that the Company will maintain its strong profitability and disciplined financial management.

Corporate Profile

Established in 1993, the Company is one of the leading property developers with a nationwide geographic coverage in over 55 cities in mainland China, and gradually expanded to the market of Hong Kong, Macau and London. It principally engaged in property development, investment, management and other property related operations. The Company was listed on the main broad of Hong Kong Stock Exchange (Stock Code: 688.HK) in August 1992. As of 31 December 2017, the Company was owned by CSCEC, a central-government owned enterprise under the State Council of China, who indirectly held 55.99% of the Company's shares.

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+ **AAg** **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+ **Ag** **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+ **BBBg** **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+ **BBg** **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+ **Bg** **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.

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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CCXAP's public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means. The methodology used in this rating is Global Rating Methodology for Real Estate Development Industry dated May 2017, available at www.ccxap.com (Rating Process -> Rating Methodology).

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