Rating Announcement 31 July 2018

China Evergrande Group

Hong Kong

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 Evergrande Group, with stable outlook

Hong Kong, 31 July 2018 -- China Chengxin (Asia Pacific) Credit Ratings ("CCXAP") announces that the AA_g- rating of China Evergrande Group ("Evergrande" or the "Company") is unaffected by its 2017FY results. The stable outlook remains unchanged. Evergrande's rating reflects its leading market position with steady growth in contracted sales and improving profitability.

Rating Rationale

The AA_g- rating is underpinned by the Company's (1) steady growth in contracted sales supported broad market coverage and abundant saleable resources; (2) sufficient land bank to support the business development with good geographic diversification; and (3) increasing revenue with improved profitability. However, the rating is also constrained by (1) China's property market slowdown and tightening funding environment; (2) aggressive land acquisitions which exerts capital expenditure pressures; and (3) weakened liquidity position with refinancing pressure.

Evergrande demonstrated a steady growth in contracted sales, supported by its broad market coverage and abundant saleable resources. Evergrande maintained a leading marketing position in Mainland China, ranking top 3 in terms of contracted sales among the Chinese property developers in 2017. Evergrande newly launched 178 projects in 2017, with 656 projects on sales in aggregate at end-2017. The Company's total contracted sales amounted to RMB 501.0 billion with contracted GFA of 50.3 million sqm in 2017, increasing by 34.2% and 12.6% YoY, respectively. Evergrande had a geographical diversified product portfolio, covering 30 provinces or regions at end-2017. Started its business in Guangdong, Guangdong contributed 10.6% of total contracted sales in 2017, as compared to 9.5% in 2016. The contracted sales in Jiangsu, Henan, Shandong and Hainan represented 8.2%, 7.5%, 7.3% and 5.9% of total in 2017. In 2018, Evergrande targeted the contracted sales of RMB 550 billion, increasing by around 10% as compared to the actual contracted sales in 2017. In 2018H1, the total contracted sales of Evergrande increased by 24.6% YoY to RMB 304.2 billion, achieving 55.3% of contracted sales target.

Evergrande had sufficient land bank with good geographic diversification to support its future development, still with sizeable capital expenditure pressure. In 2017, the Company acquired 226 new projects, with total GFA of 126 million sqm at a cost of RMB 237.4 billion, of which 57% of new GFA was acquired through M&A in 2017. The Company's land cost was below the industry average, which helped maintain a strong competitive advantage. The average cost of newly acquired projects was RMB 1,889 per sqm, of which the average land cost in first and second-tier cities was RMB 2,513 per sqm. Evergrande announced a lower growth in its target contracted sales in the next 3 years, so we expect that the Company's land acquisitions will also slow down. The total land bank of Evergrande increased from 229 million sqm at end-2016 to 312 million sqm at end-2017. The land bank in first and second-tier cities accounted for 53.3% of total land bank. Evergrande demonstrated broad geographic coverage, covering 228 cities as of 31 December 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.

The profitability of Evergrande improved with increased revenue, given to heightened property price and larger scale of properties delivered. In 2017, the GFA of properties delivered by the Company increased by 29% YoY to 29.4 million sqm while the revenue of property development increased by 48.3% YoY to RMB 302.4 billion. The Company reported total revenue of RMB 311.0 billion in 2017, as compared to RMB 211.4 billion in 2016. The gross profit margin improved from 28.1% in 2016 to 36.1% in 2017. Although the tightening market regulation may exert pressure to the Company's profitability, we expect that Evergrande will maintain the gross profit margin at around 30% in the next 12-18 months, supported by its competitive land cost and strong track record of contracted sales.

The debt leverage improved with strengthened capital base. In 2016 and 2017, the Company set up investment agreements with strategy investors, which agreed to invest RMB 130 billion to the Company. The Company redeemed the outstanding perpetual capital instruments of RMB 113.7 billion with the injected capital to reduce its leverage. The total capitalization was 75.2% and net gearing ratio was 185.1% at end-2017, significantly improved as compared to 89.1% and 438.7% at end-2016. In 2017, the total debt/EBITDA ratio was 8.6x while the EBITDA interest coverage ratio was 1.6x. Given the slowdown in growth, we expect that the credit metrics of Evergrande will continue to improve with slower debt growth.

Evergrande may face refinancing pressure as a result of boosting scale short-term debt and tightening financing environment. As of 31 December 2017, the short-term debt increased to RMB

356.6 billion, accounting for 48.4% of total debt. The cash reserve was RMB 287.7 billion at end-2017, of which restricted cash was RMB 135.7 billion. The cash to short-term debt ratio reduced from 1.5x at end-2016 to 0.8x at end-2017, which indicated the Company's refinancing pressure. Evergrande demonstrated a good access to both onshore and offshore capital market, with a reduction in average funding cost from 8.27% in 2016 to 8.09% in 2017. However, the tightening financing environment and increasing interest rate may exert refinancing pressure to the Company.

Rating Outlook

The stable outlook on Evergrande's rating reflects its steady growth in contracted sales supported by its broad market coverage and abundant saleable resources. We believe that the slowdown of growth in contracted sales and strong revenue can helped the Company improve its credit metrics.

Corporate Profile

Founded in 1996, Evergrande was one of the leading property developers with diversified geographic coverage. In 2009, Evergrande listed on Hong Kong Stock Exchange (Stock Code: 3333.HK). As of 31 December 2017, Professor Hui Ka Yan was the ultimate controlling shareholder of Evergrande, by holding 71.16% of the Company's shares through Xin Xin (BVI) Limited.

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

Credit ratings assigned by China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") are based on CCXAP's rating principles of independence, fairness and objectivity. A credit rating reveals and ranks specific risks, but it does not cover all risks embedded in the rated entity or the rated debt issue.

Credit ratings are not recommendations for investors to buy, sell or hold debt securities, nor measurements of market value of the rated entities or the rated debt issues. While CCXAP has obtained information from sources it believes to be reliable, CCXAP does not perform an audit and undertakes no duty of due diligence or independent verification of information it receives from the rated entity.

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).

All information published in this document belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained in this document reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee the accuracy, adequacy, completeness or timeliness of any information included in this document. None of the information may be used, including without limitation reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information, for subsequent use without CCXAP's prior written permission.

CCXAP is not liable for any in whole or part caused by, resulting from or relating to any error (neglect or otherwise) or other circumstance or contingency within or outside the control of CCXAP's or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, interpretation, analysis, editing, transcription, publication, communication or delivery of any such information, or any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation lost profits), even if CCXAP, or representatives thereof, are advised of the possibility of such damage, losses or expenses.

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