Rating Announcement 28 December 2018

Sino-Ocean Group Holding Limited

Hong Kong

Category:	Corporate rating
Rating type:	Solicited 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 Sino-Ocean Group Holding Limited, with stable outlook

Hong Kong, 21 December 2018 -- China Chengxin (Asia Pacific) Credit Ratings has announced that the AA_g- rating of Sino-Ocean Group Holding Limited ("Sino-Ocean" or the "Company") is unaffected by its 2018H1 results, outlook stable. Sino-Ocean's rating reflects that the Company holds abundant of saleable resources which helps support contracted sales growth.

Founded in 1993, Sino-Ocean, one of the leading property developers in China with diversified business portfolio, was listed on the Hong Kong Stock Exchange in 2007 (Stock Code: 3377.HK). As of 30 June 2018, China Life Insurance (Group) Company and Anbang Insurance Group Co., Ltd. held 29.59% and 29.58% of the Company's shares respectively.

Sino-Ocean demonstrated mild growth in contracted sales as compared to its peers in 2018H1. The Company achieved contracted sales of RMB 45.1 billion in 2018H1 and contracted GFA of 2.3 million sqm, up by 48.1% and 40.6% YoY, respectively. The average selling price slightly increased from RMB 18,600 per sqm in 2017H1 to RMB 19,500 per sqm in 2018H1. Beijing-Tianjin-Hebei Region remained as the core market of the Company, which accounted for 36% of total contracted sales. The growth in contracted sales was mainly supported by the strong sales in Yangtze Mid-stream Region and Chengdu-Chongqing Region as these regions contributed 24% of total contacted sales in aggregate in 2018H1, as compared to 10% of total in 2017H1. Sino-Ocean has saleable resources of RMB 130 billion during the period of 2018H2, of which newly launched properties account for about 79% of total. In addition, residential properties represent 92% of total saleable resources, significantly raised as compared to 65% during the same period in 2017. We expect significant amount of newly launched projects with high proportion of fast-turnover products will help the Company meet its annual sales target of RMB 100 billion.

To accelerate sales turnover, Sino-Ocean strategically invested in small to medium-sized projects. In 2018H1, Sino-Ocean acquired 39 new land projects with total GFA of 6.0 million sqm, as compared to 29 new projects and GFA of 10.2 million sqm in 2017H1. In 2018H1, Sino-Ocean invested in a few premium projects in Beijing, Shanghai and Hangzhou, which had relatively high land cost. As a result, the attributable land cost increased from RMB 14.4 billion in 2017H1 to RMB 20.7 billion in 2018H1 while the average land price raised from RMB 5,014 per sqm to RMB 9,341 per sqm. In addition, Sino-Ocean acquired 1 mature project in Shanghai with attributable GFA of 8,330 sqm at attributable cost of RMB 268 million. As of 30 June 2018, Sino-Ocean reported total land bank of 39.2 million sqm with attributable GFA of 21.1 million sqm. The Company's land bank mainly located in the 5 major city clusters that accounted for 86% of total land bank as of 30 June 2018, of which Beijing-Tianjin-Hebei region and Pearl River Delta region contributed 42% and 17% of total, respectively. We will continue to monitor the profit margin and capital expenditure of Sino-Ocean, given the increasing average land cost with tight regulation in the market.

Sino-Ocean has gradually expanded its investment properties and property management businesses. As of 30 June 2018, Sino-Ocean held 19 operating investment properties with total GLA of 1.2 million sqm and average occupancy rate of 91%, which generated attributable rental income of RMB 1.1 bn in 2018H1, growing by 22% YoY. The Company has planned to commence 8 investment properties with total GFA of 1.9 million sqm during the period from 2018H2 to 2022, of which 75% of total GFA has been in Beijing and Shanghai. For property management, GFA under management was 50 million sqm as of 30 June 2018 with revenue of RMB 795 million in 2018H1, up by 56.3% and 38% YoY.

In 2018H1, the total revenue of Sino-Ocean declined by 10.9% YoY to RMB 15.4 billion given drop in delivered GFA. With the completion of high profit margin projects, the gross profit margin of Sino-Ocean improved from 22.0% in 2017H1 to 23.5% in 2018H1. The return on equity slightly reduced from 12.0% in LTM 2017H1 to 10.5% in LTM 2018H1, mainly driven by revenue slippage. We expect that the revenue of Sino-Ocean will improve in the next 12-18 months, backed by its sizeable unrecognized contracted sales of RMB 70.8 billion.

The debt burden of Sino-Ocean increased from RMB 63.0 billion at end-2017 to RMB 75.1 billion at mid-2018 alongside rise in land cost. As of 30 June 2018, the total capitalization ratio was 55.5% and net gearing ratio was 81.8%. The debt to EBITDA ratio was 6.7x and EBITDA interest coverage ratio was 3.1x in LTM 2018H1, slightly weakened as compared to 5.3x and 3.7x in 2017 due to increase in debt burden as well as finance cost. Sino-Ocean will keep expanding its operating scale as well as diversifying its business portfolio, such that, we expect the Company will maintain a relatively high debt level and we will continue to monitor Sino-Ocean's credit metrics.

Sino-Ocean remained an adequate liquidity position, though the liquidity position was weakened by the increasing size of short-term debt. The cash to short-term debt ratio decreased from 247.7% at end-2017 to 155.6% at mid-2018. While the average borrowing cost of the Company slightly rose from 5.19% in 2017 to 5.26% in 2018H1, the cost remained at a relatively low level as compared to the industry average. With increase in interest rate, we expect Sino-Ocean will demonstrate an upward trending borrowing cost.

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