Rating Announcement 28 December 2018

Seazen Holdings Co., Ltd.

Hong Kong

Category:	Corporate rating
Rating type:	Solicited rating
Industry:	Property Development
Long-term Credit Rating:	A_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 A_g+ rating of Seazen Holdings Co., Ltd., with stable outlook

Hong Kong, 28 December 2018 -- China Chengxin (Asia Pacific) Credit Ratings announces that the A_g+ rating of Seazen Holdings Co., Ltd. ("Seazen" or the "Company") is unaffected by its 2018H1 results, outlook stable. Seazen's rating reflects the improving market position, due to strong growth in contracted sales, and increasing recurring revenue from investment properties.

Founded in 1993, Seazen, formerly known as Future Land Holdings Co., Ltd., listed as A shares on the Shanghai Stock Exchange (Stock Code: 601155.SH) after restructuring of its subsidiaries by merger in December 2015. Seazen is one of the leading property developers in Mainland China. As of 30 June 2018, Mr. Wang Zhenhua was the controlling shareholder of the Company, with indirect shareholding of about 67.1%.

Seazen demonstrated robust growth in contracted sales with improved geographical diversification in 2018H1. The contracted sales of Seazen amounted to RMB 95.3 billion and contracted GFA was 7.8 million sqm in 2018H1, increased by 94.2% and 118.3% YoY, respectively. The Company's strategic focus on second-tier and key lower tier cities helped boost its contracted sales. The cities contributed 53.3% and 37.7% of total contracted sales in 2018H1, as compared to 60.9% and 28.2% in 2017H1. As a result, the average selling price slightly decreased from RMB 13,831 per sqm in 2017H1 to RMB 12,305 per sqm in 2018H1. Meanwhile, Yangtze River Delta region remained the key market for Seazen, which represented 65.1% of total contracted sales in 2018H1, lower than 84.4% in 2017H1 given higher degree of geographical diversified product portfolio. Seazen achieved its annual sales target of RMB 180 billion and recorded total contracted sales of RMB 199 billion in the first eleven months of 2018.

Seazen accelerated land acquisitions to meet its expansion needs. In 2018H1, Seazen acquired 82 new projects with total GFA of 20.7 million sqm, as compared to 51 new projects with total GFA of 15.7 million sqm in 2017H1. The Company maintained relatively low average land cost of RMB 2,366 per sqm. As of 30 June 2018, the Company reported total land bank of 86.4 million sqm, of which land bank attributable to the Company was 63.8 million sqm. Yangtze River Delta region remained as the core market for Seazen, contributing 55.3% of total land bank. Land bank in Central and Western China, Bohai Rim and Pearl River Delta region accounted for 24.4%, 13.8% and 4.9% of the total, respectively. With the expanding operating scale, we expect that Seazen will continue to adopt relative active land acquisition strategy, which may exert capital expenditure pressure to the Company.

The Company demonstrated a mature operating model in investment properties with improvement in revenue or occupancy rate. The Company generated rental and management income of RMB 0.9 billion with total GFA of 2.4 million sqm in 2018H1, increasing by 154.9% and 70.8% YoY, respectively. The average occupancy rate improved from 97.1% in 2017H1 to 98.2% in 2018H1, reflecting evolving operating model of the Company. The Company expected that there would be 17 newly commenced commercial complexes in 2018H2 which help strengthen the Company’s recurring income generation capability.

Given track record of strong contracted sales and low land cost, the revenue and profitability of the Company improved. The total revenue of Seazen increased from RMB 11.3 billion in 2017H1 to RMB 15.8 billion in 2018H1 and gross profit margin improved from 33.2% to 37.1% over the same period. The net income increased by 126.6% to RMB 2.6 billion in 2018H1 because of the revaluation of investment properties as well as strong performance of associates and joint ventures. The return on equity was 33.8% in LTM 2018H1, significantly improved as compared to 22.2% in LTM 2017H1.

Alongside the expanding operating scale, the debt burden and leverage are both heightened. As of 30 June 2018, the Company reported total debt of RMB 65.8 billion, increased by RMB 21.1 billion over last six months. The total capitalization ratio was 69.6% and net gearing ratio was 142.3% at mid-2018, higher than 63.2% and 87.5% at end-2017.

The credit metrics of the Company weakened because of the increase in debt burden. The total debt to EBITDA ratio was 5.0x and EBITDA interest coverage ratio was 3.0x in LTM 2018H1, as compared to 4.0x and 5.2x in 2017 respectively. We expect that the debt scale of Seazen will keep increasing given the acceleration on investment property development, and we will continue to monitor its debt leverage as well as credit metrics.

As of 30 June 2018, the cash to short-term debt ratio was 94.1%, implying that the Company did not hold enough cash reserve for debt repayments. The weaker liquidity profile was due to the increasing amount of short-term borrowing. Despite the starting of the easing of market liquidity in 2018H2, we will continue to monitor the Company’s liquidity position given its sizeable amount of short-term debt.

Seazen has diversified its funding channel. In 2018H1, Seazen issued USD 1.3 billion bonds with coupon rate between 4.75% and 7.125%. Given the new issuance of USD bonds, debt denominated in USD accounted for 14.8% of total debt at mid-2018. The Company has launched hedging policy to control the currency risk since 2018Q3 and we will continue to monitor the execution of hedging policy.

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

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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