Rating Announcement 28 January 2019

CIFI Holdings (Group) Co. Ltd.

Hong Kong

Category:	Corporate rating
Rating type:	Solicited rating
Industry:	Property Development
Long-term Credit Rating:	A_g+
Rating Outlook:	Stable

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China Chengxin (Asia Pacific) Credit Ratings affirms the A_g+ rating of CIFI Holdings (Group) Co. Ltd., with stable outlook

Hong Kong, 28 January 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the A_g+ rating of CIFI Holdings (Group) Co, Ltd. ("CIFI" or the "Company") is unaffected by its 2018H1 results. CIFI's rating reflects its sound business performance evidenced by strong sales execution and moderate land acquisition strategy. CCXAP expects CIFI's credit profile to remain stable in the next 12 to 18 months. However, we are aware that the Company's heightening debt level, driven by its fast growing pace in recent years, may exert some pressure on its financial management.

Corporate Profile

CIFI (Stock Code: 0884.HK) was established in 2000 and indirectly owned by Mr. Lin Zhong by 44.92% of the Company shares at mid-2018. The Company is one of the leading property developers in Yangtze River Delta primarily engaging in property development, investment and management.

Rating Rationale

CIFI continued its fast-churn strategy during 2018H1 and demonstrated outstanding sales execution with strong contracted sale growth. In 2018H1, the Company's contracted sales (including contracted sales by JVs and associated companies) increased 40.0% YoY to RMB 66.0 billion; its contracted GFA increased 68.4% YoY to 4.3 million sqm. CIFI achieved a high sell-through rate of over 70%. As of 31 December 2018, the Company completed annual contracted sales of RMB 152 billion — exceeding its year target of RMB 140 billion.

The Company maintains its regional penetration in second-tier and robust third-tier cities where the demands for residential properties are solid. It continues to diverse its business presence in 4 core metropolitan areas, namely, the Yangtze River Delta, Pan Bohai Rim, Central Western and South China Region. In 2018H1, over 135 projects across 25 cities in these four regions contributed to the Company's contracted sales. The Company's diversified sales portfolio is supportive to its mounting contracted sales and mitigates the impacts of regional policy changes or economic alterations on its sales execution. The Company's contracted sales in second-tier cities accounted for 80% of its total contracted sale in 2018H1, which was in line with its long-term geographic development strategy.

The average contracted selling price slightly decreased to RMB 15,300 per sqm in 2018H1 from 16,530 per sqm in 2017, which was mainly due to the Company's increased sales in lower-tier cities. The Company had sufficient good-quality saleable resources amounting to over RMB 260 billion in 2018, spreading over 50 cities in China. The Company plans to have over RMB 450 billion saleable resources in 2019, which will in part help CIFI achieve its growth in contracted sales.

CIFI also implemented a moderate land acquisition strategy with strict investment principles in its core cities. In the first six months of 2018, the Company acquired 67 projects with aggregated attributable GFA of 5.0 million sqm at attributable committed land cost of RMB 29.2 billion. The average cost of newly acquired lands decreased to approximately RMB 6,100 per sqm in 2018H1 from RMB 8,573 per sqm in 2017H1, driven by its increased investment proportion in robust third-tier cities. As of 30 June 2018, the Company had a total land bank of 40.4 million sqm in the 4 core metropolitan areas — sufficient for the Company's business development in the next two to three years. In terms of geographical breakdown, 42% of its total land banks (by sqm) are located in Yangtze River Delta, 32% in Central Western, 20% in Pan Bohai Rim, and 6% in South China.

CIFI retains a stable profit margin and profitability despite the Company's rapid business expansion. In 2018H1, the Company registered a total revenue of RMB 18.4 billion and a net profit of RMB 4.2 billion, up 64.0% YoY and 60.2% YoY, respectively, thanks to its outstanding contracted sale performance in recent years. The recognized gross profit margin decreased to 23.6% in 2018H1 from 31.6% in 2017H1, mainly owing to the accounting effect of the Company's reclassifying certain project companies from non-consolidated JVs and associated companies into subsidiaries. The reclassification triggered revaluation on the cost of delivered properties, resulting in higher cost of goods sold and apparently lower margin in 2018H1. By excluding such effect, the adjusted gross profit margin climbed to 33.7% in 2018H1 from 31.6% in 2017H1. Its last-twelve-month (LTM) ROE was relatively stable at 23.1%. We estimate that the whole year unadjusted gross profit margin of the company will maintain at around 25%, driven by its defensive land cost and high-margin products delivered in the first-tier and second-tier cities.

CIFI's credit metrics is resilient while its debt leverage is increasing with accelerating expansion in scale. The Company's total debt (including perpetual instruments) increased to RMB 74.5 billion as of 30 June 2018, up RMB 23.4 billion from end-2017. The adjusted debt-to-capital ratio remained stable at 65.2%, and the adjusted net debt-to-equity ratio rose from 70.0% at end-2017 to 88.8% at mid-2018. Its recent strong growth in profit helps partially mitigate the risks with regard to the heightened debt level. The adjusted EBITDA interest coverage of CIFI remained reasonable at 3.5x in LTM 2018H1. In addition, the Company had abundant liquidity buffer with cash reserves of RMB 39.1 billion in 2018H1, representing 2.6x of its short-term debt. Its high cash collection rate of over 80% from contracted sales was also supportive to its cash flow. We will closely monitor the impacts of the Company's risk appetite and the increasing debt level on its credit profile.

Thanks to its active capital structure management and diversified funding channels, CIFI's weighted average interest cost stayed low at 5.3% despite the tighter liquidity and unfavorable funding environment in 2018H1. The Company has diverse debt structure consisting of offshore bank loans, offshore senior notes, offshore convertible bonds, onshore corporate bonds, onshore bank loans & other loans and perpetual capital instruments, which accounted for 23%, 16%, 3%, 16%, 37% and 5% of total debts at end-2018H1, respectively. Among its indebtedness, 44% of them were denominated in USD or HKD, of which 63% were hedged by the Company.

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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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