Rating Announcement 28 January 2019

Beijing Capital Land Ltd.

Hong Kong

Category:	Corporate rating
Rating type:	Solicited 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 Beijing Capital Land Ltd., with stable outlook

Hong Kong, 28 January 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the AA_g- rating of Beijing Capital Land Ltd. ("BCL" or the "Company") is unaffected by its 2018H1 results. BCL's rating reflects its ability to secure good-quality projects, particularly in Beijing as well as its diverse funding channels on the backing of its parent company, Beijing Capital Group Co., Ltd. ("Capital Group"). The rating also reflects its track record of effective operation through various business cycles since its establishment in 2002. However, we are aware that the recent tightening of real estate policy in certain regions may give some negative impacts on its sale efforts.

Corporate Profile

BCL (Stock Code: 2868.HK), listed on the Hong Kong Stock Exchange in 2003, is a medium-sized residential property developer in China that covers 3 core metropolitan areas (Beijing-Tianjin-Hebei, Yangtze River Delta and Guangdong-Hong Kong-Macau Greater Bay Area) as well as Australia. It is a major property development platform of the Capital Group, which is a stated-owned enterprise directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Beijing Municipality ("Beijing SASAC").

Rating Rationale

In 2018H1, BCL demonstrated mild contracted sales growth in association with its fast-churn business strategy. Its residential projects were conformed to the "369" construction time limit standard. The

Company reported contracted sales of RMB 36.1 billion (including JVs and associated companies) in 2018H1, up 47.2% YoY. Over the past two years, BCL has shifted its business focus from low-tier cities to upper-tier cities, which will help support its sustainable sales growth in the coming years. This is because these upper-tier cities have resilient demands for commercial and residential properties. Its five core cities including Beijing, Tianjin, Shanghai, Chengdu and Chongqing contributed nearly 86% of the total contracted sales. The average selling price of the contracted sales increased 16.5% YoY to RMB 26,460 per sqm. The Company also retains its leading market position, as one of the top 3 residential property developers in Beijing, in terms of contracted sales. As of 31 December 2018, the Company recorded accumulated contracted sales of RMB 70.6 billion, up 26.5% as compared with that of the year ended 31 December 2017 — slightly missing its whole year target of RMB 75 billion. CCXAP will monitor the potential effects of changes in government policies and operating environment in China on the Company's future sale executions.

In 2018H1, BCL actively expanded its land bank through acquisition of 10 projects to meet its needs for growth. It made total land investments of RMB 25.4 billion, up 120.3% YoY, with an aggregate GFA of 2.14 million sqm in 2018H1. The Company continues to benefit from its close relationship with the parent company and the Beijing government, which facilitates the company's acquisition of high-quality projects with low land premium in sound location. It also enjoys a competitive edge in acquiring primary land development projects in Beijing and Tianjin, enhancing its leading market position in the regions and creating good synergies between its primary and secondary development projects. In 2018H1, the Company procured two secondary development projects in Beijing & Tianjin with lower land costs, which were supported by its primary land development work in the regions. The Company also gained a primary land development project in Zhangjiakou, with a planned total GFA of 1.04 million sqm, which could help enlarge its development footprint in the region.

As of 30 June 2018, the Company had total land bank of GFA 11.92 million sqm, and saleable resources of approximately RMB 276.4 billion, which is sufficient for needs of the Company's development over the coming two to three years. The 3 metropolitan areas accounted for 87% of the total saleable resources while Beijing, Tianjin and Shanghai accounted for 72%. The average land cost of developing properties stayed low at approximately RMB 12,100 per sqm in 2018H1, compared with its current average selling prices of RMB 26,500 per sqm. In addition, the Company has several large primary land development projects that are either under development or are secured in the pipeline, amounting to a total site area of over 30 million sqm. This gives some assurances of the adequacy of its secondary land sourcing.

Other than its secondary property development business, BCL also proactively expanded its outlet, rental housing and culture & creative businesses. In 2018H1, the Company reported other revenue (excluding sales of properties) of RMB 1.8 billion, up 9.0% YoY. It continues to develop the outlet business through its listed subsidiary, Beijing Capital Grand ("Capital Grand"). BCL maintains no. 1 leading market position in the outlet business in China in terms of number of operating malls. In 2018H1, the Company added two more outlet projects in Qingdao and Nanning, and started its mall operation in Wuhan. As of 30 June 2018, the Company operated 7 outlets projects with total sales reaching RMB 2.37 billion, up 43% YoY.

Meanwhile, BCL has also released two service apartment projects in Beijing and Tianjin under the brand name of "He Yu". Its outlets and rental housing business are expected to provide stable recurring rental income for the Company that may help partially mitigate the impacts of the volatility of the property market. The Company also undertook some culture & creative projects in Beijing, such as building theme parks and carrying urban renewal projects, which could help sustain its relations with its parent company and the local government.

BCL's profitability gradually improved as evidenced by its continued focus on first-tier and major second-tier cities. In 2018H1, the Company registered a total revenue of RMB 7.1 billion and a net profit of RMB 1.1 billion, down 3.4% YoY and up 4.5% YoY, respectively. Despite a slight drop in total revenue in the first half of the year, CCXAP expects the Company's revenue will keep a moderate growth rate over the coming 1 to 2 years, due to its strong contracted sales growth in the previous years. The Company had accumulated unbooked core pre-sales of RMB 32 billion as of 30 June 2018. BCL reported improved gross margin of 26.7% in the last twelve month ("LTM") of 2018H1, as compared to 19.8% in LTM 2017H1, thanks to the revenue recognition of premium projects in upper-tier cities during the period. Given its mild contracted sales growth in the core regions and high-quality project reserves, we believe the Company could maintain its gross profit margin at above 25% over the next 12 to 18 months.

BCL maintains a high leverage ratio compared with its peers in China, driven by the accelerating debt-funded expansion in the past few years. This exerts high debt pressure on the Company's balance sheet. As of 30 June 2018, the Company had a large amount of total debts of RMB 94.2 billion, up 46.1% YoY. The adjusted debt-to-capital ratio and the adjusted net debt-to-equity ratio (both including perpetual instruments) stayed high at 82.2% and 354.6%, respectively.

Fortunately, BCL's improving profit margin and adequate cash reserves may help mitigate its repayment risks. In 2018H1, it held cash reserves of RMB 21.9 billion, which covered 89.5% of its short-term debts. Furthermore, the Company's liquidity is strongly underpinned by Capital Group, which is highly likely to provide solid funding to BCL in case of a distressed situation.

Given its state-owned background and close relationship with major commercial banks in China, the Company sustained a low weighted-average funding cost at 5.22%, despite the tighter liquidity and unfavorable funding environment in 2018H1. The Company also formed diversified financing channels through bank loans, insurance funding, bonds, asset securitization and trust & fund. In 2018H1, the Company issued a USD 500 million senior notes with 3-year tenors at a coupon rate of 3.875%. The Company also issued RMB 2.5 billion final payments-backed securities at a cost of 5.75%. Nonetheless, CCXAP will closely monitor the ongoing impacts of the Company's heightened debt burden and the changes of its financing capability.

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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