

Rating Announcement

11 March 2019

Fantasia Holdings Group Co., Limited

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 its A_g rating on Fantasia Holdings Group Co., Limited, with stable outlook

Hong Kong, 11 March 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the A_g rating of Fantasia Holdings Group Co., Limited (“Fantasia” or the “Company”) is unaffected by the Company’s 2018H1 results. The outlook is stable. Fantasia’s rating reflects the Company’s track record in contracted sales growth would lay a sound foundation for its future business performance.

Corporate Profile

Fantasia is a property developer established in 1996 and mainly operates its business in China. It was listed on the Hong Kong Stock Exchange (Stock Code: 1777.HK) in November 2009. Ms. Zeng Jie Baby, the founder and the ultimate controlling shareholder of the Company, had 57.5% beneficial ownership as of 30 June 2018.

Rating Rationale

The Company achieved contracted sales of RMB 11.3 billion and contracted gross floor area (“GFA”) of 1.2 million sqm in 2018H1, up 123.8% and 81.7% YoY, respectively. The average selling price of the contracts sales increased 23.2% YoY to RMB 9,704 per sqm in 2018H1. As for product breakdown, boutique upscale residences accounted for 83.6% of total contracted sales, followed by mid-to-high-end residences (9.4%) and urban complexes projects (7.0%). As for regional distributions, Chengdu-Chongqing Economic Zone, Pearl River Delta, Central China, Yangtze River Delta Area and Beijing-Tianjin Metropolitan Area contributed to 53.0%, 18.1%, 14.9%, 8.2%, and 5.8% of the total

contracted sales, respectively. Chengdu-Chongqing Economic Zone and Pearl River Delta drove around 71.1% of the Company's sales in 2018H1 by sales value compared with that of 52.7% in 2017, reflecting a higher geographic concentration.

In 2018H1, Fantasia completed 3 projects with a total GFA of 0.3 million sqm and commenced construction of 10 projects with a total planned GFA of 2.3 million sqm. As of 30 June 2018, the Company had 22 projects under construction, with total planned GFA of 5.0 million sqm and planned gross saleable area of 3.6 million sqm. In addition, there were 27 projects under planning, with a total planned GFA of approximately 6.6 million sqm.

As of 30 June 2018, the Company held a total land bank of 17.7 million sqm in aggregate planned GFA, of which projects under framework agreements accounted for 6.2 million sqm. Chengdu-Chongqing Economic Zone and Pearl River Delta accounted for 41.3% and 29.0% of the Company's total land bank, respectively, showing a high geographic concentration. Fantasia added total GFA of 1.7 million sqm to its land reserve in 2018H1, which expected to provide over RMB 25 billion saleable resources. During the period, Fantasia continued to adhere to its investment strategy and obtained quality land in a number of cities, such as Beijing, Shanghai, Shenzhen, Wuhan and Chengdu. These cities have strong market potential and are able to deliver high return.

The Companies operates the property management segment under several brands, including Colour Life and Home E&E. As of 30 June 2018, alongside the acquisition of Wanxiangmei Property Management Co., Ltd ("Wanxiangmei"), Colour Life's total contracted GFA under management contracts and consultancy service arrangements was 484.0 million sqm, representing a 15.2% increase YoY; while the number of residential communities was 2,555, representing a 9.4% increase YoY. Colour Life's total platform service area rose 9.0% to 981.4 million sqm in the first 6 months of the year 2018. Home E&E focuses on management of office commercial properties and high-end apartments. As of 30 June 2018, the projects under its management covered 24.0 million sqm.

The Company had a total revenue of RMB 5.2 billion in 2018H1, increasing by 42.9% YoY, with 49.3% from property development, 38.5% from property operation, and the remaining contributed by rental income, hotel operations and other services. The segment of property development and property operation accounted for 67.5% and 20.6% of the Company's total revenue in 2017, respectively. The change in revenue composition showed Fantasia's transition to asset-light business model in past years. The Company now adjusts its business strategy to dual business layout of real estate development and community service whilst managing both light and heavy assets. The gross profit margin of Fantasia declined from 30.5% in 2017H1 to 25.4% in 2018H1, this was mainly due to the recognition of rigid demand projects, which had lower gross profit margin, and the merge of Wanxiangmei.

Fantasia's credit metrics weakened given its increasing debt leverage. The Company's total debt amounted to RMB 37.6 billion as of 30 June 2018, an increase of RMB 7.4 billion as compared with that at end-2017. Short-term debt accounted for 26.7% of total debt in mid-2018, showing a shortened debt maturity profile compared with the corresponding value of 25.2% at end-2017. In addition, the total capitalization ratio was 68.0 % and the net gearing ratio was 84.8% in mid-2018, as compared to 63.1% and 77.8% at end-2017. The adjusted debt to EBITDA ratio was 9.0 times in mid-2018.

On 15 November 2018, approval was granted by the China Securities Regulatory Commission (“CSRC”) to Fantasia Group (China) Company Limited (“Fantasia China”), a wholly-owned subsidiary of the Company, to undertake public offerings of corporate bonds with the face value of up to RMB 2.9 billion. On 17 December 2018, Fantasia China issued the first tranche of the corporate bonds in an aggregate principal amount of RMB 1 billion at a coupon rate of 7.50% with a term of three years. CCXAP believes that Fantasia’s credit metrics may worsen due to further debt rising.

Fantasia’s liquidity profile is adequate. The Company held cash reserve of RMB 22.6 billion in mid-2018, which could cover its short-term debt of RMB 10.1 billion. The Company’s cash to short-term debt ratio was 2.2 times as of 30 June 2018, which was stable compared with the previous year. According to its debt maturity schedule, Fantasia will have CNH 4.3 billion in offshore notes becoming due in 2019. In the first half of 2018, the Company issued USD-denominated senior notes of an aggregate amount of USD 1 billion for refinancing purposes. Besides, Fantasia entered into a strategic cooperation agreement with Zhongrong Trust and Minsheng Bank in the first half of the year 2018. Refinancing risks are partly offset by a diversified financing channel. We noticed that USD-denominated debt represented significant portion of the Company’s total debt. For the six months ended 30 June 2018, the exchange rates of RMB against both the USD and HKD decreased significantly; as a result, an exchange loss of RMB 270 million was incurred. We will continue to monitor the refinancing and exchange rate risks of the Company.

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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