



## CCXAP affirms Yango Group Co., Ltd.'s long-term credit rating at BB<sub>g</sub>, with stable outlook

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Hong Kong, 13 July 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BB<sub>g</sub> long-term credit rating of Yango Group Co., Ltd. ("Yango" or the "Company"), with stable outlook. Yango's rating reflects that the Company's growing contracted sales with improving operating efficiency and market position. However, the rating is also constrained by its high debt leverage, yet improving over the past 2 years.

### Corporate Profile

Established in 1991, Yango is a Chinese property developer with business coverage over property development, business management, hotel development and construction. The Company mainly develops residential properties in Greater Fujian region, Yangtze River Delta region and Strategic cities<sup>1</sup>. Yango was listed on the Shenzhen Stock Exchange in 1996 (Stock Code: 000671.SZ), and relocated its headquarter to Shanghai in 2012. As of 31 December 2019, Fujian Yango Group Co., Ltd. and persons acting in concert held 44.15% of the Company's share.

### Rating Rationale

#### Credit Strengths

**Growing contracted sales with improving operating efficiency and market position.** The total contracted sales of Yango increased by 29.6% year-over-year ("YoY") to RMB211.0 billion in 2019, outpaced the national sales growth of 6.5%. The Company demonstrated a more efficient operation, as its contracted sales relative to total debt increased to 1.8x in 2019 from 1.4x in 2018. According to CRIC, the Company ranked 13<sup>th</sup> in 2019, in terms of total contracted sales, among Chinese property developers, slightly improved as compared to 14<sup>th</sup> in 2018.

**Diversified land bank and slowdown in land acquisitions.** As of 31 December 2019, the Company's land bank amounted to 41.0 million sqm, decreased as compared to that of 44.2 million sqm at end-2018 given slowdown in land acquisitions. The Company's average land cost was RMB4,356 per sqm at end-2019, about 35% of its average selling price of contracted sales in 2019, which could provide a relatively reasonable margin to the Company. Yango's land bank was geographically diversified, of which Strategic cities accounted for 53% of total GFA, while Pearl

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<sup>1</sup> Strategic cities refer to the cities in central and western region of China, such as Changsha, Nanning, Xi'an, Chongqing and Taiyuan.

River Delta, Greater Fujian and Yangtze River Delta represented 16%, 14% and 13% of the total, respectively.

The Company has adopted a more disciplined land acquisition strategy since 2017 so as to control the growth of its debt burden. In 2019, the Company acquired land bank of 12.7 million sqm, in terms of capacity area, of which attributable land bank was 9.5 million sqm. The land cost attributable to the Company amounted to RMB49.2 billion, around 36% of its attributable contracted sales. The Company is expected to adhere to its land acquisition strategy and invest about 35%-55% of cash proceeds from contracted sales for land replenishments over the next 12-18 months, which could help the Company manage its capital expenditure and debt leverage.

**Good access to capital markets.** The Company has a good access to both onshore and offshore capital markets. In April 2020, the Company issued 2 corporate bonds with total issuance volume of RMB2 billion at coupon rate of 6.95% and 7.30% with tenor of 4 years and 5 years in the onshore market. In the first three months of 2020, the Company raised USD788 million in the offshore market via 3 senior notes with coupon rate between 6.8% and 9.25%, which were enough to repay USD460 million notes due 2020. We expect that the refinancing risk of Yango would be manageable over the next 12-18 months.

### Credit Challenges

**Pressure on contracted sales given the pandemic.** Yango aims to achieve total contracted sales of at least RMB200 billion in 2020, supported by its on-hand saleable resources of around RMB320 billion as well as its new land replenishments in the year. The property market as well as the Company's contracted sales was adversely affected amid the pandemic. Although the Company recorded a drop of 16.8% in contracted sales in 2020Q1, its contracted sales gradually recovered in April and May, rising by 3.6% and 5.8% YoY, respectively. We expect that the Company's annual target is achievable, considering positive signal of recovering contracted sales as well as good track record of sales execution.

**Larger exposure to joint-venture partnership.** The contracted sales attributable to the Company accounted for 64.0% of the total in 2019, dropped as compared to that of 72.7% in 2018, due to a larger exposure to joint-venture partnership for the target of rapid expansion in the past few years. The adoption of this strategy could partially mitigate its investment risk and reduce its up-front investment, but it would reduce the Company's financial transparency.

**Relatively weak profitability and EBIT interest coverage.** Yango's profitability marginally improved, but remained relatively weak due to its high financing cost. Yango's gross profit margin was 25.7% and net profit margin was 7.1% in 2019, higher than that of 25.1% and 6.9% in 2018, respectively. In addition, the Company's EBIT interest coverage ratio sustained at around 1.2x in 2019, because of its relatively weak profitability. We expect that the Company's profitability would remain relatively weak over the next 12-18 months given the compression in profit margin of China's property market.

**Modest but improving debt leverage and structure.** Yango has proactively managed its debt profile since 2017, which demonstrated a stable debt burden, and an improvement in leverage and debt structure. As of 31 December 2019, its total debt amounted to RMB120.4 billion. Its net gearing ratio declined to 170.8% at end-2019, as compared to that of 223.1% at end-2018 and 305.9% at end-2017, given increase in cash reserves and accumulation of retained earnings.

Yango reduces the proportion of non-bank loans and short-term debt in order to improve its debt structure. The Company's non-bank loans accounted for about 23% of its total debt at end-2019, lower than that of 50% at end-2018, which reduced its average financing costs decreased by 23 basis points to 7.71% in 2019. As for maturity profile, the proportion of short-term debt relative to total debt declined from 41.5% at end-2018 to 29.3% at end-2019. Overall, we expect that the Company would adhere to its active debt profile management policy and its leverage could improve over the next 12-18 months.

### **Rating Outlook**

The stable outlook on Yango's rating reflects our expectation that the Company would proactively manage its debt profile, resulting in a lower debt leverage. We also expect that the Company would have a relatively manageable refinancing risk over the next 12-18 months, underpinned by a good access to onshore and offshore capital markets.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [Real Estate Development Industry \(December 2019\)](#).

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