



## **CCXAP affirms Ronshine China Holdings Limited's long-term credit rating at BB<sub>g</sub>+, with stable outlook; and affirms ratings of its US dollar-denominated senior notes**

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Hong Kong, 12 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BB<sub>g</sub>+ long-term credit rating of Ronshine China Holdings Limited ("Ronshine China" or the "Company"), with stable outlook. Ronshine China's rating reflects the Company's growing contracted sales with solid foundation in the Yangtze River Delta. However, the rating is also constrained by its decrease in profitability due to price restrictions in high-tier cities.

At the same time, CCXAP affirms the BB<sub>g</sub>+ ratings on Ronshine China's USD410 million 7.35% senior notes due 2023 and USD200 million 6.75% senior notes due 2024.

### **Corporate Profile**

Ronshine China was incorporated in the Cayman Islands in 2014 and listed on the Hong Kong Stock Exchange (Stock Code: 3301.HK) in January 2016. Headquartered in Shanghai, the Company's history can be tracked back to 2003 when the Company started its property development in Fujian Province. Since 2013, the Company has gradually expanded into the Yangtze River Delta. The Company had a geographic coverage of 47 cities in China at mid-2020. Mr. Ou Zonghong is the Company's ultimate controller, holding 65.5% of the Company's shares indirectly via Dingxin Company Limited as of 30 June 2020.

### **Rating Rationale**

#### **Credit Strengths**

**Growing contracted sales with solid foundation in the Yangtze River Delta.** In the first half of 2020, the Company achieved contracted sales of RMB60.4 billion, representing a YoY growth of 6.5% compared with RMB56.7 billion in the first half of 2019. Hangzhou, Nanjing, Fuzhou, Shanghai, Wenzhou, Zhengzhou, Suzhou, Ningbo and Huzhou accounted for 36.6%, 12.8%, 9.7%, 6.6%, 6.2%, 2.7%, 2.2%, 2.1%, 2.0% of the Company's total contracted sales in 2020H1, respectively. The Yangtze River Delta region contributed 80% of the total sales in aggregate in 2020H1. As the Company's key layout area, the Yangtze River Delta region has recovered significantly in contracted sales with the impact of the COVID-19 pandemic gradually subsiding. In the first nine months of 2020, the Company recorded contracted sales of RMB100.1 billion, achieving 65.0% of the full-year target. We expect that the growth rate of the Company's contracted sales in 2020 will soften to below 10% compared to the robust growth rates in the past three years.

**Good quality land bank located in high-tier cities.** As of 30 June 2020, the Company's total land reserves were 28.0 million sqm in terms of total GFA, of which 80% were located in the prime areas in the first-tier and second-tier cities. The Company's total land reserve is sufficient to support its contract sales for the next three years. Also, the Company continued to accelerate the development of transformation of renovation projects, and obtained confirmed rights for land of 0.48 million sqm in 2020H1. The Company obtained 21 new land projects in 2020H1, adding GFA of 4.6 million sqm to its land bank. Among the newly added land reserves, the Yangtze River Delta region contributed a total of 15 projects covering 2.79 million sqm.

**Adequate liquidity buffer.** Ronshine China's liquidity was good as reflected by its cash to short term debt ratio of 1.7x as of 30 June 2020. The Company's liquidity profile is also supported by its good access to both onshore and offshore capital markets. In the first nine months of 2020, Ronshine China issued two tranches of offshore bonds totalled USD610 million, with coupon rates ranging from 6.75-7.35%. The Company also issued two tranches of onshore corporate bonds of RMB2.95 billion with coupon rate ranging from 5.42-5.60%. In March and April 2020, the Company issued asset-backed securities of RMB1.29 billion and RMB1.106 billion, respectively, which bear interest of 5.9% per annum and are secured by the Company's receivables of properties sales proceeds. We expect that the refinancing risk of Ronshine China would be manageable over the next 12-18 months.

### **Credit Challenges**

**Decrease in profitability due to price restrictions in high-tier cities.** Ronshine China realized revenue of RMB21.1 billion in 2020H1, representing a YoY decline of 20.9%. The decline was due to the construction shutdown for two months affected by coronavirus disruptions, which delayed the delivery of property products. The Company reported gross profit margin of 15.0% in 2020H1, decreasing from 23.9% in 2019H1. This was because Ronshine China recognized a large number of projects in Shanghai and Hangzhou carrying gross margins of below 10%, due to high land costs when acquired in 2016-2017 and price restrictions in these cities since 2018. Also, the net profit margin of Ronshine China was 7.8% in 2020H1, descending from 13.2% in 2019H1. Amid tight regulatory policy towards housing market, price restrictions implemented in high-tier cities may continue to weigh on the Company's margins. In the second half of 2020, we expect the Company to accelerate revenue booking, while its profitability is still under pressure.

**Increase in debt leverage affected by accelerated land acquisition.** Ronshine China newly obtained land projects of 4.6 million sqm at a cost of RMB29.2 billion in 2020H1, rising from 4.2 million sqm and RMB17.7 billion in 2019H1. New land purchases were about 48.3% relative to contracted sales in 2020H1, increasing from that of 31.2% in 2019H1. The Company accelerated land acquisition in 2020H1, resulting in an increased debt leverage. The Company's total debt amounted to RMB68.9 billion at mid-2020, rising from RMB63.2 billion at end-2019. The net gearing ratio rose from 69.9% at end-2019 to 91.2% at mid-2020. Nevertheless, debt maturing in one year fell from 29.6% to 26.7% over the same period, manifesting a lengthened maturity. As of 30 June 2020, the Company's borrowings from financial institutions, senior notes, corporate bonds, and asset-backed securities accounted for 46.1%, 31.1%, 17.7% and 5.1% of the total debt,

respectively. The weighted average interest rate for outstanding borrowings was approximately 6.67% in 2020H1, descending from 6.85% in 2019.

**Large exposure to joint-venture partnership.** Ronshine China's exposure to joint-ventures was reflected by its equity proportion in contracted sales. The Company's attributable contracted sales accounted for 46.5% of its total contracted sales in 2020H1. As of 30 June 2020, Ronshine China owned 50.7% equity interest in its land reserves. Also, the non-controlling interest accounted for 60.6% of its total equity as of 30 June 2020. The use of joint-ventures could weaken the transparency of the Company's credit metrics, which are not consolidated in the Company's financial statements. In addition, restrictions on financing for real estate companies continued to tighten recently. The regulatory authorities plan to progressively implement "three red lines" to control the growth of interest-bearing debt of real estate enterprises, which may drive the increase of property developers' off-balance sheet liability.

### Rating Outlook

The stable outlook on Ronshine China's rating reflects our expectation that the Company would proactively manage its debt profile, resulting in a stable debt leverage. We also expect that the refinancing risk of the Company would be manageable over the next 12-18 months.

### Rating Methodology

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

### Regulatory Disclosures

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