



CCXAP affirms Jinke Property Group Co., Ltd.'s long-term credit rating at BB_g, with stable outlook

Hong Kong, 19 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BB_g long-term credit rating of Jinke Property Group Co., Ltd. ("Jinke Property" or the "Company"), with stable outlook. Jinke Property's rating reflects the Company's growing contracted sales with reducing geographical concentration. However, the rating is also constrained by its high debt leverage and weak liquidity.

Corporate Profile

Founded in 1998, Jinke Property was listed on Shenzhen Stock Exchange (Stock Code: 000656.SZ) in 2011. Jinke Property is one of the leading property developers in Chongqing with national market coverage. In the first half of 2020, Sunac China Holdings Limited ("Sunac China") transferred 11% of Jinke Property's shares to Red Star Furniture Group Co. Ltd.'s subsidiary in April and disposed an additional 5% stake in May. As of 30 June 2020, Mr. Huang Hongyun was the controlling shareholder of the Company by holding 29.98% of the shares with his concerted parties in aggregate.

Rating Rationale

Credit Strengths

Growing contracted sales. The total contracted sales of Jinke Property increased by 6.6% year-over-year ("YoY") to RMB86.8 billion in the first half of 2020. The Company demonstrated a more balanced geographical distribution. Eastern China, Chongqing, Southwestern Region (excluding Chongqing), Central China, Southern China occupied 43%, 19%, 12%, 10% and 8% of its contracted sales in 2020H1, respectively. Areas outside Chongqing contributed 81% of Jinke Property's contracted sales in 2020H1, increasing from 70% in 2019. According to CRIC' statistics, the Company ranked 16th in 2020H1, in terms of total contracted sales, among Chinese property developers, slightly improved as compared to 17th in 2019. In 2020H1, Jinke Property achieved cash inflow from property sales of RMB84.6 billion with a collection rate of 97%. In the first nine months of 2020, Jinke Property recorded total contracted sales of RMB147.4 billion, achieving around 66.8% of its annual target of 2020. We expect the contracted sales growth of Jinke Property to be moderate of around 10% in 2020.

Sufficient land bank with reducing geographical concentration. As of 30 June 2020, the Company reported total saleable area in GFA of 74.0 million sqm, which could support its development over the next 3 years. Jinke Property's land bank was more geographically diversified,

of which Chongqing accounted for 25.0% of total GFA as of 30 June 2020, declining from that of 28.6% at end-2019. Besides, Eastern China, Southwestern Region (excluding Chongqing), Central China, Southern China and Northern China occupied 25%, 16%, 17%, 8% and 4% of its land bank at mid-2020, respectively.

Robust revenue growth with improved net profit margin. Jinke Property generated total revenue of RMB30.3 billion in 2020H1, representing a YoY increase of 16.1%. Property sales contributed a revenue of RMB28.2 billion in 2020H1, rising by 13.2% YoY. As of 30 June 2020, the Company's unearned revenue was RMB139.4 billion, around 1.9 times as compared to total revenue of RMB72.0 billion for the last 12 months ended 30 June 2020. Considering abundant resources to be recognized, we expect Jinke Property will demonstrate continuous increase in revenue over the next 12-18 months.

Due to revenue recognition of projects with lower margins, the gross profit margin was 25.5% in 2020H1, a YoY decrease of 4.4 percentage points. Yet, the net profit margin was 14.1% in 2020H1, moderately increasing by 1.9 percentage points YoY. This was due to the expense ratio of 8.1% during the same period, decreasing by 2.2 percentage points YoY. Also, investment income from joint ventures increased to RMB583.7 million in 2020H1 as compared to negative RMB178.1 million in 2019H1.

Good access to capital markets. Jinke Property has good access to onshore capital market and maintains a sound relationship with banks. As of 30 June 2020, the Company's bank borrowings, non-bank borrowings, bonds and notes payable accounted for 61.2%, 16.2%, 17.0% and 5.6% of the total debt, respectively. In the first nine months of 2020, the Company issued 7 tranches of bonds with total issuance volume of RMB6.8 billion at coupon rate ranging from 5.3% to 6.3% in the onshore market. As of 30 June 2020, the Company had total bank credit facilities of RMB204.8 billion and the remaining amount was RMB126.3 billion.

Jinke Smart Services Group Co., Ltd. ("Jinke Smart"), formerly known as Jinke Property Services Group Co., Ltd., is the platform for property management business established on 18 July 2000. Jinke Smart was planned to be spun off from Jinke Property and applied for listing on the Hong Kong Stock Exchange in June 2020. The upcoming H-share listing of property management business would broaden the Company's financing channels and favor its funding flexibility.

Credit Challenges

Exposure to lower-tier cities. Jinke Property has implemented its development strategies to strengthen its presence in "four major economic zones and eight city clusters" and has achieved a national footprint primarily focusing on second- and third-tier cities and, to a lesser extent, first- and fourth-tier cities. In 2020H1, the Company acquired 87 new projects with a GFA of 13.7 million sqm at a cost of RMB54.6 billion. Third and fourth-tier cities represented 34.4% of newly acquired GFA in 2020H1. Although the weighting decreased from that of 71.2% in 2019H1, the Company remains relatively large exposure to lower-tier cities. The economic fundamentals of lower-tier cities are relatively weak, which are more vulnerable to market volatilities and thus cause destocking pressure.

High debt leverage. Jinke Property's debt leverage is high, given the Company's debt-fueled business growth. The Company's net gearing ratio was 139.0% as of 30 June 2020 as compared with that of 138.4% at end-2019, indicating a slightly increased and still high debt leverage. In terms of debt maturities, the proportion of short-term debt to total debt slightly decreased from 37.2% at end-2019 to 36.1% as of 30 June 2020, manifesting a relatively high proportion of short-term debt.

Weak liquidity position. Jinke Property's cash to short-term debt ratio was 0.9x as of 30 June 2020. The Company reported a cash balance of RMB36.8 billion, which could not fully cover its short-term debt of RMB42.8 billion. The regulatory authorities plan to progressively implement "three red lines" to control the growth of interest-bearing debt of real estate enterprises. In view of high debt leverage and weak liquidity position, the Company could face refinancing pressure under the tightening financing environment. Jinke Property's balance sheet was yet to be improved and we will continue to monitor the Company's liquidity position.

Rating Outlook

The stable outlook on Jinke Property's rating reflects our expectation that the Company will register a steady growth and maintain good sales execution. We also expect that the Company will keep good access to capital markets over the next 12-18 months.

Rating Methodology

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

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