



CCXAP affirms Fantasia Holding Group Co., Limited's long-term credit rating at BB_{g-}, with stable outlook

Hong Kong, 23 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BB_{g-} long-term credit rating of Fantasia Holdings Group Co., Limited ("Fantasia" or the "Company"), with stable outlook. Fantasia's rating reflects the Company's growing contracted sales amid COVID-19 outbreak and diversified income from property operation. However, the rating is also constrained by the Company's small operating scale and lack of geographical diversity of its land bank.

Corporate Profile

Fantasia, founded in 1996, is a Chinese property developer listed on the Hong Kong Stock Exchange (Stock code: 1777.HK). As of 30 June 2020, Ms. Zeng Jie Baby, the founder and the ultimate controlling shareholder of the Company, held 57.45% of the Company's share interest through Fantasy Peral International Limited and Ice Apex Limited.

Rating Rationale

Credit Strengths

Robust contracted sales growth amid COVID-19 outbreak. Fantasia continued its robust contracted sales growth. The amount of contracted sales grew to RMB17.5 billion in the first half of 2020, representing a YoY increase of 32.9%. Although its contracted sales slumped amid the COVID-19 outbreak in the first quarter of 2020, the Company was able to bounce back rapidly starting from March. According to CRIC's statistics, the Company ranked 60th among Chinese property developers in terms of contracted sales amount in 2020H1.

Most of the contracted sales were contributed by residences, which accounted for 86% of the contracted sales amount in 2020H1. Urban complexes accounted for the rest of them. In terms of distribution by region, Chengdu-Chongqing Metropolitan Area remained the main region of contracted sales contributing 49% of its contracted sales amount, followed by Yangtze River Delta Metropolitan Area (23%) and Bohai Rim Metropolitan Area (15%).

In the first nine months of 2020, the Company recorded total contracted sales of RMB32.7 billion, achieving 72.7% of its RMB45 billion contracted sales goal for 2020. The Company claimed that the estimated salable resources will be RMB35 billion for the second half of 2020 given that 1-2 projects will roll out each month. As of 30 June 2020, the Company had 9 projects set to be completed before the end of 2020, 5 of which are located in Yangtze River Delta Metropolitan Area

with a total GFA of 879,910 sqm under construction. If the Company achieves a sell-through rate of around 65% in the second half of the year, it is expected that the Company's annual target can be met.

Diversified income from property operation. Fantasia's income came from two major pillars, which include property development and property operation services. Property development remained the most important source of revenue totaling RMB6.6 billion, representing 74% of the total revenue in 2020H1, as compared with RMB5.7 billion and 70% in 2019H1 respectively. Also, property operation services generated a revenue of RMB2.1 billion with a percentage share of 24%, as compared with RMB2.1 billion and 26% respectively. The Company operated its property operation service segment through its subsidiary, Colour Life Services Group Co., Limited ("Colour Life"). As of 30 June 2020, the total contracted Gross Floor Area ("GFA") of Colour Life reached 563.7 million sqm covering 279 cities in China. Given the solid contribution of revenue from Colour Life, we expect that property operation services segment will bring a recurring income to the Company over the next 12-18 months.

Growing revenue with improvement in gross profit margin. Fantasia recognized a total revenue of RMB9.2 billion in 2020H1, a 7.7% YoY increase as compared with RMB8.6 billion in 2019H1. Its gross profit margin demonstrated an improvement as it climbed from 29.6% in 2019H1 to 33.6% in 2020H1. The increase in gross profit margin was mainly due to the higher gross profit of the projects delivered during the period. We expect that the Company will maintain a healthy gross profit margin given its stability in the past three years.

Sufficient liquidity position. As of 30 June 2020, Fantasia had cash reserves of RMB25.2 billion. The Company's cash to short term debt ratio stood at 1.7 times, which was considered a healthy liquidity position. Also, Fantasia had a good access to offshore and onshore capital markets. In the first nine months of 2020, the Company issued a total of 4 offshore bonds at coupon rate ranging between 7.95% and 11.88%. We expect that the refinancing risk of Fantasia is manageable over the next 12-18 months given its track record of good liquidity.

Credit Challenges

Land bank lacking geographical diversity. Fantasia held a concentrated land bank while adopting the "5+N" investment strategies, in which it aims at deepening its penetration into the five major economic areas and key cities. As of 30 June 2020, Fantasia reported a total land bank of approximately 12.4 million sqm. In terms of region, Chengdu-Chongqing Metropolitan Area accounted for more than half of the Company's land bank, representing 55% of the total. The remaining proportion was shared by Central China Metropolitan Area (13%), Bohai Rim Metropolitan Area (12%), Yangtze River Delta Metropolitan Area (11%), Guangdong-Hong Kong-Macao Greater Bay Area (9%) and Overseas (0.2%) respectively. As Fantasia's land bank was geographically concentrated on Chengdu-Chongqing Metropolitan Area, it is more vulnerable to the downturn risk of regional real estate market as well as regulation risk. In April 2020, Chongqing government announced the plan to lower threshold on its household registration in order to attract commerce, talents and students. It is believed that such measure will strengthen the demand for properties, reducing the possibility of downturn risk of the local real estate market.

Fantasia adhered to its “5+N” strategy in its recent land acquisitions. The Company added 18 land parcels as of 18 August 2020 with a total GFA of 3 million sqm and an attributable GFA of 1.63 million sqm. It made its first entry into tier 1 and tier 2 cities like Chongqing, Foshan, Shaoxing, Zhengzhou and Nantong. Meanwhile, the Chengdu-Chongqing Metropolitan Area still remained the spotlight of the Company, accounting for 44% of the newly acquired land area. Yangtze River Delta Metropolitan Area and Guangdong-Hong Kong-Macao Greater Bay Area had increased importance, contributing 27% and 14% of the newly acquired land area, respectively. Bohai Rim Metropolitan Area (10%) and Central China Metropolitan Area (5%) had the smallest share.

Modest debt leverage. As of 30 June 2020, Fantasia’s total debt increased by 7.8% to RMB41.2 billion, as compared with RMB38.1 billion as of 31 December 2019. The Company maintained a modest net gearing ratio of 78.3% as of 30 June 2020 as compared with 73.5% as of 31 December 2019. By debt maturity, the short-term debt accounted for a larger proportion of total debt, increasing from 30.1% at end-2019 to 36.1% at mid-2020, reflecting a shortened debt maturity and a larger financial pressure faced by the Company in the short term. In terms of debt structure, the proportion of bank loans, offshore and onshore pressure bonds accounted for 16.6%, 57.3% and 13.9% as of 30 June 2020, respectively. We expect Fantasia’s debt leverage to remain modest over the next 12-18 months.

Larger exposure to joint venture partnership. Fantasia’s interest in newly acquired land projects was 54% as of 18 August 2020. Though joint venture partnership accelerated the pace of expansion and mitigated investment risk, it could reduce the Company’s financial transparency. This concern was partly mitigated by the fact that the Company cooperated with reputable real estate developers such as COFCO, China Fortune Land and Longfor. Fantasia targeted to increase its interest in land projects to 60% or above in 2020H2.

Rating Outlook

The stable outlook on Fantasia’s rating reflects our expectation that the Company could maintain contracted sales growth supported by core markets. We also expect that the Company’s credit metrics will remain stable in 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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