



## **CCXAP affirms Seazen Holdings Co., Ltd.'s long-term credit rating at BBB<sub>g</sub>-, with stable outlook; and affirms rating of its US dollar-denominated senior notes**

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Hong Kong, 23 October 2020 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms the BBB<sub>g</sub>- long-term credit rating of Seazen Holdings Co., Ltd. ("Seazen" or the "Company"), with stable outlook. Seazen's rating reflects its strong market position in Yangtze River Delta and diversified land bank. However, the rating is also constrained by the Company's compressed contracted sales growth as well as profitability.

At the same time, CCXAP affirms the BBB<sub>g</sub>- rating on Seazen's USD200 million 5.00% senior notes due 2022.

### **Corporate Profile**

Seazen, formerly known as Future Land Holdings Co., Ltd., was established in Changzhou in 1993. In December 2015, Seazen completed a restructure by merging its subsidiary, Jiangsu Future Land Co., Ltd., and listed as A shares on the Shanghai Stock Exchange (Stock Code: 601155.SH). Seazen is one of the leading property developers in Mainland China, with a geographically diversified product portfolio in 115 cities. As of 30 June 2020, Mr. Wang Zhenhua was the controlling shareholder of Seazen by indirectly holding 67.17% of the Company's shares.

### **Rating Rationale**

#### **Credit Strengths**

**Sufficient and diversified land bank.** As of 30 June 2020, Seazen held total land bank of 97.7 million sqm, as measured by gross floor area minuses aggregated contracted sales, across 115 cities in Mainland China, which was sufficient to support its contracted sales for the next 2 to 3 years. Seazen mainly focused on second-tier (34% of the total land bank) and lower-tier cities (64%), of which around 33% of the total were in the lower-tier cities of Yangtze River Delta. The solid economic prospects in Yangtze River Delta are expected to partially offset the Company's destocking pressure of the projects in lower-tier cities. As for regional distribution, majority of its land bank were in Yangtze River Delta (41%), followed by Central and Western China (36%), Bohai Rim (18%) and Pearl River Delta (4%). Despite a large proportion in Yangtze River Delta, we opine that the Company's land bank distribution was diversified to help mitigate regional regulation risk as there were no cities accounted for more than 5% of its land bank.

Seazen accelerated its land replenishments in 2020H1, after the slowdown in acquisitions in 2019H2 for liquidity management. The Company acquired 56 new projects with GFA of 19.1 million sqm at a total cost of RMB54.7 billion, representing around 56% of its total contracted sales in 2020H1, as compared to that of 25.1 million sqm and RMB60.7 billion in 2019. We opine that the Company would retain a relatively active land acquisition strategy in 2020H2, which mainly focus on first- and second-tier cities, as well as the lower-tier cities in its home market of Yangtze River Delta.

**Increase in recurring income from investment properties with stronger cash generation.** As of 30 June 2020, the Company had 64 commenced investment properties (63 commercial complexes and 1 office building) with aggregate leasable area of 3.6 million sqm. The average occupancy rate of its investment properties reduced from 99% at end-2019 to 96% at mid-2020 due to the COVID-19 outbreak, still considered as a relatively high occupancy rate. Seazen reduced half of rents for its tenants for 67 days starting from 25 January in 2020 amid the outbreak of coronavirus. Nonetheless, the rental income of Seazen rose by 22.0% year-over-year (“YoY” to RMB2.1 billion in 2020H1, due to increase in gross leasable area over the same period of 2019. The Company is expected to commence 30 commercial complexes in 2020, which will support its recurring income growth over the next 12-18 months alongside the recovery of operating performance of its commercial complexes.

**Recovery in financing capability with ample liquidity position.** As of 30 June 2020, Seazen held cash and cash equivalent of RMB65.0 billion, around 1.4x of its short-term debts. The Company’s short-term debt accounted for 49.1% of its total debt at mid-2020. A large proportion of short-term debt implies higher exposure to refinancing risk with lower financing flexibility given the uncertainties of the capital markets. However, the refinancing risk may be partially offset by the Company’s adequate liquidity cushion and recovering financing capability. In the first nine months of 2020, the Company raised over RMB8.0 billion in the onshore market via corporate bonds, asset-back securities and super & short-term commercial papers (“SCPs”). Overall, we expect that the liquidity risk of the Company will remain manageable over the next 12-18 months.

### **Credit Challenges**

**Drop in contracted sales due to few newly launched projects and COVID-19 disruptions.** In 2020H1, Seazen recorded total contracted sales of RMB97.5 billion, decreasing by 20.3% YoY. Despite that its contracted sales recovered gradually from a YoY decline of 33.7% in 2020Q1 amid the pandemic, the growth was relatively slow as compared to its peers because of the Company’s project sales and slowdown in land replenishments in 2019H2, which reduced the newly launched projects in the first three quarters of 2020. In the first nine months of 2020, Seazen recorded total contracted sales of RMB163.0 billion, achieving around 65.2% of its annual target of 2020. The Company is expected to have total saleable resources of RMB400 billion in 2020, of which around RMB200 billion will be newly launched in 2020H2. We expect that Seazen’s contracted sales could continue to recover underpinned by its sizeable newly launched projects in 2020H2 as well as proven track record of sales execution.

**Weakened profitability and EBIT interest coverage due to delivery of low profit margin projects and increase in finance cost.** Seazen's gross profit margin slumped from 35.7% in 2019H1 to 24.8% in 2020H1, while net profit margin declined from 17.1% to 10.2% over the same period. In 2020H1, the Company delivered a large proportion of projects with relatively high land cost, which reduced its profit margin of these projects. Meanwhile, its average financing cost increased to 6.85% at mid-2020, as compared to that of 6.73% at end-2019. This was mainly driven by a larger proportion of high-cost non-bank loans, increasing from around 5% at end-2019 to 10% at mid-2020. As a result, the Company's EBIT interest coverage ratio dropped from 4.9x in 2019H1(LTM) to 4.0x in 2020H1(LTM). Overall, we expect that Seazen's profitability will remain compressed due to the tight regulatory environment in the property market.

**Rise in debt leverage, albeit remained at moderate level.** Seazen accelerated its land acquisitions in 2020H1, which lifted its total debt burden to RMB97.0 billion at mid-2020 from RMB83.0 billion at end-2019. The Company's net gearing ratio rose to 51.1% from 30.7% over the same period, but the rise in debt leverage was within our expectations and remained at a moderate level as compared to its peers, which will not significantly impair its credit profile. Overall, we expect the debt burden of Seazen will continue to increase alongside the land acquisitions, while its debt leverage will retain at a moderate level over the next 12-18 months.

### Rating Outlook

The stable outlook on Seazen's rating reflects our expectation that its diversified land bank could support its contracted sales, and help maintain its strong market position in Yangtze River Delta. We also expect that the increase in recurring income from investment properties will strengthen the cash generation of the Company.

### 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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The first name below is the lead rating analyst for this rating and the last name below is the person primarily responsible for approving this rating.

Jacky Lau  
Credit Analyst – Credit Ratings  
[jacky\\_lau@ccxap.com](mailto:jacky_lau@ccxap.com)

Guo Zhang  
Director – Credit Ratings  
[guo\\_zhang@ccxap.com](mailto:guo_zhang@ccxap.com)

Tel: +852-2860 7111

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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 1904-1909, 19/F, Jardine House,  
1 Connaught Place, Central, Hong Kong

Website: [www.ccxap.com](http://www.ccxap.com)

Email: [info@ccxap.com](mailto:info@ccxap.com)

Tel: +852-2860 7111

Fax: +852-2868 0656