CCXAP affirms Guangzhou Fineland Real Estate Development Co., Ltd.’s long-term credit rating at B_g+, with stable outlook

Hong Kong, 18 January 2021 -- China Chengxin (Asia Pacific) Credit Ratings (“CCXAP”) has affirmed the B_g+ long-term credit rating of Guangzhou Fineland Real Estate Development Co., Ltd. (“Fineland” or the “Company”). The rating outlook is stable.

The B_g+ long-term credit rating of Fineland reflects the Company’s (1) good operating track record in the property development in Guangzhou; and (2) low-cost land bank acquired through urban renewal projects. However, the rating is also constrained by the Company’s (1) small operating scale with high geographic concentration; and (2) high debt burden and weakened liquidity position.

Corporate Profile

Fineland, formerly known as Guangzhou Rongxing Real Estate Development Co., Ltd., was established in October 1995 and headquartered in Guangzhou. The Company evolves in real estate investment, development and operation in Mainland China, with a particular focus on the development of mid- and high-end residential properties and high-end commercial properties. As of 30 September 2020, Mr. Fang Ming, the Company’s founder and the ultimate controller, indirectly held 100% of the Company’s shares.

Rating Rationale

Good operating track record in the property development in Guangzhou: Fineland had long operating history in its core market of Guangdong Province, especially in Guangzhou, which allowed it to possess in-depth knowledge of local real estate market and established good brand recognition from both public and private sectors. The Company has operated more than 30 property projects in Guangzhou since its first project in 1999. Underpinned by the development initiative of the Great Bay Area, the Company continued to expand its footprint to other cities in Guangdong Province such as Jiangmen, Huizhou, Foshan, Zhanjiang, Heyuan and Zhaoqing, where there is good demand for residential properties which could help support Fineland’s contracted sales growth. Despite the market disruption from the outbreak of coronavirus, the Company recorded total contracted sales of RMB10.6 billion for the first nine months of 2020, growing by 30.9% year-over-year (“YoY”). A strong contracted sales growth will back up the Company’s revenue growth and cash flow generation over the next 12-18 months.

Low-cost land bank acquired through urban renewal projects: As of 30 September 2020, the Company had 61 property projects with total land bank of approximately 4.7 million sqm in GFA, which was sufficient to support its contracted sales for the next three to four years. Fineland demonstrated a strong ability to obtain urban redevelopment projects, particularly in Guangzhou. This could help the Company replenish land reserves at relatively low cost and in prime locations. The Company had entered into agreements with village collective organizations for six land parcels in Guangdong Province as of 30 September 2020, with expected land bank of approximately 3.9 million sqm in the near future.

Small operating scale with high geographic concentration: Fineland's operating scale remained relatively small. According to CRIC, Fineland ranked 89th in terms of total contracted sales among Chinesse property developers in 2020. Given the trend of market integration in China's property market, the developers with relatively small scale may have disadvantages in accessing business and financial resources. Besides, Fineland's operation is highly concentrated in Guangdong Province, with over 80% of the Company's contracted sales contributed from the province in 2019 and approximately 66% of its land reserves located in the province as of 30 September 2020. High geographic concentration may make the Company susceptible to economic and regulatory changes of a single market that could in turn increase its business and financial volatility.

High debt burden and weakened liquidity: With debt-driven business expansion over the past years, Fineland's debt burden remained high. Its total debt increased from RMB12.5 billion at end-2019 to RMB13.2 billion as at 30 September 2020. Its net gearing ratio (measured by net debt to total capital) was 80.3% as of the same date. In addition, the Company had outstanding guarantees of RMB2.2 billion provided to its joint ventures and independent third parties as of 30 September 2020, which further weighed on the Company's debt burden. We expect Fineland's debt level will remain aggravated over the next 12-18 months due to its large projects under development or planning. In addition, the Company had a weakened liquidity profile with increasing short-term debt. The proportion of short-term debt to total debt increased from 28.0% at end-2019 to 43.6% as at 30 September 2020, manifesting a shortened maturity profile. Fineland's cash to short-term debt ratio was 0.9x as at 30 September 2020, declining from 1.2x at end-2019.

Rating Outlook

The stable outlook on Fineland's rating reflects our expectation that the Company will maintain a strong market position in its core market in Guangdong Province. We also expect that its credit metrics will be within a manageable range in the next 12-18 months.

What could upgrade the rating?

The rating could be upgraded if the Company (1) demonstrates a substantial growth in contracted sales; (2) improves its geographical diversification; and (3) EBIT interest coverage lifts to 3.0x or above, on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if the Company (1) records a slump in contracted sales; (2) accelerates debt-driven land acquisitions such that its leverage rises sharply; or (3) profitability deteriorates significantly.

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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