CCXAP downgrades Sunac China Holdings Limited’s rating to BB_g+, with negative outlook

Hong Kong, 16 March 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has downgraded the long-term credit rating of Sunac China Holdings Limited (“Sunac China” or the “Company”) to BB_g+ from BBB_g-. At the same time, CCXAP has changed the rating outlook to negative.

Corporate Profile

Established in 2003, Sunac China (Stock Code: 1918.HK) is a leading Chinese integrated property developer, with a nationwide project layout covering major economic regions such as Beijing, north China, Shanghai, southwestern China, southeastern China, central China, and south China. The Company develops a diverse range of property products from mid to high-end residences, villas to commercial buildings and offices. It was listed on the main board of the Hong Kong Stock Exchange on 7 October 2010. Mr. Sun Hongbin, the founder and chairman of Sunac China, is the controlling shareholder of the Company, holding approximately 38.75% of total shares as of 19 January 2022.

Rating Rationale

The rating downgrade reflects Sunac China’s reduced liquidity buffer and tightened funding access, amid the current challenging market conditions. We expect Sunac China’s liquidity risk to be heightened as it faced higher repayment pressure on large debt maturities with weakened refinancing ability. As of today, the Company has reported onshore debt of around RMB8.8 billion and offshore debt of USD1.2 billion maturing or puttable in 2022.

Since October 2021, the Company has actively raised new funds through HKD9.6 billion of private share placements, around USD1.4 billion from disposals of assets and investments, and a USD450 million interest-free loan from its controlling shareholder. Nevertheless, Sunac China’s limited refinancing channels has eroded its liquidity resources. The recent drop of its stock and bond prices reflected the collapse in investor confidence. Access to onshore and offshore debt capital market is weakening, with tight regulatory measures and low investor confidence. We expect that the Company’s cash balance and its coverage on short-term debts will continue to decline if its refinancing ability remains weak. In addition, the decline in contracted sales proceeds will also pressure its repayment capability for debt maturities. The Company recorded total contracted sales of RMB50.3 billion for the first two months of 2022, decreasing by 26.5% YoY.

Rating Outlook

The negative outlook reflects Sunac China’s liquidity buffer could be reduced due to weakened internal cash collection and external refinancing ability considering its large amount of debt maturities.

What could upgrade the rating?

Rating upgrade is less likely given the negative outlook. However, the rating outlook could be revised to stable if the Company's financing capability and liquidity buffer materially improve.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) operating performance weakens such as declined contracted sales and slower cash collection; or (2) refinancing ability and liquidity position further deteriorate.

Regulatory Methodology

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

Regulatory Disclosures

CCXAP's Rating Symbols and Definitions are available on its website at:
http://www.ccxap.com/en/rating_services/category/6/

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