中誠信亞太 CCXAP

CCXAP affirms CIFI Holdings (Group) Co. Ltd.'s long-term credit rating at BBB$_g$-, with stable outlook

Hong Kong, 14 April 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of CIFI Holdings (Group) Co. Ltd. ("CIFI" or the "Company") at BBB$_g$-. The rating outlook is stable.

The BBB$_g$- long-term credit rating of CIFI is underpinned by the Company's (1) high-quality land bank with disciplined land acquisitions; (2) diversifying business development with synergies; and (3) adequate liquidity position and manageable refinancing risk. However, the rating is constrained by the Company's (1) large exposure to joint-venture projects; (2) decrease in profitability; and (3) moderate debt leverage.

Corporate Profile

CIFI (Stock Code: 0884.HK) is one of the leading integrated property developers in China. The Company was listed on the main board of the Hong Kong Stock Exchange in November 2012. The Company has a strong presence in China's major city clusters including the Yangtze River Delta, Pan-Bohai Rim, Central & Western China, and Southern China. As of 31 March 2022, the Lin's family held a 55.53% stake in the Company.

Rating Rationale

High-quality land bank with a disciplined land acquisition strategy. In 2021, CIFI acquired a total land bank with a gross floor area ("GFA") of approximately 11.7 million sqm at a total cost of RMB87.8 billion, equivalent to 35.5% of its total contracted sales over the same period. The newly acquired land bank was mainly distributed in first-tier and second-tier cities with solid demand, accounting for 84%, which made it more resilient in the downturn. CIFI has a high-quality land bank with balanced geographical distribution spreading over 85 cities, with a total land bank of GFA of 59.8 million sqm as of 31 December 2021, which is sufficient for its development in the next 2-3 years. The balanced geographical distribution could mitigate the Company's exposure to regulatory risk and downturn risk in the regional real estate markets.

A slowdown in contracted sales growth. CIFI has demonstrated a slowdown in contracted sales growth due to vulnerable demand under the decelerated property market and the pandemic outbreak in China. The Company recorded total contracted sales (including sales of joint ventures and associates) of RMB247.3 billion in 2021, representing a YoY growth of 7%, compared with that of 15.2% in 2020. Moreover, the recent pandemic-related social restrictions in high-tier cities may have a tremendous impact on the Company's sales performance due to its project concentration in these cities. Its contracted sales fell materially, by 49.3% YoY in the first three months of 2022. We expect the Company's contracted sales to remain vulnerable because of the weaker consumer sentiment amid an adverse environment over the next 6-12 months. However, its strong sales execution ability and sufficient saleable resources of RMB360 billion for 2022 could partly support the sales performance.

Diversifying business development with synergies in property-related businesses. CIFI's business profile is diversifying towards commercials, management services, leasing as well as the new construction management segment. This could help reduce the relative importance of property development, thereby partially mitigating the downturn risk in this segment. The Company plans to increase the proportion of non-property development revenue to 30%-40% in the next 10 years. In 2021, the Company recorded a total rental income of RMB1.0 billion from its investment properties, increasing by 73.7% year-on-year ("YoY"). Its property management arm, Ever Sunshine Lifestyle Services Group Limited (Stock Code: 1995.HK), also recorded a revenue of RMB4.7 billion in 2021, with a YoY increase of 50.8%.

Adequate liquidity position and manageable refinancing risk. As of 31 December 2021, the Company held cash and cash equivalents of total RMB46.5 billion (excluding restricted cash), which was adequate to cover its short-term debt of RMB17.8 billion. After repaying its offshore senior note due in January and onshore corporate bond due in March, CIFI has outstanding debts of RMB13.6 billion due in 2022. The Company has recently shown its access to onshore and offshore capital markets despite the refinancing difficulties of Chinese property developers. In 2022Q1, the Company raised USD150 million through tap issuance of its existing offshore bonds and issued RMB1.0 billion of onshore medium-term note with a coupon rate of 4.75%. Recently, it also succeeded in issuing an offshore convertible bond of HKD2.5 billion with a coupon rate of 6.95%. Additionally, the Company signed a strategic cooperation agreement with Ping An Bank Co., Ltd. and obtained an M&A financing quota of approximately RMB5 billion. Considering its adequate liquidity buffer and better-than-peers funding access, we expect CIFI's refinancing pressure will be manageable over the next 12-18 months.

Large exposure to joint-venture projects. CIFI has a track record of cooperation with other private-owned and state-owned companies as well as financial institutions, through joint ventures and associates in developing projects, as evidenced by its attributable interest in contracted sales below 60% over the past three years. As of 31 December 2021, the Company had an attributable land bank of 28.4 million sqm, accounting for 54.1% of its total land bank. While the attributable loans borrowed by joint ventures and associates were around RMB20.4 billion. The large exposure to joint-venture projects could reduce the Company's financial transparency, increase capital management pressure and project execution risks, especially in the industry downturn and more developers faced liquidity issues. According to CIFI, 21 JV projects are associated with developers already in financial distress.

Decrease in profitability albeit strong revenue growth. Attributed to good track record of contracted sales and increase in delivered properties, CIFI's revenue increased by 50.2% YoY to RMB107.8 billion in 2021, of which revenue from sale of properties and other property related service income increased by 49.8% YoY to RMB102.7 billion. However, with the tightened grip on the industry and the unrecovered market confidence, the Company's profitability weakened. CIFI's gross profit margin decreased to 19.3% in 2021 from 21.7% in 2020, while its net profit margin decreased to 11.4% from 16.6%.

Moderate debt leverage with improving interest coverage. CIFI's adjusted debt (including perpetual capital securities and lease liabilities) amounted to RMB116.3 billion as of 31

December 2021, increasing by RMB7.9 billion from that of end-2020. However, its net gearing ratio decreased to 65.9% from 71.4% over the same period, mainly derived from the increase in non-controlling interests which accounted for 59.1% of its total equities. Supported by growing revenue and declining interest costs, the Company's adjusted EBIT interest coverage increased to 2.8x in 2021 as compared to 2.3x in 2020. We expect CIFI will maintain a moderate leverage level over the next 12-18 months, given its disciplined land acquisitions amid the tightened grip on China's property market.

Rating Outlook

The stable outlook on CIFI's rating reflects our expectation that the Company will maintain disciplined financial management with adequate liquidity and debt control. We also expected that the Company's contracted sales and profitability will deteriorate over the next 12-18 months due to the sector downturn.

What could upgrade the rating?

The rating could be upgraded if (1) the Company demonstrates a significant growth in contracted sales with a higher percentage of shareholdings in development projects; (2) its land bank scale and geographic diversification improve without a material increase in debt; and (3) its credit metrics improve, such as net gearing ratio drops to below 50% and EBIT interest coverage rises to above 3.0x on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) contracted sales slump with a significant drop in market shares; (2) credit metrics undermines, such as EBIT interest coverage falls below 1.5x or net gearing ratio increases above 100%; or (3) liquidity buffer deteriorates and financing capacity debilitates.

Regulatory Methodology

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

Regulatory Disclosures

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