CCXAP affirms Sino-Ocean Group Holding Limited's long-term credit rating at BBB_g+, with stable outlook

Hong Kong, 19 April 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Sino-Ocean Group Holding Limited's ("Sino-Ocean" or the "Company") long-term credit rating at BBB_g+, with stable outlook. At the same time, CCXAP has affirmed its senior unsecured debt rating of BBB_g+.

The BBB_g+ long-term credit rating of Sino-Ocean is underpinned by the Company's (1) leading market position in Beijing and Bohai Rim regions; (2) sufficient and high-quality land bank; (3) disciplined financial policy and good financing capability; and (4) strong shareholder support from China Life.

However, the rating is also constrained by the Company's (1) heightened downward pressure on contracted sales growth given decelerated property market; (2) relatively weak profitability of property development segment; and (3) deteriorated credit metrics amid enlarged debt burden.

Corporate Profile

Sino-Ocean was established in 1993 and has been listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock Code: 3377.HK). Sino-Ocean is one of the leading property developers in Mainland China with a land bank distribution across 6 core regions, namely Beijing Region, Bohai Rim Region, Eastern Region, Southern Region, Central Region, and Western Region, as well as Indonesia and Singapore. The Company developed presence in 63 cities and owned more than 270 projects at end-2021. Sino-Ocean is also well-known for its high-quality investment properties, including high-end offices, commercial complexes, and retail properties. As of 31 December 2021, it possessed more than 23 operating investment properties, mainly located in first-tier cities and core second-tier cities, such as Beijing, Shanghai and Tianjin.

As of 31 December 2021, China Life Insurance (Group) Company Limited ("China Life") and Dajia Insurance Group Co., Ltd ("Dajia Insurance", formerly known as Anbang Insurance Group Co., Ltd.) are the two major shareholders, holding 29.59% and 29.58% of the Company's shares, respectively.

Rating Rationale

Credit Strengths

Sufficient and high-quality land bank with disciplined acquisition strategy. Sino-Ocean maintained its discipline on land investments and continued to enrich its geographic diversification. In 2021, the Company acquired 46 projects with a total gross floor area ("GFA") of approximately 7.2 million sqm and an expected saleable value of over RMB80 billion. Sino-Ocean also kept a large portfolio of land bank that is able to meet its business development for the next 4-5 years. As of 31 December 2021, the Company had a total land bank of 53.1 million sqm and attributable land bank amounted to 28.5 million sqm.

Recurring income from property investment and management businesses. Sino-Ocean had a gross leasable area of about 3.9 million sqm at end-2021, compared to 2.1 million sqm at end-2020. Supported by the increase in gross leasable area, its rental income increased by 13% YoY to RMB4.7 billion in 2021. We believe that Sino-Ocean's recurring income will provide stable cash flow and income, in order to sustain the Company's operating capabilities with weakening property sales in the next 12-18 months.

Disciplined financial policy and good financing capability. Sino-Ocean retained a disciplined financial policy as evidenced by its balanced debt structure and good financing capability. Moreover, the Company held cash and cash equivalents of RMB21.7 billion (excluded restricted bank deposits), which could fully cover its short-term debt of RMB18.7 billion. We consider that Sino-Ocean has a good liquidity buffer, supported by its proven track record of good access to the onshore and offshore capital markets.

Strong shareholder support. Sino-Ocean is the sole platform of China Life in the real estate segment and has a good track record of receiving support from China Life. Sino-Ocean signed a new financial product trading framework agreement with China Life in December 2021, with a total amount of RMB15 billion, aiming to enhance its resistance ability under the volatile market. We believe that the sustainable support from China Life will benefit Sino-Ocean's business development and financial soundness, which largely supports its credit profile.

Credit Challenges

Heightened downward pressure on contracted sales growth. Sino-Ocean's contracted sales growth has been under pressure since 2020 due to the decelerated Chinese property market, especially the Beijing and Bohai Rim Region. Its contracted sales slightly increased by 4.0% YoY to RMB136.3 billion in 2021. Moreover, the Company's cash collection rate dropped to 77% in 2021 from 93% in 2020, mainly because of the tightened mortgage policy. We expect that Sino-ocean's contracted sales to remain under pressure over the next 12-18 months because of the weak consumer sentiment amid tight policy conditions and recent pandemic-related social restrictions.

Weakened profitability albeit increase in revenue. The Company's total revenue increased by 13.7% YoY to RMB64.2 billion in 2021. Nevertheless, its gross profit margin declined to 17.5% in 2021 from 18.5% in 2020, while its net profit margin dropped to 7.9% in 2021 from 8.3% in 2020, which was relatively weak as compared to its industry peers. We expect that the Company's gross profit margin will be at around 18% over the next 12-18 months, considering the continuous tightening measures of China's property market in the foreseeable future.

Deteriorated credit metrics amid enlarged debt burden. Sino-Ocean's debt burden increased in 2021 which lifted its debt leverage and weakened its credit metrics. The Company's adjusted debt amounted to RMB94.7 billion at end-2021 from RMB84.4 billion at end-2020, while its net gearing ratio rose to 90.8% at end-2021 from 59.7% at end-2020. Due to the decelerated contracted sales, its contracted sales to debt ratio decreased to 1.4x in 2021 from 1.6x in 2020. Moreover, its adjusted EBIT interest coverage ratio dropped to 2.1x in 2021 from 2.3x in 2020.

Rating Outlook

The stable outlook on Sino-Ocean's rating reflects our expectation that the Company will retain a disciplined land acquisition strategy with stable debt leverage. We also expect that China Life will provide support for the Company's business development and liquidity buffers.

What could upgrade the rating?

The rating could be upgraded if the Company's (1) contracted sales demonstrate significant increases with improving cash collection rate; and (2) financial profile improves with significant progress in deleveraging, such that net gearing ratio reduces and EBIT interest coverage improves on a sustained basis.

What could downgrade the rating?

The rating could be downgraded if (1) the Company's contracted sales slump with significant drop in market shares; (2) the Company becomes aggressive in land acquisitions and business expansion, which result in a deterioration of the financial and liquidity profile; or (3) there is a weakening sign of support from China Life, or if China Life is no longer the major shareholder 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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