

CCXAP affirms Seazen Holdings Co., Ltd.'s long-term credit rating at BBB_g, with stable outlook

Hong Kong, 12 May 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed the long-term credit rating of Seazen Holdings Company Limited's ("Seazen" or the "Company") 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 Seazen reflects the Company's (1) strong presence in the Yangtze River Delta and improving geographic diversification; (2) strong recurring income growth in commercial properties providing additional cash flow stream; and (3) adequate liquidity, with prudent liquidity and financial management. However, the rating is constrained by the Company's (1) weakened sales prospect given the market downturn; (2) high exposure to joint-venture and associate projects; and (3) decreasing profitability.

Corporate Profile

Seazen (Stock Code: 601155.SH) is one of the leading property developers in China and specializes in the business of property development and property leasing. It was founded in Changzhou in 1993 and was listed on the Shanghai Stock Exchange in December 2015. The Company adheres to the strategic model of dual-core driving of residential and commercial real estate, particularly in the core cities of the Yangtze River Delta region. The Company has a large land bank spreading across 135 medium-to-large sized cities with a total gross floor area ("GFA") of 138 million sqm as of 31 December 2021. By the end of 2021, the Company is 67.2% owned by Seazen Group Limited (Stock Code: 1030.HK), and the ultimate shareholder is Mr. Wang Zhenhua.

Rating Rationale

Credit Strengths

Strong presence in the Yangtze River Delta and improving geographic diversification.

Seazen is one of the largest property developers in China as supported by its established market position and good reputation in the Yangtze River Delta region. The Yangtze River Delta region remains a key market for Seazen and it accounted for 53% of the Company's total contracted sales in 2021. The Company also continued to diversify its business outside its home market in order to mitigate risks related to regional regulatory and economic changes. As of 31 December 2021, the Company's property projects has spread across 135 cities in China, with a total land bank of 138 million sqm.

Strong recurring income growth in commercial properties. With the implementation of dual-core driving model since 2015, Seazen has built up a relatively large investment portfolio in commercial properties, mainly under the brand name of Wu Yue Plazas. It operated and managed 130 malls in total as of 31 December 2021, with aggregate leasable GFA of 12.5 million sqm and high occupancy rate of nearly 98%. In 2021, Seazen's rental income increased by 47.4% YoY from RMB3.0 billion in 2020 to RMB4.4 billion in 2021. Seazen's rental income



can cover 70.7% of its total interest expenses in the year. The Company planned to open 25-30 malls per year in 2022 and 2023 respectively. We believe that the rental income will continue to grow and become a stable source to cover its interest expenses over the next 12-18 months.

Adequate liquidity position with prudent liquidity and financial management. Despite the tight financing environment in China's real estate market, Seazen maintains an adequate liquidity position with large cash reserves of RMB46.2 billion (excluding restricted cash holdings of RMB9.1 billion) as of 31 December 2021, which can fully cover its short-term debts of RMB38.8 billion. Seazen's liquidity is underpinned by its prudent liquidity and financial management. It took a cautious liquidity management approach during the impaired market financing environment, such as holding sufficient cash reserves and suspending land acquisitions. The Company also maintains good relationships with financial institutions, having total bank facilities of RMB112.9 billion and an undrawn amount of RMB75.2 billion as of 31 December 2021.

Credit Challenges

Weakened sales prospect. Seazen's contracted sales fell by 6.8% YoY from RMB251.0 billion in 2020 to RMB233.8 billion in 2021, amid difficult operating and funding conditions. We expect Seazen's sales to remain under pressure in 2022, given the weak consumer confidence in China's property market and the social restrictions of the COVID-19 pandemic. In 2022Q1, it recorded accumulated contracted sales of RMB31.1 billion, decreasing by 37.4% YoY.

High exposure to joint-venture and associate projects. Seazen has increased its joint-venture ("JV") partnership to pursue a fast growth in operating scale. It recorded an attributable contracted sales ratio of 68% in 2021. During the recent crackdown on Chinese private-owned property developers, JV partnership would exert larger management pressure and projects execution risks to the Company since some of its partners fell into financial distress. The Company may also face contingent liabilities because of its large financial guarantees to joint ventures and associates (around RMB10.9 billion as of 31 December 2021). We estimate that the Company's exposure to JV projects will remain in the next 12-18 months, since the attributable proportion on its newly acquired land project remained low at 50.8% in 2021.

Moderate financial metrics with decreasing profitability. Despite growing revenue, Seazen recorded a weakened profitability. Its gross profit margin decreased from 22.7% in 2020 to 19.5% in 2021 and net profit margin decreased from 11.3% in 2020 to 8.2% in 2021. Considering the poor operating environment in China's real estate market, we expect its gross profit margin will be compressed within 15%-18% over the next 12-18 months. Moreover, the Company had a reasonable net gearing ratio of 51.7% and contracted sales to total debt ratio of 2.2x at end-2021. The Company's EBIT interest coverage ratio decreased slightly from 4.0x in 2020 to 3.4x in 2021. We expect that Seazen's interest coverage will remain relatively strong as the margin contraction of property development would be partially offset by the increasing contribution of property investment.



Rating Outlook

The stable outlook on Seazen's rating reflects our expectation that the Company will maintain a strong market position in the Yangtze River Delta region. We also expect the Company will sustain a solid growth in rental income and maintain moderate financial metrics over the next 12 to 18 months.

What could upgrade the rating?

The rating could be upgraded if the Company (1) has a robust and sustainable growth in contracted sales; (2) has strong recurring rental income from its commercial properties that fully covers its total interest expense; and (3) improves its credit metrics, such as net gearing ratio to below 50% and the ratio of contracted sales to total debt increases to 3.0x or above, on a sustainable basis.

What could downgrade the rating?

The rating could be downgraded if the Company's (1) contracted sales slumps and rental income drops significantly; (2) credit metrics deteriorate, such as net gearing ratio rises above 100% or the ratio of contracted sales to total debt drops below 2.0x; or (3) liquidity buffer squeezes or financing capacity weakens.

Rating Methodology

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

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