CCXAP affirms Guangzhou Fineland Real Estate Development Co., Ltd.'s ratings at B_g+, with stable outlook

Hong Kong, 24 June 2022 -- China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") has affirmed Guangzhou Fineland Real Estate Development Co Ltd ("Fineland" or the "Company")'s long-term credit rating and senior unsecured debt rating at B_g+, with stable outlook.

The B_g+ long-term credit rating of Guangzhou Fineland Real Estate Development Co., Ltd. reflects the Company's (1) operating track record in Guangdong Province with established brand name; (2) good gross margin driven by its low-cost urban renewal projects; and (3) adequate liquidity position.

However, the rating is constrained by the Company's (1) small operating scale; (2) high geographic concentration with exposure to lower-tier cities, which may increase its sales volatility; and (3) moderate debt leverage with limited access to low-cost fundings.

Corporate Profile

Established in October 1995 and headquartered in Guangzhou, Fineland, formerly known as Guangzhou Rongxing Real Estate Development Co., Ltd., focuses on the development of mid- and high-end residential properties and high-end commercial properties mainly in Guangdong Province. As of 31 December 2021, Fineland has total land bank of 3.7 million sqm from 53 property project, with expected saleable value of approximately RMB50.4 billion. Mr. Fong Ming, the founder and ultimate controller of Fineland, held 100% of the Company's shares indirectly via Fineland International Investment Group Co., Ltd.

Rating Rationale

Credit Strengths

Operating track record in Guangdong Province with established brand name. Since its establishment in 1995, Fineland has been involved in residential property development in Guangdong Province for more than two decades. The Company has established good brand recognition with mixed product lines in Guangdong Province, particularly Guangzhou. It also has strong understating of its core market and maintains good relationships with business partners.

Good gross margin driven by its low-cost urban renewal projects. We believe that Fineland could maintain a higher gross profit margin than most of its other Chinese property development peers, given the large contribution from its urban renewal projects with lower land cost. It has a gross profit margin of 28.3% in 2021. However, because of the weakened sales performance and the uncertainty in market recovery, we expect that the Company's overall profitability to remain modest in the next 12 to 18 months.

Adequate liquidity position. Fineland had unrestricted cash balance of RMB4.7 billion as of 31 December 2021, which fully covered its short-term debt of RMB1.1 billion and RMB918 million onshore bonds puttable in December 2022. The Company successfully refinanced its USD bonds in 2021 and largely reduced its liquidity pressure. Despite of Fineland's need to maintain part of its cash proceeds at the project level to support its daily operations, we expect the Company to have sufficient financial resources to service its committed operating expenditures and maturing debts in the short term.

Credit Challenges

Small operating scale with declined contracted sales. Fineland has relatively small operating scale in terms of contracted sales and its sales performance has suffered from the tight regulatory measures in local property markets and the delay in launch of its urban renewal projects in Guangzhou. In 2021, the Company recorded total contacted sales of RMB12.2 billion, decreasing 27.1% YoY.

Geographic concentration with some exposure to lower-tier cities. Fineland's operations are highly concentrated in the Guangdong Province, which increases the risk from local economic or regulatory changes and in turn increases its sales volatility. Guangdong Province accounted for 63.2% of its land bank by saleable value and Guangzhou represented 35.2% of its total land banks as of 31 December 2021.

Moderate debt leverage. Fineland's total debt amounted to RMB14.1 billion at end-2021, increasing by 13.1% as compared with that of end-2020. Its net gearing ratio rose from 60.8% at end-2020 to 73.2% at end-2021. We expect Fineland's debt leverage will remain stable, given its moderate appetite in business expansion as well as track record of debt management.

Limited access to external financial resources. With tight financing environment, we expect that the Company will mainly rely on its internal resources such as cash holding and proceeds from sales to meet its cash outflow. Its relatively small operating scale and unlisted status also give disadvantage on the Company to access low-cost funding and thus constrain its rating.

Rating Outlook

The stable outlook on Fineland's rating reflects our expectation that the Company will maintain its market presence in Guangdong Province and adequate liquidity over the next 12 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) has improved credit metrics such that EBIT interest coverage lifts to 3.0x above and net gearing ratio falls below 50%, 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) has deteriorated credit metrics and weakened liquidity.

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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