

China Vanke Co., Ltd.

Hong Kong

Category:	Corporate Rating
Rating Type:	Unsolicited Rating
Industry:	Property Development
Long-term Credit Rating:	AA _g
Rating Outlook:	Stable

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Rating Rationale

The rating of China Vanke Co., Ltd. (“Vanke” or “the Company”) is supported by the Company’s (1) solid and leading position in the real estate market; (2) growing contracted sales; (3) sufficient and appropriate project resources; and (4) prudent financial policy and strong liquidity position. The rating also takes into consideration the Company’s stability of operation and management as affected by its change of ownership structure.

Strengths

- **Solid track record and leading market position.** Vanke is one of the largest real estate developers in Mainland China, with nearly 30 years of industrial experience, and it has been one of top developers in terms of sales value in the real estate sector for years.
- **Strong market position driven by steady contracted sales growth.** In 2016, Vanke recorded contracted sales of over RMB 10 billion in 14 cities, and ranked top 3 in the sub-market of 40 cities. Vanke has occupied an outstanding market position in major cities across China. In 2016, total contracted sales of the Company steadily increased by 39.5% to RMB 364.8 billion.
- **Well-managed project resources.** In 2016, Vanke expanded its land bank and the newly acquired land bank in terms of attributable GFA was approximately 18.9 million sqm. The Company adhered to prudent investment strategy and replenished appropriate project resources. The Company’s land bank will be sufficient for 2-3 year of project development, which matches its operating scale with geographic diversification. This provides the foundation for the Company to maintain sales performance and long-term development.
- **Prudent financial policy and strong liquidity.** Relying on its good sales collection and prudent investment strategy, Vanke continued to maintain sufficient cash reserves and stable debt level, which can cover its short-term debt and working capital needs.

Challenges

- **Change of ownership structure imposes uncertainty.** The long-term development strategy and credit profile of Vanke exhibited uncertainty as affected by the change of ownership structure, the change of board of directors and material asset restructuring.

Corporate Profile

Vanke was founded in 1984 and engaged in China's real estate industry in 1988. In January 1991, Vanke's A shares was listed on the Shenzhen Stock Exchange (Stock Code: 000002). In June 2014, Vanke converted its B shares to H shares, listed on the Main Board of The Stock Exchange of Hong Kong (Stock Code: 2202.HK). As of 31 December 2016, Shenzhen Jushenghua Co., Ltd and its de facto controller held 25.4% of the Company's shares, representing as the largest shareholder of Vanke.

Vanke is now engaged in property development and property management in 65 major cities across Mainland China, including the Guangshen Region with the Pearl River Delta as the core, the Shanghai Region with the Yangtze River Delta as the core, the Beijing Region with the Bohai-Rim Region as the core, and the Central and Western Region. In terms of regional breakdown, the contracted sales of these regions accounted for 28.1%, 32.6%, 21.9% and 16.5% of the Company's total contracted sales in 2016. Vanke held 173 new property development projects with total GFA of approximately 31.6 million sqm and attributable GFA of 18.9 million sqm, with 88.3% of the new projects located in tier-one and tier-two cities.

Key Indicators

China Vanke Co., Ltd.	2016	2015	2014
Contracted Sales (RMB billion)	364.8	261.5	215.1
<i>Contracted Sales (USD billion)</i>	<i>52.5</i>	<i>40.3</i>	<i>35.2</i>
Contracted Sales Area (million sqm)	27.7	20.7	18.1
Average Selling Price (RMB per sqm)	13,191	12,651	11,909
Total Assets (RMB billion)	830.8	611.5	508.6
<i>Total Assets (USD billion)</i>	<i>119.8</i>	<i>94.2</i>	<i>83.1</i>
Net Assets (RMB billion)	161.7	136.3	115.9
<i>Net Assets (USD billion)</i>	<i>23.3</i>	<i>21.0</i>	<i>18.9</i>
Total Revenue (RMB billion)	228.9	184.3	138.0
<i>Total Revenue (USD billion)</i>	<i>33.0</i>	<i>28.4</i>	<i>22.6</i>
Net Profits (RMB billion)	28.4	25.9	19.3
<i>Net Profits (USD billion)</i>	<i>4.1</i>	<i>4.0</i>	<i>3.2</i>
Gross Margin (%)	25.5	24.8	25.1
Return on Equity (%)	19.0	20.6	17.4
Total Capitalization Ratio (%)	44.4	36.8	37.3
Net Gearing Ratio (%)	25.9	19.3	5.4
Total Debt / EBITDA (x)	2.7	2.0	2.3
EBITDA Interest Coverage (x)	8.7	8.4	4.4

Source: Company data, CCXAP research

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ AAg AAg-	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ Ag Ag-	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ BBBg BBBg-	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ BBg BBg-	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ Bg Bg-	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCCg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

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