

**Credit Opinion**

31 July 2017

**Future Land Holdings Co., Ltd.**

Hong Kong

Category: Corporate Rating  
 Rating Type: Solicited Rating  
 Industry: Property Development  
 Long-term Credit Rating: A<sub>g</sub>+  
 Senior Unsecured Debt Rating: A<sub>g</sub>+  
 Rating Outlook: Stable

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**Key Indicators**

<b>Future Land Holdings Co. Ltd.</b> <sup>[1]</sup>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total assets (RMB billion)	103.2	67.8	51.1
Total assets (USD billion) <sup>[2]</sup>	14.9	10.4	8.4
Net Assets (RMB billion)	16.4	13.9	12.3
Net Assets (USD billion) <sup>[2]</sup>	2.4	2.1	2.0
Total revenue (RMB billion)	28.0	23.6	20.7
Total revenue (USD billion) <sup>[2]</sup>	4.0	3.6	3.4
Net profit (RMB billion)	3.2	2.4	1.8
Net profit (USD billion) <sup>[2]</sup>	0.5	0.4	0.3
Gross Margin (%)	24.2	21.8	21.0
Return on Equity (%)	20.9	18.4	15.7
Total Capitalization Ratio (%)	61.6	53.7	49.5
Net Gearing Ratio (%)	78.3	69.4	56.6
Total debt / EBITDA (x)	5.1	3.9	3.9
EBITDA / Interest (x)	3.7	3.4	2.7

[1] Consolidated financial statements in accordance with International and China Financial Reporting Standards audited by PWC China

[2] Exchange rates for 2014 (1 USD = 6.1190 CNY), 2015 (1 USD = 6.4936 CNY), and 2016 (1 USD = 6.9370 CNY) announced by PBOC

Source: Company data, CCXAP research

## Rating Drivers

- Good sales execution supported by growing operating scale and improving geographical diversification
- Rapid land bank acquisition exerts pressure on capital expenditures
- Stable revenue growth and profit margin
- Heightened debt leverage and moderate interest coverage
- Adequate liquidity profile and good access to capital

## Rating Rationale

The A<sub>g</sub>+ long-term credit rating of Future Land Holdings Co. Ltd. (“FLH” or the “Company”) is underpinned by the Company’s (1) good sales execution in terms of growing operating scale; (2) improvement of geographical diversification into tier-one and tier-two cities in Yangtze River Delta; (3) recurring income from its commercial properties; (4) stable profit margin; and (5) good access to capital and adequate liquidity buffer. However, the rating is also constrained by (1) the volatile business nature and intensive market competition of China’s property market; (2) the Company’s rapid expansion of land bank exerts pressure on capital expenditures, but partially offset by joint ventures; and (3) increasing debt leverage.

## Rating Outlook

The stable outlook on FLH’ rating reflects its strong sales growth on residential property development. We expect that the Company will continue to expand its geographic diversification and improve its credit metrics, as well as increase the proportion of joint ventures to mitigate business risks.

### What could upgrade the rating?

The rating could be upgraded if the Company (1) maintains stable growth in contracted sales and sustains steady profitability; (2) improves its credit metrics, such as debt leverage and interest coverage; and (3) maintains disciplined financial policy and adequate liquidity profile.

### What could downgrade the rating?

The rating could be downgraded if (1) the Company’s credit metrics are worse than anticipated; (2) the Company becomes more aggressive in its land bank acquisition which leads to increasing debt level; and (3) the Company’s liquidity profile weakens.

## Corporate Profile

FLH was established in Mainland China with limited liability in 1993. Jiangsu Future Land Co., Ltd. (“Jiangsu Future Land”) is the Company’s subsidiary with B shares listed on the Shanghai Stock Exchange (Stock code: 900950.SH) since 2001. In December 2015, FLH completed a restructuring by merging and absorbing Jiangsu Future Land, with A shares listed on the Shanghai Stock Exchange (Stock Code: 601155.SH). Future Land Development Holdings Limited (“FLD”, Stock Code: 1030.HK) is the holding company of FLH, while FLH is functioned as the major operating company of property development and investment. Mr. Wang Zhenhua is the controlling shareholder of the Company. As of 31 March 2017, Mr. Wang Zhenhua indirectly held 67.1% interest in FLH through FLD.

FLH mainly focused on property development, property investment and commercial property management in Mainland China. The Company has a property portfolio concentrated in tier-one and core tier-two cities in Yangtze River Delta.

As of 31 December 2016, FLH reported consolidated total assets and total equity of RMB 103.2 billion and RMB 16.4 billion, respectively. In 2016, FLH generated total revenue of RMB 28.0 billion and net profit of RMB 3.2 billion respectively.

## Detailed Rating Considerations

### 1. Regulatory measures to remain tight

As one of the pillar sectors supporting the economic growth, China's real estate sector has undergone robust development since the sector reform in 1998. That said, the sector has also experienced several mini cycles in recent years, mainly driven by policy adjustments and monetary policies. In 2016, the real estate sector witnessed rapid growth as measured by sales and average selling prices, especially in major cities.

Property investment has improved. China's property investment amounted to RMB 10.3 trillion in 2016, which increased by 6.9% YoY versus 1.0% in 2015. In the first quarter of 2017, the amount of property investment grew by 9.1% YoY to RMB 1.9 trillion.

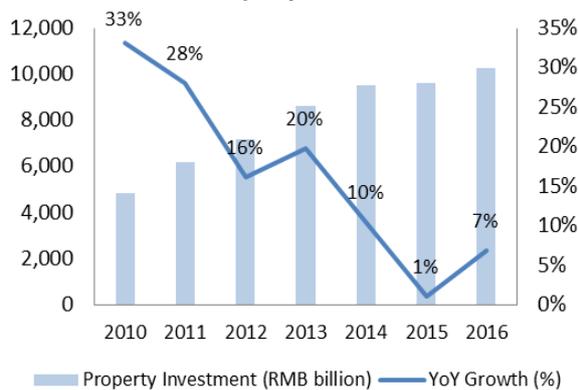
Property sales experienced a huge expansion. China's property sales recorded RMB 11.8 trillion in 2016 increasing by 34.8% YoY, as compared to the growth of 14.4% YoY in 2015. The gross floor area ("GFA") sold recorded 1.6 billion sqm in 2016, increasing by 22.5% YoY, as compared to the growth of 6.5% YoY in 2015. The contracted sales and GFA continued to grow in the first quarter of 2017 by 25.1% and 19.5%, respectively.

Property prices reached a record high. As of November 2016, the average selling price in the primary markets of 100 major cities recorded RMB 12,938 per sqm, rising 0.88% MoM or 18.71% YoY. In terms of regional breakdown, the average selling prices of tier-one, tier-two and tier-three cities were RMB 40,441 per sqm, RMB 11,697 per sqm and RMB 7,359 per sqm, growing by 20.6%, 17.0% and 8.8% YoY, respectively.

Inventory level reduced as a result of destocking process. As of 31 December 2016, the properties available for sale recorded 695.4 million sqm, decreasing by 3.2% YoY. If divided by the total GFA sold in 2016, the inventory is expected to take about five months to sell out. However, the inventory destocking risks are still high in lower tier cities.

To control the property prices in higher tier cities and to prevent systematic risk, the policymakers have announced a series of tightening regulatory measures since August 2016. As of March 2017, the purchase restrictions have been implemented in 34 cities. The regulatory measures in these tier-one and tier-two cities are expected to remain tight in 2017.

Looking ahead for China's real estate sector, we believe that the overall demand will remain resilient, while tightening regulation may lead to some corrections in tier-one and tier-two cities. In addition, as market competition intensifies, the consolidation of China's real estate industry will continue. The largest companies will have advantages in land acquisitions, financing capability, marketing and pricing power.

**Exhibit 1. China's Property Investments**

**Exhibit 2. China's Property Sales**


Source: National Bureau of Statistics of China, CCXAP research

## 2. Good sales execution supported by growing operating scale and improving geographical diversification

Headquartered in Shanghai, FLH's degree of diversification has increased by expanding its property development business to tier-one and tier-two cities in Yangtze River Delta, covering residential properties and commercial complexes. The portfolio of residential properties includes four product series of "FirstHomes", "SweetHomes", "DreamHomes", and "PrestigeHomes" targeting first-home buyers, young families, mid and high-income families, and high net worth groups, respectively. The Company also launched a new premium product series of "Puyue". The Company adopts the "rapid asset turnover" development strategy by reducing the period of land acquisition, pre-sale and project completion to facilitate the operational efficiency. FLH remained its leading position in the property market in Yangtze River Delta, ranked 15th among the property developers in Mainland China in terms of contracted sales value in 2016.

**Exhibit 3. Operational date of projects development in 2014-2016**

	2016	2015	2014
Newly constructed GFA (million sqm)	8.5	7.4	4.1
Completed GFA (million sqm)	4.0	3.9	2.9
Number of projects under development	59	103	35
GFA under development (million sqm)	13.1	9.0	5.2

Source: Company data, CCXAP research

**Exhibit 4. Operational date of property sales in 2014-2016**

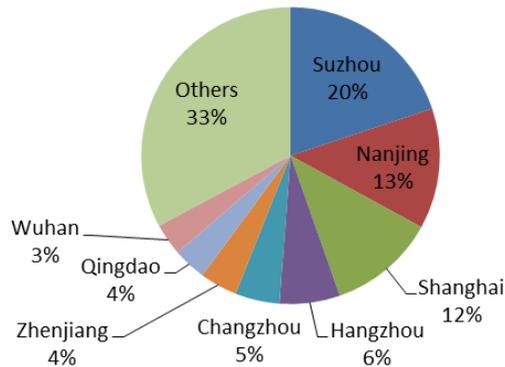
	2016	2015	2014
Contracted sales area (million sqm)	5.8	3.5	2.7
Contracted sales (RMB billion)	65.1	31.9	24.4
Delivered GFA (million sqm)	3.3	3.0	2.4
Recognized sales (RMB billion)	32.1	24.9	20.2

Source: Company data, CCXAP research

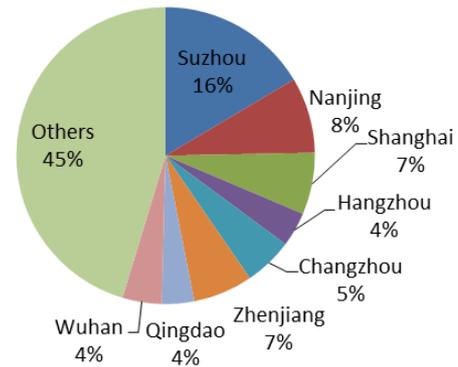
In 2016, FLH's contracted sales and contracted GFA achieved RMB 65.1 billion and 5.8 million sqm, increasing by 103.8% and 66.2% YoY, respectively. The contracted average selling price (excluding carparks) increased by 21.5% from RMB 9,948 per sqm in 2015 to RMB 12,090 per sqm in 2016. The strong contracted sales growth of the Company was mainly due to improving product portfolio and

increasing supply of saleable resources. We expect that FLH will further improve the sales of upgrader products, and demonstrate steady growth in property sales and operating scale.

**Exhibit 5. Contracted Sales by City in 2016**



**Exhibit 6. Contracted GFA by City in 2016**



Source: Company data, CCXAP research

In 2016, the Company has established its product portfolio in 32 cities across Mainland China focusing on tier-one and core tier-two cities while achieving stable sales performance in the core markets of Shanghai, Suzhou, Nanjing and Hangzhou. In terms of regional breakdown, contracted sales from Suzhou, Nanjing, Shanghai and Hangzhou accounted for 20%, 13%, 12% and 7% of the Company's total contracted sales in 2016 respectively, representing about 52% in total. Therefore, the geographic diversification of the Company's property sales continued to improve.

In 2016, the Company achieved over 90% of cash collection from its contracted sales, taking the market leading position. The 2017 contracted sales target of the Company is RMB 85 billion. In the first five months of 2017, the Company achieved contracted sales of approximately RMB 41.2 billion and contracted sales area of approximately 3.0 million sqm.

### 3. Rapid land bank acquisition exerts pressure on capital expenditure, partially offset by contributions from joint ventures

FLH registered a rapid expansion on land bank acquisition. As of 31 December 2016, FLH had a total land bank of 35.3 million sqm, of which land bank along the Yangtze River Delta accounted for 66%. In 2016, the Company acquired 40 new sites of 14.2 million sqm to its land bank at an average cost of RMB 3,762 per sqm, through government public tender, auction, listing-for-sale acquisition, and share and debt acquisition. In the first five months ended 31 May 2017, the Company acquired 30 land parcels with about half of the land parcels located in Yangtze River Delta.

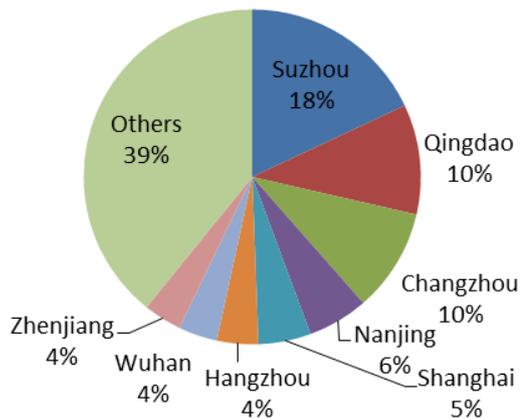
The newly acquired land bank mainly concentrated in Yangtze River Delta, such as Suzhou, Shanghai and Hangzhou. In addition, FLH expanded into Tianjin and Foshan to further extend its geographic coverage. However, the Company's business operation is challenging due to fast growing scale of its total land bank.

**Exhibit 7. Land Bank in 2014-2016**

	2016	2015	2014
Number of newly acquired projects	40	42	13
Newly acquired land bank (million sqm)	14.2	9.5	4.4
Total land bank (million sqm)	35.3	21.8	15.2

Source: Company data, CCXAP research

**Exhibit 8. Land Bank by City as of 31 December 2016**



Source: Company data, CCXAP research

In 2016, the Company has developed the new projects by using joint venture partnership with renowned property development companies in Mainland China, such as Vanke Co., Ltd., Country Garden Holdings Company Limited, and China Merchants Property, in order to effectively lower investment risks and enhance brand names. Most of the land acquisition projects with joint venture partners in 2016 were located in Shanghai, Suzhou and Nanjing. However, the rapid expansion of land bank acquisition exerts pressure on capital expenditure of the Company. Given the land bank remaining sufficient for the property development in the next 3 to 4 years, we will continue to monitor the land bank acquisition of the Company.

The strategy of the Company is to focus on Shanghai and Yangtze River Delta while expanding into Pearl River Delta, Bohai Rim, Central and Western China, namely “1+3” expansion strategies. The Company will further develop the property business into existing cities and other markets with high growth potential in order to extend its strategic coverage.

#### 4. Recurring rental income from investment properties

With the rapid development of residential projects, FLH also accelerated the development of its investment properties. The Company’s strategic plan is to further improve its commercial complexes under the brand name of “Injoy” series across the country, while promote the asset-light operation model to obtain recurring income in a long-term.

The investment properties operated by FLH provide an additional income stream to the Company. The portfolio of investment properties of the Company has been expanded in 2016, and the rental and management income generated from commercial properties grew from RMB 289.5 million in 2015 to RMB 441.0 million in 2016. This was mainly due to the gradually mature operations of the investment properties commenced before 2016 and rising rental returns from these properties. The occupancy rate recorded 99.0% for the year and the rentable area amounted to 0.7 million sqm as of 31 December 2016.

**Exhibit 9. Rental income form investment properties in 2016**

Name of Properties	Rental Income (RMB million)	Occupancy Rate (%)	Leasable GFA (thousand sqm)
Wujiang Injoy Plaza	7.4	97.1	62.9
Zhangjiang Injoy Plaza	22.0	96.6	62.0

Danyang Injoy Plaza	21.5	99.6	67.6
Changzhou Injoy Plaza	73.6	99.5	100.7
Changzhou Injoy International Plaza	60.5	97.3	61.2
Haikou Injoy Plaza	7.6	100.0	65.6
Nanchang Injoy Plaza	4.2	100.0	60.8
Jintan Injoy Plaza	2.5	100.0	62.4
Anqing Injoy Plaza	0.8	100.0	66.1
Shanghai Qingpu Injoy Plaza	24.2	100.0	62.5
Shanghai Future Holdings Tower B	15.9	75.0	30.0
<b>Total</b>	<b>240.2</b>	<b>99.0</b>	<b>701.8</b>

Source: Company data, CCXAP research

As of 31 December 2016, FLH had a total reserve of 39 investment properties under the “Injoy” series, of which 11 Injoy Plazas have already been opened for operations by end-2016 and 11 Injoy Plazas are expected to be commenced in 2017. We expect that a higher rental income would be generated from the commercial operation of the investment properties in the next 2 to 3 years.

## 5. Stable revenue growth and profit margin

Over 96% of FLH’s revenue came from the sale of properties, with a smaller portion from rental income and property management fee income. The Company achieved total revenue of RMB 28.0 billion in 2016, as compared to RMB 23.6 billion in 2015 and RMB 20.7 billion in 2014, with a CAGR of 16.3%.

### Exhibit 10. Revenue by different segments in 2014-2016

	Revenue (RMB billion)			% of Revenue		
	2016	2015	2014	2016	2015	2014
Sales of properties	27.1	23.0	20.2	96.7	97.5	97.6
Rental income and property management	0.4	0.3	0.1	1.6	1.3	0.6
Other	0.5	0.3	0.4	1.7	1.3	1.8
<b>Total</b>	<b>28.0</b>	<b>23.6</b>	<b>20.7</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company data, CCXAP research

The Company sustained steady gross margins of 24.2%, 21.8%, and 21.0% for 2016, 2015, and 2014, respectively, mainly due to strong growth of contracted sales, contracted GFA and average selling price. The return on equity grew to 20.9% in 2016, as compared to 18.4% in 2015 and 15.7% in 2014. We believe that FLH will continue to improve its profitability related to its strong sales performance.

## 6. Heightened debt leverage and moderate interest coverage

FLH presented relatively high debt leverage and good interest coverage. As of 31 December 2016, the Company’s total debt grew by 62.9% YoY to RMB 26.2 billion. The capitalization ratio, as measured by total debt to total capital, increased to 61.6% in 2016, as compared to 53.7% in 2015. The net gearing ratio measured by net debt over total equity also grew to 78.3% in 2016 from 69.4% in 2015. The debt leverage increased mainly due to sizable land acquisition in the past few years.

In terms of debt profile, as of 31 December 2016, the Company's bank loans and corporate bonds accounted for 33.3% and 60.8% of the total debt. The proportion of short-term debt to total debt increased from 30.5% in 2015 to 39.8% in 2016. We will continue to monitor the debt structure and leverage of the Company.

In addition, the adjusted total debt to EBITDA ratio increased to 5.1x in 2016 from 3.9x in 2015 and 3.9x in 2014. The adjusted EBITDA interest coverage ratio was 3.7x, 3.4x, and 2.7x respectively over the same period.

## **7. Adequate liquidity profile and good access to capital**

FLH is in the situation of adequate liquidity management. The Company generated operating cash flow of approximately RMB 8.1 billion during 2016, and cash-on-hand remained sufficient at RMB 13.4 billion at end-2016 as compared to RMB 6.5 billion at end-2015, representing the Company's capability to serve its short-term indebtedness and adequate liquidity buffer.

FLH has demonstrated good access to capital markets. The Company lowered its funding costs, while average borrowing cost was reduced from 7.3% in 2015 to 5.5% in 2016. In 2016, the Company issued domestic private corporate bonds with an aggregate issuance amount of RMB 8 billion. By June 2016, the Company set up a real estate industry fund of an aggregate amount of RMB10.0 billion with Ping An Bank Co., Ltd. On 9 February 2017, FLH's indirect holding company FLD issued USD senior notes with a principal amount of USD 350 million at a coupon rate of 5.0% and a maturity of 3 years.

The Company also maintains a good relationship with banks. As of 31 December 2016, FLD's total facilities amount was RMB 49.8 billion and the remaining facilities amount was RMB 46.1 billion.

## **8. Subordination considerations**

We have not notched FLH's senior unsecured debt rating from its long-term credit rating. The proposed issue of USD-denominated senior unsecured notes is to be issued by New Metro Global Limited and guaranteed by FLH. The legal subordination risk may arise from the priority debt of the Company. The Company is expected to maintain banks loans as one of the major funding sources for construction and development activities. As of 31 December 2016, the secured debt accounted for less than 10% of the Company's consolidated total assets. We will continue to monitor the subordination risk.

## 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
<b>AAAg</b>	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.
<b>AAg+</b> <b>AAg</b> <b>AAg-</b>	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.
<b>Ag+</b> <b>Ag</b> <b>Ag-</b>	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.
<b>BBBg+</b> <b>BBBg</b> <b>BBBg-</b>	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.
<b>BBg+</b> <b>BBg</b> <b>BBg-</b>	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.
<b>Bg+</b> <b>Bg</b> <b>Bg-</b>	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.
<b>CCCg</b>	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.
<b>CCg</b>	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.
<b>Cg</b>	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.
<b>Dg</b>	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.

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

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