Credit Flash 22 May 2017

China Evergrande Group

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 Evergrande Group ("Evergrande" or "the Company") is underpinned by the Company's (1) leading advantage of scale in the industry; (2) diversified and improved geographical distribution; (3) sufficient land bank at low cost; and (4) adequate cash on hand and liquidity buffer. The rating also takes into consideration that the Company's relatively high leverage due to debt-funded expansion.

Strengths

- **Advantage of scale in the industry.** Evergrande has over 20 years of experience in property development, and has survived several business cycles and achieved economies of scale. The Company generated contracted sales of RMB 373.4 billion in 2016, becoming the largest property developer in terms of sales in Mainland China.
- **Diversified and improved geographical distribution.** At end-2016, Evergrande's property development services have covered 209 cities in China, which was one of the largest property developers in terms of geographic coverage. Meanwhile, the Company has actively acquired projects in tier-one and tier-two cities in recent years in order to optimize its geographical distribution.
- **Sufficient land bank at low cost.** Evergrande had a total land bank of 229 million sqm by the end of 2016, which was the largest property developer in terms of land bank. Meanwhile, due to geographic allocation and land acquisition in the earlier stage, the average price of land bank was merely RMB 1,570 per sqm. The sufficient land bank acquired at low cost supported the Company's on-going operations.
- **Adequate cash position and good liquidity buffer.** Evergrande demonstrated strong sales collection, maintained good relationship with financial institutions, and financed through both onshore and offshore markets. The adequate cash balances of the Company enabled it to keep

good liquidity buffer. As of 31 December 2016, cash on hand was RMB 304.3 billion, and the Company also had unutilized credit facilities of RMB 138.3 billion, representing adequate coverage of its short-term debt.

Challenges

- **Fast expansion led to large capital expenditure.** The Company's newly acquired land bank of 102 million sqm in 2016 represented 44.9% of total land bank, reflecting that Evergrande's relatively aggressive development strategy. As of 31 December 2016, the GFA under construction of the Company amounted to 80.4 million sqm. The projects under construction and future land acquisition imposed pressure on the Company's capital expenditures.
- **Relatively high degree of reliance on debt financing channels.** The increasing land bank and strategic adjustment of geographical footprint incurred higher debt leverage, and the Company's reliance on debt financing was relatively high. The Company's reported total debt amount increased from RMB 296.9 billion in 2015 to RMB 535.1 billion in 2016, and the adjusted capitalization ratio rose from 84.9% in 2015 to 89.1% in 2016. In terms of debt structure, short-term debt accounted for 31.3% of total debt. We would continue monitor the Company's effort on decreasing its leverage and optimizing its debt structure.

Corporate Profile

Evergrande was established in 1996, and was listed on the Stock Exchange of Hong Kong Limited in 2009 (Stock Code: 3333.HK). As of 31 December 2016, Dr. Hui Ka Yan held 68.43% of Evergrande's shares through Xin Xin (BVI) Limited, and was the ultimate controlling shareholder of the Company. Since its foundation, Evergrande firstly operated in Guangzhou and surrounding areas. The Company expanded its business across the country since 2006, and its projects were mainly located in tier-three and tier-four cities. Since 2014, Evergrande has increased its exposure to tier-one and tier-two cities.

As of 31 December 2016, the Company had 551 projects under construction in China, and held a total land bank of 229 million sqm. Its projects were located in 209 cities, including all the tier-one cities, and most of the provincial capital cities in China. Meanwhile, the Company further increased the proportion of the tier-one and tier-two cities. The projects located in these cities represented approximately 59.6% of total land bank, and the contracted sales generated from these cities amounted to accounted for 67.4% of total contracted sales. Evergrande was engaged in four main sectors, namely real estate, finance, travel and health. Nevertheless, the Company generated most of its income from property development, as the revenue of real estate sector contributed to 96.4% of total revenue.

Key Indicators

China Evergrande Group	2016	2015	2014
Contracted Sales (RMB billion)	373.4	201.3	131.5
Contracted Sales (USD billion)	*53.8*	*31.0*	*21.5*
Contracted Sales Area (million sqm)	44.7	25.5	18.2
Contracted Sales Price (RMB per sqm)	8,355	7,892	7,227
Total Assets (RMB billion)	1,350.9	757.0	474.5
Total Assets (USD billion)	*194.7*	*116.6*	*77.5*
Net Assets (RMB billion)	192.5	142.1	112.4
Net Assets (USD billion)	*27.8*	*21.9*	*18.4*
Total Revenue (RMB billion)	211.4	133.1	111.4
Total Revenue (USD billion)	*30.5*	*20.5*	*18.2*
Net Profit (RMB billion)	17.6	17.3	18.0
Net Profit (USD billion)	*2.5*	*2.7*	*2.9*
Total Capitalization Ratio (%)	89.1	84.9	77.8
Net Gearing Ratio (%)	431.8	314.2	251.0
Gross Margin (%)	28.1	28.1	28.5
Return on Equity (%)	10.5	13.6	18.8
Total Debt/EBITDA (x)	14.6	11.2	6.4
EBITDA Interest Coverage (x)	1.4	1.6	2.4

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

Disclaimer

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