Credit Opinion 22 May 2017

Greenland Hong Kong Holdings Limited

Hong Kong

Category:	Corporate Rating
Rating Type:	Solicited Rating
Industry:	Property Development
Long-term Credit Rating:	A_g+
Rating Outlook:	Stable

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Key Indicators

Greenland Hong Kong Holdings Limited [1]	2016	2015	2014
Total assets (RMB billion)	54.1	50.0	41.0
Total assets (USD billion) [2]	7.8	7.7	6.7
Net assets (RMB billion)	9.7	7.7	6.0
Net assets (USD billion) [2]	1.4	1.2	1.0
Total revenue (RMB billion)	16.9	5.7	2.8
Total revenue (USD billion) [2]	2.4	0.9	0.5
Net Profit (RMB million)	1,060.5	16.3	64.1
Net Profit (USD million) [2]	152.9	2.5	10.5
Gross Margin (%)	16.7	18.3	27.4
Return on Equity (%)	12.2	0.2	1.1
Total debt / Total capital (%)	67.2	71.3	70.7
Net Debt/ Total equity (%)	140.1	172.5	154.5
Total debt / EBITDA (x)	8.7	21.9	18.6
EBITDA / Interest (x)	2.1	0.7	1.3

[1] Consolidated financial statements in accordance with Hong Kong Financial Reporting Standards audited by Deloitte.

[2] Exchange rates 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

- Steady property sales in core markets
- Strong support from controlling shareholders

- Relatively high debt leverage
- Improving solvency but deteriorated liquidity

Rating Rationale

The A_g+ rating of Greenland Hong Kong Holdings Limited ("Greenland HK" or the "Company") is supported by the Company's (1) increasing contracted sales; (2) strong support from parent company. The rating also takes into consideration the Company's (1) high debt burden caused by the business expansion; and (2) relatively weak liquidity.

Rating Outlook

The stable outlook on Greenland HK's rating reflects its good performance in the real estate market. We believe that the Company would steadily expand its business scale in the future.

What could upgrade the rating?

The rating could be upgraded if the Company (1) achieves increasing contracted sales and improving profit margins; (2) lower its debt burden; and (3) improve its credit metrics.

What could downgrade the rating?

The rating could be downgraded if (1) the operating environment in China deteriorates significantly; (2) the Company's credit metrics and liquidity position are worse than anticipated; (3) the support from its parent company weakens.

Corporate Profile

Greenland HK was established in 1998 in Hong Kong, and listed on the Hong Kong Stock Exchange (Stock Code: 0337.HK) in 2006. The former name of the Company was SPG Land (Holdings) Limited, until Greenland Holdings Corporation Limited ("Greenland Holdings") acquired the Company on 27 August 2013 through its wholly-owned subsidiary, Gluon Xima International Limited. Greenland Holdings is a large state-owned enterprise directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Shanghai Municipality ("Shanghai SASAC"). As of 31 December 2016, Greenland Holdings held approximately 56.62% of the Company's shares.

Greenland HK has focused on sales and lease of properties, and has also provided services on property management and hotels. In terms of its property development sector, Greenland HK has entered into 13 cities in China.

As of 31 December 2016, Greenland HK reported total assets of RMB 54.1 billion. In 2016, Greenland HK generated total turnover and profit for the year from continuing operations of RMB16.9 billion and RMB 1.1 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 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.

Exhibit 1. China's Property Investment

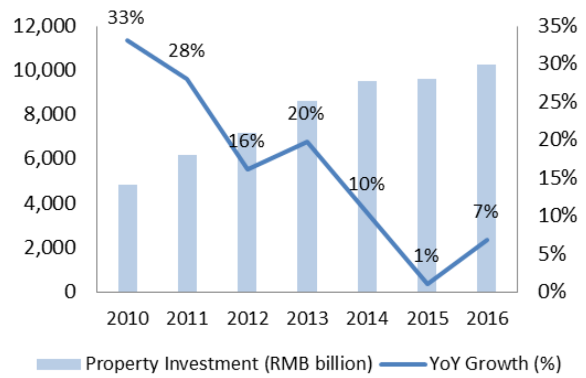
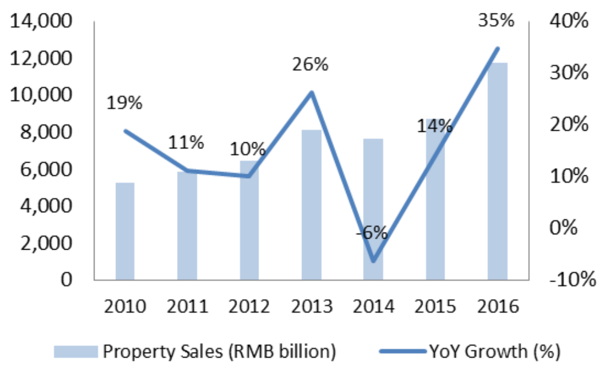


Exhibit 2. China's Property Sales



Source: National Bureau of Statistics of China, CCXAP research

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.

2. The unique real estate platform of parent company

The former name of Greenland HK was SPG Land (Holdings) Limited, and the Company used to develop residential properties in Shanghai and other cities. Greenland Holdings acquired the Company in 2013, and has actively carried out its five-year plan to achieve CAGR of above 50% and sales over RMB 50 billion by 2018. Greenland HK recorded contracted sales of RMB 18.2 billion in 2016, which was 5.2 times of that of 2013.

Greenland Holdings is a large state-owned enterprise directly under the supervision of the State-owned Assets Supervision and Administration Commission of the Shanghai Municipality ("Shanghai SASAC"). Established on 18 July 1992, Greenland Group focused on real estate development, and is also engaged in infrastructure, finance and consumption industry. Greenland Holdings reported total assets of RMB 733.1 billion as of 31 December 2016 and generated total revenue of RMB 247.4 billion in 2016. Greenland Holdings recorded contracted sales amount of RMB 255.0 billion in 2016. As one of the largest developers in Mainland China, Greenland Holdings has secured its market position in more than 80 cities in China and 12 cities of nine foreign countries.

Greenland HK is now the only offshore listed real estate platform of Greenland Holdings. Greenland HK can acquire high quality lands at reasonable prices in the market. Greenland HK can also promote property developments, manage pricing strategy and enhance sales executions. Meanwhile, Greenland Holdings provides guidance on project management and cost control to Greenland HK based on its experience in the industry. In addition, Greenland HK has the access to offshore funding channels and lowered borrowing costs. In 2016, Greenland HK reported average borrowing cost of 4.35%. Given the capital strength of Greenland Holdings and the strategic importance of Greenland HK to the group, the strong support from parent company is supportive for the overall credit profile of Greenland HK.

3. Steady property sales generated in core markets

Leveraging the influence and brand reputation of its parent company, Greenland HK achieved a rapid sales growth. The Company recorded contracted sales of RMB 18.2 billion in 2016, as compared to RMB 17.4 billion in 2015 and RMB 12.9 billion in 2014. Total GFA sold by the Company amounted to 1.5 million sqm in 2016, as compared to 1.6 million sqm in 2015 and 1.7 million sqm in 2014. The average selling price rose to RMB 12,450 per sqm in 2016.

Exhibit 3. Contracted Sales in 2014-2016

	2016	2015	2014
Contracted sales (RMB billion)	18.2	17.4	12.9
Total GFA (million sqm)	1.5	1.6	1.7

Source: Company data, CCXAP research

In terms of product type, 89% of contracted sales in 2016 were from residential properties, while 5% and 6% were from commercial properties and offices, respectively. In terms of regional breakdown, contracted sales from Nanning, Suzhou, Hainan, Shanghai, and Hangzhou accounted for 18.1%, 17.0%, 12.5%, 12.3% and 10.2% of the Company's total contracted sales, respectively. The Company generated a larger proportion of sales in higher-tier cities than the previous years.

Exhibit 4. Contracted Sales by City in 2014-2016

City	Total Sales (RMB bn)			% of Total Sales		
	2016	2015	2014	2016	2015	2014
Shanghai	2.2	5.0	0.8	12.3%	29.1%	6.2%
Kunming	0.9	1.1	1.7	5.1%	6.3%	13.4%
Hainan	2.3	3.5	4.0	12.5%	24.1%	31.6%
Suzhou	3.1	0.7	0.5	17.0%	4.0%	3.7%
Wuxi	1.2	0.8	0.4	6.7%	4.6%	3.4%
Changshu	-0.1	0.1	0.3	-0.3%	0.3%	1.9%
Taiyuan	0.3	0.4	0.5	1.8%	2.2%	3.5%
Huangshan	0.4	0.2	0.2	2.2%	1.0%	1.8%
Xuzhou	0.8	0.5	0.7	4.6%	3.0%	5.6%
Ningbo	0.3	0.2	0.2	1.5%	1.3%	1.8%
Hangzhou	1.9	2.1	2.0	10.2%	12.0%	15.5%
Nanning	3.3	2.1	1.5	18.1%	12.0%	11.5%
Nanchang	1.5	-	-	8.5%	0	0.0
Total	**18.2**	**17.4**	**12.9**	**100.0%**	**100.0%**	**100.0%**

Source: Company data, CCXAP research

The Company's construction of properties aligns with its sales progress. In 2016, the Company launched new construction of 2.6 million sqm, with total GFA under construction of 4.5 million sqm. And the Company has completed the construction of 2.1 million sqm of properties.

The Company's target is to achieve contracted sales amount of RMB 23 billion in 2017. In the first three months of 2017, the Company recorded aggregate contracted sales of RMB 7.1 billion, covering 30.9% of the full year target.

4. Land bank in line with the Company's development strategy

To implement its strategy to achieve a larger market share in higher-tier cities, Greenland HK acquired two new land plots in 2016 with total GFA of 4.6 million sqm in Suzhou and Nanning. In January 2017, the Company further added a land plot in Naning with GFA of 0.3 million sqm. Apart from bidding in the primary market, the Company added total GFA of 0.3 million sqm to its land bank by entering into an equity transfer agreement on a 90% interest of development project in the Wuxi Guang Cheng section on 12 January 2017. Greenland HK is seeking potential projects in the Yangtze River Delta and coastal areas of Southern China. The enlarged land bank will support the Company's operations in these regions.

Exhibit 5. Total Land Bank as of 31 December 2014, 2015, 2016

	2016	2015	2014
New projects acquired	2	2	7
New land bank acquired (million sqm)	4.6	1.7	4.4
Total land bank (million sqm)	14.0	14.6	14.3

Source: Company data, CCXAP research

Greenland HK held sufficient land bank for sustainable property development. As at 31 December 2016, the Company had a land bank with total GFA of 14.0 million sqm, and the average land cost was RMB 2,548 per sqm. In terms of regional breakdown, 76% of the Company's land bank was located in first-tier cities and other provincial capital cities, which would support its business expansion in the future. However, we also noticed that the urban renewal and settlement housing projects in Hainan would exhibit lower profit margin.

Greenland HK has adopted suitable strategy to acquire land in higher-tier cities at a relatively lower cost. Meanwhile, we would follow the Company's development of projects in Huangshan and Hainan, and the future profit contribution of these projects.

5. Increasing revenue generated helped improve operating profitability

In 2016, Greenland HK generated 93.2% of its revenue through property development services, and property leases and hotels services represented a relatively small portion of the total revenue. The Company recorded total revenue of RMB 16.9 billion, RMB 5.7 billion and RMB 2.8 billion in 2016, 2015 and 2014, respectively. The increase in revenue generated was mainly due to the Company's expansion of scale and property sales after being acquired by Greenland Holdings. As there is a time lag between the property sales and income recognition, we expect revenue continue to rise in 2017 given the Company's property development and delivery.

Exhibit 6. Percentage of revenue in 2014-2016

	2016	2015	2014
Sales of properties	97.1%	93.0%	79.7%
Rental income	0.3%	1.1%	2.3%
Hotels	1.1%	3.2%	5.9%
Property management and other income	1.6%	2.8%	12.1%

Source: Company data, CCXAP research

The Company's bottom-line results improved given rapid sales growth. The gross profit margin of Greenland HK in 2016, 2015 and 2014 were 16.7%, 18.3% and 27.4%. The decline in gross profit margin mainly resulted from the Company's recognition of the sales of low-profit projects in Hainan in 2015 and 2016. Property sales of RMB 1.7 billion from the Hainan projects were recognized in 2016, as compared with that of RMB 1.1 billion in 2015. As the Company speed up its destocking process in Hainan, the proportion of sales generated from Hainan projects has reduced from 31.6% in 2014 to 12.5% in 2016. The Company's operating profit was RMB 1.3 billion in 2016, as compared to operating loss of RMB 0.4 billion in 2015. The net profit from continuing operations was RMB 1.1 billion in 2016, as compared RMB 0.02 billion in 2015. The increase in net profit and operating profit reflected the Company's improving profitability.

6. Improving credit metrics but relatively weak liquidity

Greenland HK's debt leverage reduced, which was still relatively weak for its rating. The reported total debt of the Company as of 31 December 2016 amounted to RMB 17.5 billion, which was RMB 1.6 billion lower than that of 31 December 2015. The adjusted debt to capital ratio declined from 71.3% in 2015 to 67.2% in 2016, and the adjusted net gearing ratio decreased from 172.5% in 2015 to 140.1% in 2016. As for the maturity profile, short-term debt accounted for 40.9% of total debt in 2016. The Company needs to repay a USD 0.5 billion bond in 2017 and a USD 1.5 billion bond in 2018, and we would focus on the Company's repayment process. As for the currency profile, USD and HKD portion of debt reduced from 59% and 10% in 2015 to 52% and 7% in 2016. The Company has entered into forward agreement with aggregate principal amount of USD 1.4 billion to hedge the foreign exchange risk.

Greenland HK exhibited improving solvency as operating profitability improved. The adjusted debt to EBITDA ratio in 2016 was 8.7x, lower than 21.9x in 2015 and 18.6x in 2014. The adjusted EBITDA interest coverage ratio was 2.1x, higher than 0.7x in 2015 and 1.3x in 2014. The decreased debt leverage and the increased interest coverage revealed improving credit metrics of the Company. We will continue pay attention to the debt burden of the Company.

Greenland HK's liquidity position is relatively weak. As of 31 December 2016, the Company held cash reserve of RMB 5.8 billion. The Company's cash to short-term debt ratio was 80.8% in 2016 and 74.8% in 2015, as compared to 422.9% in 2014. The deteriorated liquidity was due to the increase in the Company's short term debt. As of 31 December 2016, Greenland HK had a line of credit RMB 16.6 billion from domestic and foreign banks, RMB 11.6 billion of which remained uncommitted, which helped mitigate the liquidity risk of the Company.

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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